

Q2 2009 Earnings Call

Company Participants

- Romulo Dias, CEO
- Unidentified Speaker, Unknown
- Vito Fabiano, CFO & Head of IR

Other Participants

- Bob Huntington, Analyst
- Carlos Shiretti, Analyst
- Craig Maurer, Analyst
- Federico Rey, Analyst
- Henrique Caldiera, Analyst
- Jason Mullen, Analyst
- Nathan Segal, Analyst
- Saul Martinez, Analyst

Presentation

Operator

Good morning. Welcome, everyone, to VisaNet's Second Quarter 2009 Results Conference Call. Today with us, we have Mr. Romulo Dias, CEO, and Mr. Vito Fabiano, CFO and Investor Relations Officer. We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the company's presentation.

After VisaNet remarks, there will be a question-and-answer session for investors and analysts when further instructions will be given.

(Operator Instructions).

Today's live webcast may be accessed through the internet address at www.visanet.com.br/ir.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of VisaNet's management and on information currently available to the company. They involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of VisaNet and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Dias, who will begin the presentation. Mr. Dias, you may begin your conference.

Romulo Dias {BIO 2054119 <GO>}

Good morning, everyone. We are extremely pleased to have you with us for VisaNet's first conference call to present its results for the Second Quarter 2009. We also have with me our Executive Committee -- Eduardo Gouveia, Eduardo Shigi [ph], Vito Fabiano, Jose Dumone [ph], and Pablo Guzo [ph].

I'd like to start highlighting the significance of the IPO in our history, a history that began in 1995 as our founders designed a system for the capture and settlement of transactions in a quick and secure manner. Over these years, we have innovative and complementary solutions which continue to ensure convenience, speed, and security in the capture, transmission, processing, and settlement of credit and debit card transactions.

Slide three provides further details about the biggest IPO in the history of BM&FBovespa, in both the secondary distribution of about 560 million common shares corresponding to free flow of about 43%.

As a meticulous plan, we met more than 150 meetings -- we had more than 150 meetings in 10 countries, including the United States and countries in the Middle East and Southeast -- Southwest Asia. As a result, we are proud of having almost 53,000 new shareholders from diverse market segments who have become partners of the company. Since June, enough shares have been traded under the ticket VNET3, we've met the highest level of corporate governance in the card segment, outperforming Bovespa and the piers.

We are sure that this important step will enable us to share with our investors this story of success and value creation not only for our shareholders but also for the entire chain of VisaNet's suppliers and clients.

I now wish to point out on slide four the company's financial net rating achievements in the Second Quarter of this year. VisaNet captured more than BRL50 billion in credit and debit card transactions, a 23.6% increase year-over-year. Net operating revenue came to \$863 million, a 28.9% growth year-over-year. Adjusted EBITDA reached BRL508 million and net income was close to BRL365 million, up 40% and 48% respectively over the Second Quarter of 2008.

It's also worth to emphasize VisaNet's distribution capacity and expansive coverage in the country of continental proportions. There are more than 1.5 million merchants covering almost 97% of Brazilian municipalities. What's more, our expansion plan will continue until we reach 100% nationwide coverage.

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On slide five, we provide the company's financial operating highlights in the Second Quarter. In the table, I wish to point out the growth in both net and EBITDA margins, which reflect a gaining scale in our efforts to optimize our internal structure.

Now, I'd like to pass the word to our CFO, Vito Fabiano.

Vito Fabiano

Thanks, Romulo. Let us move to slide six, which shows the quarter-over-quarter growth in financial transaction volume since the Second Quarter of 2008. Note that both credit and debit card transactions recorded double-digit growth.

In the Second Quarter of 2009, the financial transaction volume amounted to BRL50.5 billion, a 23.6% increase over the BRL40.9 billion in the Second Quarter of 2008. Financial transaction volume on credit cards processed by VisaNet totaled BRL32.1 billion in Second Quarter 2009, 22.4% higher than the same period of previous year.

Financial transaction volume on debit cards rose again to BRL18.4 billion in Second Quarter 2009, representing a 25.7% growth over the same period last year. We believe that the increase in the private consumption and the use of cards as a means of payment are contributing and will continue contributing to the growth in volume of transactions.

It is worth remembering that we are the leader in Brazil's payment card industry in financial transaction volume. On the next slide, we provide the breakdown of revenues by segment -- credit and debit, with both growing at more than 20% year-over-year.

