

Q3 2019 Earnings Call

Company Participants

- Gustavo Sousa, Chief Financial Officer
- Paulo Caffarelli, Chief Executive Officer

Presentation

Operator

Good afternoon, everyone, and thank you for waiting. Welcome to the Cielo Third Quarter 2019 Results Conference Call. With us today we have Mr. Paulo Caffarelli, Gustavo Sousa and Jean Leroy. This event is being recorded and all participants will be in listen-only mode. During the company's presentation after Cielo's remarks there'll be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions) This event is also being broadcasted live via webcast and may be accessed through Cielo's website where the presentation is also available.

Participants may view the slides in order in which they wish. The replay will be available shortly after the event is concluded. Those following the presentation via the webcast may post their questions on our website. They will be answered by the IR team after the conference is finished.

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

Investors and analysts should understand that conditions related to micro-economic conditions, industry and other factors could also -- result to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Paulo Caffarelli. Mr. Paulo. You may begin.

Paulo Caffarelli

Good afternoon. Thank you guys for your time and attention. I'd like to briefly highlight some key aspects of the third quarter. As a consequence of Cielo series [ph] strategy so far.

Firstly, we are very proud of the results in terms of market share, customer base expansion in volume, confirming that the third quarter is aligned to the -- our plan. Moving

to quality of services, it's worth mentioning that all the effort dedicated year-to-date have brought more quality to our service.

However, we keep working hard on improving this level to excellence [ph]. Moreover, we remained focused on business as usual. But in parallel, we are creating a new Cielo into digital transformation. Cielo Pay is one of the example on this new platform, we are innovating our ecosystem to provide and please user with more experience and convenience.

And finally, as the leader of this market, Cielo is able to scale up the business as well as take the competitive advantage of a leader. My special thanks to all Cielo's staff that are involved in this challenge for transforming and adapt our company every day and also our investors who support our efforts.

This quarter we are presenting again good results in terms of market share, volume and customers base -- customer base expansion and we believe that we are in the right way because when we decided to remain in this competition, we decided to -- to jump from March to preserve market share and we are in the right way. Okay. Now I will pass to Gustavo, and after that we can return for the Q&A.

Thank you so much.

Gustavo Sousa {BIO 17683157 <GO>}

Thank you, Caffarelli. Good afternoon, everyone. Thank you for participating in our earnings call. So let's start the presentation on slide three, where I will go through five metrics without giving out details because I'll talk about those details in the upcoming slides. So starting with financial volume of the quarter, BRL172 billion. In terms of client base, we reached 1.5 million active clients.

Our credit volume that was paid in two days reached BRL22.3 billion, net revenue of BRL2.8 billion and a net income of BRL358 million. Moving to page four and now looking at financial volume. This volume of BRL172 billion represents a yearly growth of 11.6% and a quarterly growth of 4.4%. The active client base that reached BRL1.5 million -- I'm sorry, 1.5 million clients is 18.9% growth in the year-over-year, and a quarterly growth of 4.7%. And the total credit volume paid in two days of BRL22.3 billion represents a 43.6% yearly growth and a record high penetration of 21.3%.

Moving to page five, I will go briefly through some of our financial metrics. Net operating income of BRL2.8 billion, and that's a 5.5% reduction. EBITDA of BRL724 million and that's a 37% reduction. Our EBITDA margin reached 25.9% and that's a 13 percentage points decline, and a net income of BRL358 million.

On page six, we explain the majority of the of the reduction in most of these metrics come from the competitive landscape that we are facing. So we saw an important decrease in revenue yield, most importantly related to reductions in prices. So starting with the graph on our left, where we see our revenue yield decreasing by 26 bps and

most of this reduction from price in MDRs and also reduction from rentals, which is also a price component.

And the same thing is seen on the quarterly comparison, the 7 bps reduction in revenue yield driven mostly by reductions in MDRs, there -- the price column over there and also in rental revenue.

On page seven, we see some of the items that we will discuss in the upcoming slides. We will talk about the Retail segment, about the entrepreneurs segment, also about advances in technology and projects, also advances in operations and service and specifically about a recently launched product called Cielo Pay.

So on page eight, we start with a graph that we also saw in our last earnings call. This graph demonstrates the yearly growth of the addition of two segments, retail and entrepreneurs. So just to give more color. Entrepreneurs for Cielo is a segment of clients with a yearly fall -- flow -- a yearly volume of a BRL120,000.

Where -- in the retail is clients between BRL120,000 and BRL15 million [ph], above that we have the large accounts.

