

Q2 2019 Earnings Call

Company Participants

- Gustavo Henrique Santos de Sousa, Executive VP of Finance & IR Officer
- Mario Casasanta, Vice President Entrepreneurial Clients
- Paulo Rog rio Caffarelli, CEO
- Thiago Stanger, Head of Treasury Department

Other Participants

- Daniel Federle, Research Analyst
- Domingos Falavina, Head of Latin America Financials, Research Division
- Eduardo Nishio, Financial Sector Analyst, Research Division
- Felipe Gaspar Salomao, Analyst, Research Division
- Giovanna Rosa, Research Analyst
- Giuliana Agrumi Dos Santos, Analyst, Research Division
- Ot vio Tanganelli, Analyst, Research Division
- Rafael Berger Frade, Research Analyst

Presentation

Operator

Good morning. And thank you for waiting. Welcome to Cielo's conference call to discuss the results of (technical difficulty) 2019. Today with us are Mr. Paulo Caffarelli; Gustavo Sousa; Thiago Stanger; and Ricardo Breakwell. This event is being recorded. (Operator Instructions) This event is also being broadcast simultaneously over the Internet via webcast at ri.cielo.com.br where the presentation is available.

The slide selection will be controlled by all participants. The replay of this event will be available shortly after the closing. We would like to remind you that webcast participants may register via website and post questions for Cielo, which will be answered after the conference by the IR area.

Before proceeding, we would like to clarify that forward-looking statements made during this conference call regarding Cielo's business prospects, projections, operational and financial goals are beliefs and assumptions of the company's management, as well as information currently available to the company. These forward-looking statements are not a government performance and involve risks, uncertainties and assumptions as they refer to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand that general conditions, industry conditions and

other operating factors may affect Cielo's future results and may result in outcomes that differ materially from those expressed in such future conditions.

I would now like to give the floor to Mr. Paulo Caffarelli who will begin the presentation. Mr. Paulo, you may proceed.

Paulo Rog rio Caffarelli

Good morning, to everyone. Thank you for your participation. I would like to thank the participation of Edison Kinoshita, our VP, Vice President. First and foremost, I would like to thank all of you for your participation. It is our third conference. So I would like to remind you a number of assumptions that we discussed during the Fourth Quarter of 2018, first of 2019, first is that our strategy in the company wanted to change our image margin to market share. And we were losing market share. Our margin strategy did not work. So we changed it. This is a very important point. The strategy of Cielo right now is market share.

The second strategy currently is to work strongly in order to improve the customers' experience. This for us is a dogma. We are going to win the game. Why? Because we have a service product that is a commodity and who serves properly their customer well, of course, together with price and proper products and system availability, marketing, et cetera.

And the last point, within our strategy regarding our assumption is to look for operating efficiency. We are a company that is 24 years old. And day by day, this company has to adapt to the new moment of the acquiring industry competitiveness. This is why we're reviewing ourselves constantly. I always say the size of Cielo has to adapt to its needs of generating results.

Another point that I wanted to mention, number one, this is an extremely competitive environment. This is part of the game that you're following. And we see this day by day because acquiring is not only a bet from the acquirers. Today, you can see acquirers: fintechs, banks, great retailers, IT companies and other players. Therefore, it is obvious that within the competitive scenario, current margins are under pressure.

Now something positive is that we have prospect in a country that is very positive. Regarding the use of credit card, be it debit, credit card or be it due to new payment solutions, transference between people. But what is important is that acquiring is the focus of this entire payment process in the country. This is so that we have a growth potential because of the low penetration of credit cards in Brazil. And this is so that when we see our investors, we have a very significant amount of foreign investors betting on the development and the increase in acquirers in Brazil.

I would like to strengthen some very important points in addition to the market share. Our strategy is of the medium and long run. We are not concerned right now. We don't have to focus on the short term. We have to adjust our company towards this competition. Therefore, we're really not concerned in generating results right now. We are concerned

in structuring our company. The result is a consequence of how better we prepare ourselves for the future.

Now another important point would be because why are we focusing on the middle and long term? Because who's going to win the game is the one that has scale. Whoever has scale, as a consequence, will have better prices.