The chart on the left shows the revenue from credit card transactions, which grew 26.1% over Second Quarter 2008, reaching BRL481.6 million. Revenue from credit card transactions accounted for 50.2% of the gross revenue in the quarter. The chart on the right shows the revenue from debit card transactions which grew 22.7% over Second Quarter '08, reaching BRL141.9 million.

Moving to slide eight, we present the number relating to active merchants and revenue from equipment rentals, the POS, which added important value to the company's operating revenue. The company ended the first half of 2009 with more than 1.1 million active merchants, using here the concept applied by the Newsom Report [ph] which considers one active merchant who performs one transaction in the last 180 days.

The same slide shows the revenue from equipment rental POS per quarter which totaled BRL260.7 million this quarter, an 18.7% up year-over-year. At the end of the Second Quarter of 2009, the POS equipment base totalled 1.4 million units.

In September 2008, VisaNet began offering the prepayment of receivables facility to its affiliated merchants. The figures concerning this revenue sources are shown in slide number nine. Financial volume of prepaid transactions this quarter totalled BRL1.5 billion

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and revenue came to BRL45 million. This amount is net of the adjustment to present value of the accounts receivable from this operating, which totalled BRL1.2 million.

Revenue from prepayment of receivables grew 105.3% over the First Quarter of 2009, since we cannot compare this revenue source with the same period last year because this facility was launched in September. The average prepayment term in the Second Quarter was 48.5 days.

On the next slide, we show the comparison of the cost of services provided between this quarter and the same period last year. It includes all the costs related to the company's operations and varies according to the number of electronic capture equipments, POS, and the number of transactions captured.

The cost of services provided raised 12.7% to BRL193 million in the Second Quarter of 2009, compared to BRL171 million in the same period in 2008. Despite the increase in absolute terms, it is important to note that the cost was lower than the 16.1% increase in the number of transactions between the periods.

Depreciation of POS equipment raised 14.6% to BRL35.3 million in the quarter, compared to BRL30.8 million in the Second Quarter of 2008 due to the growth in the base of POS equipment.

Operating expenses declined significantly by 39.5% to BRL90.7 million thanks to the programs to optimize processes and reduce expense. As a result, cost plus operating expenses decreased by almost 10% in the year-over-year base comparison. For this reason, we present slide 11 which clearly shows the results of our persistent determination to control expenses and improve processes, combined with the strong growth in revenues from the expansion of our operations.

The last slide, number 12, represents the adjusted EBITDA which reached BRL380.5 million in the Second Quarter of 2009, almost 40% higher than Second Quarter 2008. Not only EBITDA, but EBITDA margin also improved significantly, 5.3 percentage points more than in the Second Quarter of 2008.

The chart on the right shows the growth in net income, which totalled BRL364.8 million in the Second Quarter of this year, 48% up over the same period in 2009. Net margin also grew significantly by 5.5 percentage points, reaching a margin over 42%

In conclusion, I would like to mention the distribution of dividend approved by the Board of Directors last week, a sum of BRL328.3 million, corresponding to 90% of the net income from the quarter ending June 30, 2009. We will be distributing earnings per share of approximately BRL0.24 per share.

All the shareholders registered as such in the companies records at the end of August 4 will have the right to dividend which will be paid by the 31st of this month.

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To summarize, we are building up a strong investor relations team to serve all our shareholders. I reiterate our commitment to transparency and our constant effort in complying with corporate governance best practices in order to add value to our shareholders without forgetting all our stakeholders.

VisaNet is aware of its importance as a payment services provider in Brazil, which is evident in its primary efforts in offering innovative solutions, its culture, its in-house expertise, and its values.

We are now ready to take your questions. Thank you, very much.

Questions And Answers

Operator

Thank you.

The floor is now open for questions from investors and analysts.

(Operator Instructions).

Our first question comes from Craig Maurer from CLSA.

Q - Craig Maurer {BIO 4162139 <GO>}

Yes. Good morning. Thanks for taking my question.

From what we're hearing, it seems likely that the regulatory body will choose to separate clearing and settlement from merchant acquiring. I'm not asking you to comment on the likelihood, but just a question to clarify how that business works.

From what I understand, settlement and clearing is not done internally regardless and that you are actually sort of outsourcing that function and you are paying a outsourcing fee for that anyway. So even if the government chooses to separate it, it won't be a loss of revenue. Is that correct?

A - Romulo Dias {BIO 2054119 <GO>}

Hi, Craig. This is Romulo Dias. Thank you for that question.