So in this third quarter, we saw the combination of retail and entrepreneurs expand at a faster pace than we saw the large accounts. Behind this expansion we have a strong result from the -- our recently created workforce of hunters. As the market knows, we announced the creation of this workforce in January, this year We have 1,000 employees fully dedicated to add in clients to Cielo, most importantly, in the retail segment. So first of all, in the third quarter, the hunters. The volume generated by clients that were brought to Cielo by hunters, they represented at close to 10% of the retail volume and if we compare the volume brought by hunters from the third quarter to the second quarter, we have this 81% increase demonstrating that our hunter effort is gaining traction.

When we go to slide nine, we have some comments about our strategy for entrepreneurs. It's a strategy, mostly based on the sale of equipment. Since we started with this strategy, early last year, until today, we sold a close to 1.1 million POSs. Part of this was equipment that was instantly delivered -- was prompt delivered -- delivery. Yeah, in the branches of the banks that work with Cielo. 130,000 of those equipments were instantaneously delivered by clients and this is a strong growth compared to other peers and demonstrates how ready Cielo is to face distribution in reaching out to clients in this segment.

We also show alternatives to expand sales of our clients of this segment, such as payments via QR code, or by links. We also offer to the segment the possibility of digital accounts. Today 9% of our entrepreneur clients have a digital account with Cielo, and for the future, we are planning to diversify distribution by working with partnerships and other types -- other forms of sales efforts to keep increasing our presence on this segment.

Moving to page 10, and it is important when we talk about technology in Cielo, because the market has a view that incumbents have issues and problems related to legacy

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system. So first of all, of course, players that are established in the market for a longer period. Yes, they do have legacy systems, but there is another side of this point which is, nobody has systems availability and capacity as Cielo has. So we have availability of close to 100%, of course it is impossible to have 100%. So it's 99.99%. We have a financial volume between BRL2 billion to BRL5 billion on a daily basis, BRL7 billion in transactions -- 7 billion transactions on a yearly basis and also peaks of transactions of over a 1,000 transactions per second, so Cielo is ready to face any of the heated periods in the economy or the seasonal increases in sales related to Mother's Day, Father's Day and Christmas. So nobody has close to the availability and capacity that Cielo has.

And when we contrast that to new technologies, recently, over the last two years, Cielo start to implement every coding language and platform available in the market Cielo uses that. Currently 90% of our project portfolio is done implementing the agile methodology. We saw a radical improvement in terms of productivity, which allow Cielo to deliver solutions to the market in a shortened period. We have three examples here.

Our digital account was developed and implemented in less than a 100 days, the Cielo Pay that we will talk about in the upcoming slides, also in less than 100 days and the instant payments solution, in less than 60 days.

Now shifting our attention to Operations and Service, we move to page 11, where I believe we talked about this new method. This new way to manage our call center in the last earnings call. Basically, our call center operators, now starting in October, have a new rule whether -- where based on the valuation of the quality of that call in the aggregated information from different periods, the call center providers can get more or less volume from Cielo and depending on the quality also to get paid more or less under our base rate, always depending on how the client evaluates that service.

We started to have the first results of any initiative that we had and we were very vocal in announcing that to the market as the core of our strategy for this year, which is to put the client first in every initiative that we do. So with this priority to evolve in terms of quality service. We will start to share the first metrics of that with the market. So what we have in this slide here is just the beginning.

So we had a reduction in the calls from active clients by 18% on a yearly basis, we had a reduction in complaint -- complaints of 15%, also in a yearly basis, and also the time it takes for Cielo to solve those complaints reduced by 74% on a yearly basis. Finalizing the presentation on slide 12. We talk about Cielo Pay, a product that was recently launched. We have the possibility of a digital wallet with physical and virtual cards, QR code payments, transfers -- instance transfers based on the context that you have on your phone. So, a product that is now ready for our clients and that will keep evolving and we'll keep sharing the developments and implementations in this product with the market in the upcoming quarters.

With that we finalize the presentation and we move to the Q&A session. Thank you very much.

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Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) This concludes today's question-and-answer session. I would like to invite Mr. Paulo Caffarelli to proceed with closing remarks. Please go ahead, sir.

A - Paulo Caffarelli

So guys, thank you all for taking part of this conference. My -- our IR team and me, we are very available to answer and to clarify doubts, please do not hesitate to contact us if you do -- if you need something.

Okay, thank you so much. And have a good evening. Thank you. Bye-bye.

Operator

The conference -- this concludes Cielo's conference call for today. Thank you very much for your participation, and have a great day.

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