Now another important matter within this process, Cielo decided to work within all the acquirer pyramid since the micro entrepreneur up to major accounts. This for us is imperative because we have a characteristic because we belong to 2 major retail banks. If we add them up, there are 10,000 agencies scattered throughout this country. And Cielo is present in all municipalities. And this within the economy recovery in the North and Northeast, we have a quantitative game that is very interesting.

And another important point to consider is that we work with the change of our mix as we are highly concentrated in major accounts. We're talking about 60% vis-À-vis 40% retail. So we are doing everything to turn around this trend. We want to increase our retail base of micro entrepreneur to have a 65% in retail and entrepreneur and 35% in major accounts. So this is part of our result structure.

Now a very important thing that I believe you have already seen in our announcement is that now we are -- the first signals that we are growing now appear. This didn't happen since 2016. There was an increase in capturing the sales in credit cards, 9% higher than the First Quarter of 2018. This didn't happen since the Third Quarter of 2018. We grew 1% in the First Quarter, our market share. So when the results of the other acquirers, we will see that we have gained market share during the Second Quarter. Now our customer base has grown 1.4 million customers. So this grew 12% over the First Quarter of -- Second Quarter of 2018. If we isolate the First Quarter of 2018 up to today, we've grown a lot. And this is very important.

Now our NPS, Net Promoter Score, it increased significantly from March up till the date and moreover, when we see June 2018 up till the date. So this shows us that we're on the right path. And our dogma, our brand is the customer experience. The name of the game is the customer experience.

We had a certain dogma, if we don't sell machines -- well, in less than one year, we have already sold 850,000 machines. I believe that in October, we will have sold 1 million machines. And within our strategy of working with small businessmen, it's very important to have a good structure in order to serve this micro entrepreneur.

Our strategy to hire 1,000 hunters has results -- I believe, that the growth of the customer base is a result of our hunters. And those that are in the office that do the day-by-day maintenance -- and something that is very important that we didn't publish that I would like to share with you, is that during the month of June, the retail segment/entrepreneur growth at the same volume than major accounts. This didn't happen since 2016. And this shows that our strategy in the retail market to increase our share in retail has an effect.

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Now we had already anticipated that we started the reorganization of the company. We've ended this restructuring. We created 3 business units connected to major accounts, retail and entrepreneurs. So now we can focus. And the products that you are following as of this month are completed. And we have all necessary products to offer products to all the segments that work with acquirers.

Now there is a new protocol, Receive More, Receba Mais, that in less than one month has had 2 million of advanced payment. So if we don't grow -- we will grow a lot because this is a pilot project. The projection is a portfolio of BRL 1 billion a year. So we're growing, again, we're within the game.

And I will give the floor to Gustavo that will show you the presentation before Q&A.

Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

Thank you very much, Caffarelli. And we will start on Slide #3. So here, we have the main metrics of the company in this quarter. Now I would like to tell you that every time I talk about increased data, I will talk about the growth of the Second Quarter of this year vis-à-vis the Second Quarter of last year, unless I specifically mention that it's another type of comparison.

Starting with our financial volume, we totaled during the Second Quarter of 2019 BRL 164.5 billion. This is a growth of 9%. This is our sales equipment volume. And this was 215,000 POSs. And this is twofold what was registered last year. This quarter is the historic record since we started working with, excluding the Black Friday period of last year, our active client base. Well they totaled 1.4 million customers, this is a growth of 14%. Now our net revenue totaled BRL 2.799 billion because of the strong competition because of price. We dropped our revenue 4%. And this reflected in a drop of 30% in net income because of a strong competition in prices. And our net income was BRL 431 million.

Now going to Slide #4 of our presentation, I will talk about the metrics that I didn't mention in the past slide. Now when we see our EBITDA when we compare the Second Quarter of 2019 with the Second Quarter of last year. Now during this quarter, we registered an EBITDA of BRL 748.7 million, which represents a drop of 34.7%. And the EBITDA margin was 39.2% in the Second Quarter of last year. And it went to 26.7% in the Second Quarter of this year. This is explained by the strong competition in terms of price because of the increase in our sales force because we hired over 1,000 professionals in our sales force. And also a more active role in advertising campaigns. Therefore, we had marketing expenses here.