About settlement and clearing, we do all the things here inside the company, but we end up -- so we don't pay for a third party to provide the service for us. That's your question?

Q - Craig Maurer {BIO 4162139 <GO>}

Yes, but what -- I suppose more importantly, what's the revenue contribution to that versus the cost of you doing it then?

A - Romulo Dias {BIO 2054119 <GO>}

In terms of clearing, we don't see, let's say, this is a very important point or important source of revenue for VisaNet. We -- if it's the case, it was not in our proposal. We present our proposal (inaudible) the credit card business, to the central bank SGE, and Ministerio de Fazenda. And this proposal is not included there.

But if for some reason they begin to talk about this, we are prepared if it's necessary, let's say, to study into to see that (inaudible). But it's not a lot of money to talk about clearing business.

Q - Craig Maurer {BIO 4162139 <GO>}

Right, so it's not a big revenue driver for the company.

A - Romulo Dias {BIO 2054119 <GO>}

No.

Q - Craig Maurer {BIO 4162139 <GO>}

Okay, that was the main point. Thanks for clearing that up. Thanks.

Operator

Our next question comes from Jason Mullen from Goldman Sachs.

Q - Jason Mullen {BIO 16602640 <GO>}

Hello, everyone. I have two questions.

First, can you please comment on how the preventative measures by the SGE will impact VisaNet and the industry in general? Specifically, can you elaborate on how the administrative process works following a so-called "Medida Preventive"?

And my second question is related to cost. Can you provide details on measures VisaNet is taking to pursue further cost reductions, maybe as we think about VisaNet's cost function going forward in light of new measures that you're taking?

A - Romulo Dias {BIO 2054119 <GO>}

This is Rom again.

First of all, about the SGE, we are, let's say, comfortable with the contract that you have in our hands. It's important to mention that this contract and our behavior continues to be exactly the same since VisaNet was created. VisaNet was created 14 years ago and this

process at the creation of VisaNet was presented to the government, to SGE, and also to cards and we receive authorization to create VisaNet.

At that point in time, they said that the creation of VisaNet was very good for the market because it would allow the market to have a strong competitor. It's important to mention also that VisaNet in 1995 was the second player in the market. So we gained market share to prove our efficiency. Having said that, let me pass to our lawyer Kyle to explain more about the facts and other stuff.

A - Unidentified Speaker

Hello. Just a quick overview on how administrative procedure like this functions in Brazil.

Open-year procedures actually just provide for an accusation and the company has time to defend itself and present its reasons throughout the full procedure. So there are two things that may and will happen in the near future. First, the company has the possibility of appealing the preventative measure which is the injunction that you heard of and that you mentioned in your question.

This possible appeal can happen in up to 10 days and it can take the injunction for a review by Kaite [ph], and Kaite [ph] can actually revoke the injunction by SGE. So that's one thing that can happen now and it's possible for the company to appeal. As Romulo mentioned, we believe there is some argument in favor of the company, especially regarding the relationship that's in place for the past 14 year and hasn't change and continues.

The other aspect is that the company up to 30 days to present a defense before SGE in the formal accusation. So that's a defense on the merits of the process. Then SGE will go on with the investigations after the defense. In our experience, the full procedure on the merits will take usually in between one and two years and that's our expectation on this procedure as well.

A - Romulo Dias {BIO 2054119 <GO>}

Jason, about the second point. It's clear, Jason, or you want --

Q - Jason Mullen {BIO 16602640 <GO>}

No, that's very helpful. Thank you.

A - Romulo Dias {BIO 2054119 <GO>}

Okay.

About the second that you mentioned, the cost, I think you are familiar that with the process that you are implementing in the company, our EBITDA margin -- the growth was 40% and the growth of net earnings was 48%, but you continue to work hard in order to reduce the costs of the company.

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So during the road show we present some measures and some numbers in terms of the examples that we have so far. But there are some contracts, such as call center and helpdesk that only in November the migration will be concluded and only in the last quarter of the year the reduction will appear. To talk about a number, that's BRL1.5 million in the last quarter. So in the full year of 2009, we'll have a reduction of BRL1.5 million.

For the full year 2010, due to this contract, will be a reduction of BRL15 million. There is another example that was not included in the numbers that you provide to the investors when they reviewed the IPO. This is the new reduction that we just conclude recently and there is a contract related to IT service and the numbers or the reduction that will appear in the second semester for the year 2009.

So in other words, it didn't appear so fast in the Second Quarter. The reduction will be BRL10 million, the cost of the company. And that BRL42 million in the year 2010, so the coming quarters you are going to see some of these effects and some of them didn't appear 100% as I mentioned before. And more importantly, we continue to work hard because -- I'm comparing apples to apples, okay?

Take into consideration the volume that you have in year 2009. I'm not considering the year -- the expectation about the higher number that we expect for year 2010. I'm considering the year 2009, the year 2009 comparing apples to apples just to prove that we continue to work hard.

And let's not forget also the reduction that you have in the expenses related to SG&A. These operational expenses was -- we had a strong reduction and it gives you, let's say, a flavor at the moment of the company.

Q - Jason Mullen {BIO 16602640 <GO>}

Thanks again.

Operator

Our next question comes from Nathan Segal from Bijour Capital [ph]. Please go ahead.

Q - Nathan Segal {BIO 20502478 <GO>}

Good morning, guys, congratulations on a good First Quarter out.

My question is on the receivables financing business. Now that you've grown and you seem to continue to grow significantly, I'm wondering if there's any competitive threat vis-a-vis the banks who -- it may be a lucrative business for the banks to be doing as well as VisaNet doing directly.

Can you comment on that specific aspect, especially if the acquiring market opens up in the next few years, will banks try to get some economics for themselves by going aggressively in the financing business just like VisaNet is trying?

A - Romulo Dias {BIO 2054119 <GO>}

First of all, I think you know that this is not considered a financial operation. It's a commercial operation. According to this, we have, let's say, advantage that we don't pay the same tax that usually the banks pay.

So in terms of cost of funds, we have a better access -- not a bad access because so far, we have funded this operation with our own cash flow. But in terms of perspective for the product, we do believe that we -- there is still room for growth.

I think Vito mentioned during the presentation that our revenues increased if I'm not mistaken BRL45 million, that's right, Vito? BRL45 million net revenues, and we do believe that we'll continue to present, let's say, higher penetration and higher revenues in the coming quarters.

Q - Nathan Segal {BIO 20502478 <GO>}

Okay.

Then the second question is, I don't know if you can -- I mean, it's going to be tough to give sort of forecast around merchant discount rates, but I'm wondering qualitatively if you think -- at least my analysis shows that Brazil is sort of towards the high end when you look at most countries around the world. I'm wondering whether you really think that's significantly going to trend down over the next few years or is that -- you're pretty comfortable with where they are both on debit and credit?

A - Romulo Dias {BIO 2054119 <GO>}

You are talking about the patterns we are seeing? NGR [ph] also [ph], NGR [ph] depends on the way and how the market will work when the market begins to work -- when the current begins to work with other brands. But so far, before this, we don't see, let's say, a strong reason, let's say, to change dramatically what we are seeing so far.

In the future, you will continue to see a strong possibility of growth, our organic growth. There are many, many cities and many customers that are not achieved by our infrastructure -- by our network. And we see, let's say, this possibility to continue to grow and not to change dramatically the situation in terms of the commission that we charge on [ph] the [ph] market [ph].

A - Vito Fabiano

May I add some comments here?

Thanks for the question, Nathan, this is Vito Fabiano speaking.

This -- in a comparison between the average NGR [ph] in Brazil and other developed countries, one thing that is very important to take into consideration is the effect of the credit installments that upsets our average NGR [ph] in Brazil up. Although you should

consider that in this average NGR [ph] in Brazil, 40 basis points comes from these credit installments, which is a pretty unique feature in Brazil.

So you should take that out of the average of the average NGR [ph] in Brazil, you will find out that our average NGR [ph] is not so much higher than in U.S., for example.

Q - Nathan Segal {BIO 20502478 <GO>}

Okay, I appreciate that. That's very helpful.

Thanks a lot and all the best for the years ahead.

A - Vito Fabiano

All right. Thank you very much.

Operator

(Operator Instructions). Our next question comes from John Diverek [ph] from Olayan Group.

Q - Bob Huntington

It's actually Bob Huntington [ph] and it's two questions.

You've touched on these somewhat, but I wanted to hit these right on. The first is are you seeing a firming in activity on any -- or any incremental strengthening based upon an overall lift in economic activity? I'm referring specifically to the timeframe after the Second Quarter and through early August.

The second question, have any of the regulatory and competitive developments in any way altered your short or long term marketing with respect to your budget and initiatives, particularly on the merchant acquisition side? As we go back and retouch our model, is there any need to reduce any marketing initiative into 2010, 2011, and so forth?