Now we go to Slide #5. Here, we have a view of how our revenue yield evolved when we compare -- let's start with the left-hand side. When we compare the Second Quarter of last year, there was a drop of 25 basis points in the revenue yield. And this drop was caused by the price movement, that is the last purple column that we have the quarterly yield.

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Now something very similar happened. When we see the net revenue yield, when we compare the First Quarter of 2019 and the Second Quarter of this year, there is a drop of 11 basis points because of adjustments in prices.

Now when we go to Slide #6 and when we see the growth metrics in volume and base, an important point to highlight is that Cielo, if we analyze January 2017, December 2018 [ph], lost 10 percentage points in market share. Our view, our traditional products from the payment industries will continue to be under pressure because of strong competition. The acquirers will have to look for new revenues due -- through new products. This is when in the beginning of the year when we had the conference call of the Fourth Quarter of last year, we sent a clear message: Cielo is going to strengthen its 2 main differential points that are scale and customer base.

So what we see during the Second Quarter is that we continue growing in the main base indicators, starting with the first chart on the left. Our active customer base grew 14%, totaling 1.4 million customers. Our financial volume grew 9%. And when we see the credit volume that was paid and up to today [ph], there was a growth of 29%, totaling BRL 22.2 billion. That is the highest historic volume. And the penetration is 21.2% of this anticipated product.

Now when we go to Slide #7. And here, we can see volume growth and active customers. When starting with the left chart here, you see the volume growth year-on-year. Now on -- in the blue column, we have the total volume of Cielo. And we saw during the First Quarter the turning point of a negative. So we had a negative 10. And since the First Quarter. And stronger during the Second Quarter, there has been growth which is even more important when we break out this growth. And in the first chart to your left, when we see the gray line, that is the line of growth in major accounts. And when we see the purple line, that is the growth line in retail. And here, we're including entrepreneurs, we, also for the first time since 2016, a significant growth in the retail segment.

Caffarelli mentioned at the beginning of the presentation, that if we would only analyze the growth of the month of June, we -- it would be the same of the growth metric in terms of major accounts. And retail, that is the most profitable segment. And we expect to have more and more volume. When we go to the right chart, we see the growth of volume and base. And for the second consecutive quarter, these variables are positive. So this confirms that regarding the strategy that was mentioned in our conference call of the Fourth Quarter here, we see the first signals of growth recovery.

And this is what we report on Slide #8. In the points to the left in gray here, we can show you -- or we are going to recapitulate the strategy that was discussed in the beginning of the year. And in blue, you have the main results that were achieved. Number one, we mentioned that there was structural reorganization and increase on sales force focused on customers. And we created 3 business units segmented by the size of the customers. And the other areas of the company provide services to these areas that are focused on the customer. And even more important, we strengthened our commercial team. We have hired over 1,000 hunters that are sales professionals that prospect new customers. Then the professionals that are not in the street knocking on new doors, now they have time to give maintenance and to invest in the relationship with our customer base.

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We are also reviewing our cost structuring. This is an ongoing process. And we expect to communicate to the market what will happen in our next calls. We have seen in this quarter, when we saw the revenue yield, what was our greatest competitiveness in price, year-on-year, the revenue yield dropped 0.25 basis points. And we saw that 2019 is the year to service customer and to improve our relationship with customer.

We significantly reduced the maintenance of equipment and that line to install the equipment. And also, we dropped our complaints. And this improved our NPS in the -- it can be in the First Quarter or the Second Quarter last year. As a result, last year, we have signals of the recovery of our growth. So active client base, 14% year-on-year. And the data that we still do not have from our competition regarding the Second Quarter, there has been a market share recovery of 1%.

Now when we go to Slide nine of our presentation. As we mentioned in the past slide, we recovered our growth due to more competitiveness in price. And we have improved the service and the quality of our service. In this slide, you have an overview of the complete offer of products and services that Cielo has for its customers since it goes from terminals until a digital account. So we will see in other slides the breakout of terminal offerings. I would like to highlight that Venda Mais, the alternatives that we have to expand our customer sales, what would be management products, products that allow you to manage the sales. And I will talk about Receive More. In e-commerce, Cielo has over 50% of market share. Especially when we talk about QR codes, there was a growth of 60%. And we will see a highlight for digital accounts.