A - Romulo Dias {BIO 2054119 <GO>}

Hi, Bob, this is Romulo.

Q - Bob Huntington

Yes, hi, Romulo.

A - Romulo Dias {BIO 2054119 <GO>}

Your first question, if I understood correctly, is talking about economic activity, that's right?

Q - Bob Huntington

Yes, with economic activity since the end of the reporting period, kind of anecdotally on how you feel with respect to what you're seeing in the Brazilian economy, the retail, the lift and steadying and so forth. Are you seeing anything incrementally or is it more steady?

A - Romulo Dias {BIO 2054119 <GO>}

According to the, let's say, to the reports to the, let's say, some report that you are reading and also talking to, not only to the retail guys, but also to industrial guys, I would say that even the industrial sector is recovering.

Today we saw in the newspaper some news saying that they've begun to hire on other people. So this recession, as you know, in Brazil at least, affects much more the industrial sector than the retail sector.

So given that continued growth, as you -- we gain 23% in terms of market -- our growth was 23%, so we gained -- it seems that we gained more market share than the industry. Unfortunately, we don't have the numbers because the Fed provides the numbers only by the end of the year. So but, take into consideration the numbers that were published so far by the -- our competitors. We see that we continue to gain more market share.

So with these two things, the economic activity, it seems to us that continuous recovery and to present good numbers from a macroeconomic perspective, also the fact of the reduction of select interest rate that Central Bank controls and the fact of this reduction didn't appear at least according to some economists so far, let's say, in the activity of some sectors. So we are comfortable to -- that we will continue to, let's say, to have the same -- it seems to us so far that we continue to have, let's say, good numbers compared to the number that you present so far.

About the regulatory, your second question. If I understood also correctly your question you mention about the budget, the budget to acquire new clients, that's right?

Q - Bob Huntington

Yes.

A - Romulo Dias {BIO 2054119 <GO>}

We -- what I can tell you, that we need to be prepared and are taking the necessary measures and the steps to be ready and to compete in the new environment and we -- of course, it affects a little bit our market, our budget, but it's not something that I would say it will affect dramatically our budget. It's much more a question of a process, IT adaptations, growth, interchange, so on and so forth.

But in terms of budget, of course it takes some money, but it wouldn't be a number that would affect dramatically. You want to add something, Vito?

A - Vito Fabiano

To add that our current marketing moneys are now -- have been up to now and probably up to the end of the exclusivity period in the capturing of business transactions period as a pretty decent amount of resources, more than 2% of our revenues coming from credit and debit transactions have been applied in marketing money.

I would say that as for when the competition for merchants start with a multi-brand business, we will certainly shift our marketing strategy from the current servicing and promotional activities to other types of marketing activities that are adapted to the new competitive environment.

Q - Bob Huntington

So I guess it would be fair to say that under certain circumstances as the reality of the regulatory and competitive developments unfold, that under certain circumstances you would be increasing your marketing budget and perhaps in other circumstances you might decrease. Is that a fair assumption?

A - Romulo Dias {BIO 2054119 <GO>}

I think so, Bob. And about that -- because one thing that is necessary, my first reaction on that first question was related to that adaptation of the systems. But to work in the new environment and to acquire new merchants, of course probably we should increase our budget to acquire new merchants.

But on the other hand, it wouldn't be necessary to spend the same money that you have in terms of marketing, because marketing so far was something related to, let's say, much more related to Visa in terms of when you go to a merchant, when you go to a restaurant, we put the name of Visa there. So in the new environment, it's going to be -- we are going to change.

And it's also, it's not going to be -- not so -- we won't have to spend so much money also with the banks, because when we have only Visa in our network, of course we have, let's say, the incentive to give incentive to the banks to have more Visa transactions. But if the market changed, then it's not only Visa transactions, but also MasterCard and maybe other brands.

At the end of the day, it's not necessary to spend the same money in terms of marketing because it doesn't matter, okay?

Q - Bob Huntington

Yes, yes. Okay. Thank you.

Operator

Our next question comes from Saul Martinez from J.P. Morgan.

Please go ahead.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi. Good morning, everybody. I have two questions.

First of all, obviously, the preventative measure provides some uncertainty around the timing and process that exclusivity will come to an end. Can you just talk a little bit about how you look at your strengths and weaknesses versus your competitors? Obviously, notably Ready Card [ph] when it comes to retaining merchants who current have merchant-acquiring relationships with multiple merchant-acquirers.

Then secondly, a follow up question on the prepayments business. As you look out say two to three years, how big do you think this business can be in terms of percentage of transaction volume -- credit card transaction volumes that are prepaid and in terms of what contribution to revenue it might contribute to?

Thanks.

A - Romulo Dias {BIO 2054119 <GO>}

Hi, Saul. Your first question is about comparing strength and weaknesses when compared to Ready Card [ph], that's right?

Q - Saul Martinez {BIO 5811266 <GO>}

Essentially, yes, with regards to overlapping merchants and as merchants have the ability to choose one merchant-acquirer over the other, how do you look at yourself versus your competition?

A - Romulo Dias {BIO 2054119 <GO>}

I think we have some things that are unique, such as -- as you know, we are the market leader with 50% market share. We have, let's say, the biggest and most scalable product, and that allows us to join economic scales. Also, in terms of our ability to continue to innovate and to create products and services that are unique -- allow us to present a proposal, to present a very well-built service to our customers that are adjacent or, repeating the word, unique.

Why? Because we do believe that's not only a question of price. Of course, it's going to be a question about price, but not only about price. It's going to be about products, service, and also distribution. So distribution is a key thing, and we do have, let's say, the good relationship with the nationwide banks in Brazil. And the question to continue to work with them and paying commissions because they work as a distribution channel for us, let's also not forget that Banco de Brazil and Bovespa seems to be the number one banks in Brazil.

So together with our popularity, together with our innovation in terms of products and service that you prove so far that you have some products that are unique, such as Agrocard [ph], Vcorp [ph], so on and so forth, together with the fact that we have this strong relationship with the nationwide banks, I think at the end of the day when the

merchant has a product to choose between one acquirer and the other, they either have -
- at least it's our expectation, let's say, a preference to choose VisaNet.

Do you want to add something, Vito?

A - Vito Fabiano

Yes, I think this -- the national footprint of our business the association with our -- the banks that are our shareholders are definitely a competitive advantage to be in every corner of the country when the openness of the market comes.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay, great, thanks. That's perfect. Thanks.

And the question on the factoring of receivables as well, do you think that business becomes as a percentage of transaction volumes and revenues steady over the next two to three years?

A - Romulo Dias {BIO 2054119 <GO>}

Saul, we are not giving guidance in terms of percentages at this time on credit card transactions, due to the fact that these products are very new for us. We do not have a strong history in terms of, let's say, how it works so far. On the other hand, we do have the expectation that we will continue to present in the coming years higher percentage not only in terms of total credit card transactions but mainly in terms of revenues.

I think that the revenues that you present in Second Quarter compared to the First Quarter, it increased more than 100%. So with that, we will be able to deliver more revenues and also more participation in the coming years.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Let me ask the question in a slightly different fashion then.

Do you feel like you really -- do you feel like you need to grow this business pretty meaningfully in the next, say, year, two years, and offer it as a separate product to merchants that may be obviously Ready Card [ph] may be a little bit more advanced, do you feel like this is maybe lacking in your product offering and hence you need to grow this to be able to offer that product to merchants who are obviously now choosing one merchant acquirer over the other?

A - Romulo Dias {BIO 2054119 <GO>}

You're talking about churn?

Q - Saul Martinez {BIO 5811266 <GO>}

Yes, no, the factoring business, do you feel like this is a product that you want to grow aggressively so that you're not at a competitive disadvantage versus your competitors in offering it to merchants?

A - Romulo Dias {BIO 2054119 <GO>}

You are -- exactly, you are right. We are going to pursue aggressively the growth of this product.

Q - Saul Martinez {BIO 5811266 <GO>}

Great. Thank you, very much.

Operator

Our next question comes from Carlos Shiretti [ph] from Bradesco.

Please go ahead.

Q - Carlos Shiretti

Hi, everyone. I'd like to hear you talking a little bit about the reduction you had this quarter in net NGR [ph] for that and the impact of the Agrocard [ph] on that.

And also, would like to make a quick question on if you already have an estimate for the CapEx that you need to get your systems to accept MasterCard cards?

And a third and last question related to -- how do you think is going to be the impact of direct competition with Ready Card [ph] in your POS revenues? Would like to know if you think you're going to have a reduction in the number of POSs in the market coming from this direct competition, at least at first. And how do you see the impact of this on the POS rental fee?

Thank you.

A - Vito Fabiano

Yes, Shiretti [ph], this is Vito Fabiano. Thanks for the question.

I will answer your first question about the NGR [ph], the behavior of the NGR [ph] of debit transactions. We experienced a reduction in our net NGR [ph] of one basis points this Second Quarter compared to First Quarter 2009 and 1 basis point compared to the same period, to Second Quarter 2008.

This is basically due to significant increase in the volume of transactions with Agrocard [ph], which is the -- a development we see in our partnership with Banco de [ph] Brazil [ph] that allowed the farmers to make their purchases of raw materials for their crops using a debit card transaction to access pre-approved line of credit with Banco de Brazil.

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This represented a significant volume growth compared to last year. The volume of Agrocard [ph] transactions on the Second Quarter 2009 grew almost six times compared to the same period of last year. Of course, this transaction given the fact that this type of transaction generates an average ticket much higher than the average ticket of regular debit transactions, just to give you a number, the average ticket of this Agrocard [ph] is above BRL50,000.

We just did the largest transaction ever with this Agrocard [ph] in the beginning of this month -- last week, more precisely, of BRL9 million, just one transaction. Of course, this generates significant additional volume to our base and a certain dilution in the average NGR [ph] due to the fact that the net NGR [ph] of these transactions is lower than a regular debit card transaction.

A - Romulo Dias {BIO 2054119 <GO>}

About your second question, Shiretti [ph], this is Romulo speaking. In terms of CapEx, of course, it will -- our CapEx would increase due to the fact that we need to be prepared to capture the brands. But we don't have, let's say, a number to provide to you, but I can tell you, on the other hand, that our number so far for the whole year is BRL190 million.

But we do not expect a strong -- a big difference between this number and the one that we'll have when you take into consideration the necessary measures and steps to capture the other brands.

About the other question, direct competition with Ready Card [ph] in terms of POS rent, I think we -- depending on the way how the market is going to work, of course, and if they have -- and for the merchants that prefer to have just one, the same thing about POS sharing and also when you have just one company -- just one acquiring company acquiring all the brands.

If you just have one acquiring company being responsible to everything, we believe -- I think some of them, some of the merchants would prefer to have other options also, because they also can have problems in terms of IT and also telecom communications. So in other words, if you just have one, it's important to understand that maybe the merchant will not be comfortable.

But if they decide to have just one, and some of them for sure will decide to have just one, our expectation is that for the ones that will not choose ourselves but will choose our competitor, the likelihood of course that the POS rent would be affected by this decision.

Q - Carlos Shiretti

Okay. Thank you.

Operator

Our next question comes from Federico Rey from Raymond James.

FINAL

Q - Federico Rey {BIO 21612520 <GO>}

Hi. Good morning, everyone. Many questions have been already answered, but I would like if you could go deeper with the prepayment business.

According to what I saw in the prospectus, the prepayment volume was BRL1.7 billion during the First Quarter of the year. During the Second Quarter, going to the press release, it was BRL1.5 billion. And I would like to understand this decline, if this is a matter of seasonality or there are other reasons that are generating this decline.

Thank you.

A - Vito Fabiano

Yes, Federico, this is Vito Fabiano speaking.

Actually, on the First Quarter, we did a one-time transaction, a very significant one-time transaction of more than BRL300 million. Of course this type of opportunity doesn't happen every quarter, so we understand that the behavior of the Second Quarter is normal, especially considering that if you're not -- if you don't take the BRL300 million transaction we did in the First Quarter, you will see that the volumes were pretty -- almost flat compared to First Quarter.

A - Romulo Dias {BIO 2054119 <GO>}

Let me add something, this is Romulo speaking.

You're right in terms of the financial volume, but as we mentioned also before, the revenue was increased from BRL22 million to BRL45 million, more than 100%. And more importantly, as you said before, we do believe that we will continue to increase our penetration, not only in terms of financial volume, but also in terms of revenue.

It comes to the point that someone asked me if we are going to pursue, I think it was Saul from J.P. Morgan, if we are going to pursue this product aggressively. And we are going to pursue this product aggressively to remove -- trying to remove the barriers and trying to be ready to compete and to have more market share.

Q - Federico Rey {BIO 21612520 <GO>}

Thank you, very much.

Operator

Our next question comes from Henrique Caldiera from Barclays.

Please go ahead.

Bloomberg Transcript

Q - Henrique Caldiera

Hi to everyone.

I'd like to understand the dynamics behind the growth that you expect on prepayment, especially on the (inaudible) description in the sense that if you consider that VisaNet is already ready to deal with thousands of merchants and increase penetration in its smaller segments. And also, what type of measures the company has been implementing to lower the barrier regarding the banks' competition.

A - Romulo Dias {BIO 2054119 <GO>}

As you know, this is a product that you have many ways to sell this product -- call center, telemarketing, and also from our own sales force. We -- our own sales force has, let's say, has a target, has a goal to achieve a certain percentage and it's also related to the bonus that they receive.

Also, if you -- and we are also talking, let's say, to the banks and it is important to mention that it's not only now a case but also our competitor has the same situation and they need -- when they provide the service, as you call Latino [ph] or in Portuguese Trava [ph], so all the measures and the steps we are trying to work in order to deliver what I said before.

So we have been more aggressive in terms of the call center, we have been more aggressive in terms of our sales force. We are being more aggressive in negotiating new prices and new service for the banks, and we are being aggressive to achieve and to deliver, let's say, a higher percentage of the total credit card transactions and more important, more revenues for the company.

Q - Henrique Caldiera

Thanks, Romulo.

My next question regards the possibility -- if you could provide your view on the possibility for the reduction -- the settlement that the Central Bank suggested.

We understand this has no severe impacts not only to acquirers but to different parts of the industry, but at the same time, it doesn't necessarily need to be reduced today, but they could come up with a reduction (inaudible) and this would still have some implications. So if you could provide your view on that issue, please?

A - Romulo Dias {BIO 2054119 <GO>}

Romulo again speaking.

I think everybody knows that we present our proposal to banks and in our proposal we try to demonstrate that this wouldn't be good for the industry as a whole due to the fact that if they reduce, at the end of the day the customers will have not, let's say, not the same incentive to use the credit card. Because the banks for sure will not be -- we will not afford

the negative floating that we would have to have in this situation, because the customers have up to 40 days to pay their bills and the banks would have to pay the merchants in two days.

Having said that, our position is, well, let's say, expanding toward banks, but if for some reason that we do not know if they decide to present another solution, we will try to, let's say, to present our views and to prove that we think it's not good for the industry as a whole.

It's also important to mention that first this measure would affect the system as a whole. It's not only a question related to the product and prepayment, it's also much more related to the industry as a whole. But indirectly of course the prepayment would be affected because there wouldn't be -- it wouldn't be necessary anymore to anticipate the 30-day portion.

But let's not also forget that we have the prime installments and prime installments is not under discussion with Central Bank. Prime installments corresponds to about 50% of total credit card transaction that you have. I'm talking now about VisaNet and, as you know, we are, let's say, we've just begun this product. In other words -- sorry. Indirectly, this business wouldn't affect so much VisaNet.

Q - Henrique Caldiera

Romulo, do you see other risks besides this prepayment business? Do the banks have other measures that they could use to compensate the large net defaults?

A - Romulo Dias {BIO 2054119 <GO>}

You're talking about from our perspective?

Q - Henrique Caldiera

On the reduction assessment, is there any other repercussions to VisaNet besides the reduction in the prepayment volumes?

A - Romulo Dias {BIO 2054119 <GO>}

The other one that I mentioned, that it would affect the industry as a whole. Not only VisaNet, but the banks wouldn't be, I'd say, so -- wouldn't receive the same incentive to give credit to the customers because it would be necessary to compensate the negative flow that they have.

So the whole system would be affected. Probably they would create some things to compensate that because they wouldn't afford the negative flow to result, let's say, it's something that would affect the industry as a whole.

A - Vito Fabiano

Enrique, I would add the information that two -- approximately two-thirds of the volume of prepayment of the industry comes from the credit installments and one-third from the single payment credit transactions.

Q - Henrique Caldiera

That's good, thank you.

Operator

Ladies and gentleman, this concludes the question-and-answer session for today.

At this time, I'll turn the floor back over to Mr. Dias for any closing remarks.

A - Romulo Dias {BIO 2054119 <GO>}

So thank you for participating in our conference call, we are really excited to continue to deliver good results and consistent results to our shareholders.

As I said before, when I began my presentation, when I began my speech, we have here the 100% of the team -- the executive team, and we are working and working hard on the same direction to continue to deliver consistent results for our shareholders.

Thank you, very much.

Operator

Thank you. This concludes today's presentation. You may disconnect your lines at this time and have a great day.

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