And now when we go to Slide #10, we have an overview of the range of equipment that are available for our customers from the first machine until LIO. That is our smart terminal that helps our customer to manage its business.

Very recently, we incorporated an item that is Mini ZIP. That is a terminal with SIM card. So now we have available all alternatives from the most accessible machine and for -- and a more complex machine that allows customers to manage their businesses.

Now on Slide 11, you can see a pilot product since June. Here, we're seeing the functionality, how it works with credit. What is it? We offer credit to our customer base based on the future sales projection with all the relationship history that we have together with our customers. This is a product that has BRL 40 million that have been granted. Granted, this is not its highest potential. But we believe that throughout the second semester, it will be a pilot project. And depending on the result perhaps next year, we will have more significant volumes as a result of this modality.

And finally, on Slide 12, here, we have our digital account. We have over 100,000 customers that use these functionalities to pay accounts, wire transfer. And here, we have the growth data of the First Quarter. There is growth in the digital account, 95% shopping, 74% wire transfer, 50% cash withdrawal, 53% in bill payments. Therefore, we believe that this modality has been more used by our customer base.

Now with this, we conclude this presentation. And now we will have a Q&A session. And thank you very much.

Questions And Answers

Operator

(Operator Instructions) Our first question, from Felipe Salomao, Citibank.

Q - Felipe Gaspar Salomao {BIO 20899985 <GO>}

Gustavo, Caffarelli, I have 2 questions. The first question would be regarding your CapEx. When we see your statement, we can see that the company acquired BRL 600 million of mobilized products. I would like to understand why this figure was so significant.

And my second question would be the specific performance of SMEs. Now you're publishing data about customers and segments. So you have entrepreneurs and SME will become 1 only column. If you could share with us what the competitive environment is in terms of prices of acquirers. Now we're talking about SME specifically, this would be very interesting.

And I would like to know if you've observed that the price in the segment of SMEs in some cities have already stabilized themselves. Or do you believe that the price will continue low?

A - Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

Thank you, Salomao. We'll start with CapEx. You're talking about the CapEx volume of the semester. If we see the quarter, it was more concentrated during the Second Quarter. This reflects 2 things. The first thing would be a greater investment in the amount of equipment, number one.

We observed that it was necessary in order to improve the service to the customer to reduce the deadline to install the equipment and to improve maintenance and to reinforce our inventory in the distribution center or agencies because we wanted to deliver the first equipment and give maintenance to the equipment in a more proper deadline, in a shorter period of time. And we believe that our customers are more satisfied.

The second point, to increase our CapEx this year was because we capitalized the cost of software development. And these softwares will turn into new products or will improve our current systems for our activities.

Now as to your question regarding price conditions, I will give you -- I will cross gross MDR during the Second Quarter for the retail segment, I will give you the net MDR for the retail as a whole without breaking it out between entrepreneurs and SMEs. Here, the level is 1.20%. And rates in the SMEs and the micro entrepreneurs, we're talking about a monthly

nominal rate of around 2.5%. One of the points that we have highlighted with the analysts is that the price competition is observed not only in the MDR. But it's also seen in the anticipation rates. And this is what happens when we see the level of pressure. Now to see the competitiveness in entrepreneurs, well, I will give the floor to Mario Casasanta that works with entrepreneurs.

A - Mario Casasanta

Salomao, thank you for your question. As Gustavo already mentioned, the price dynamic is still strong. I believe the industry expects a growth between 13% and 15% this year. But when we talk about entrepreneurs, we think -- we're thinking about 35% or 40%. This by itself already improves the base of the pyramid.

What is important to highlight here is that we are prepared for this moment. I just have to say that regarding short period of time, as Gustavo mentioned during his presentation, we had a significant amount of sales in terminals. And the expectation is excellent. Cielo has great capillarity through our banks, through our strength. Now of course, we're in the Southeastern and the Southern region, we see that there is greater competition. But in other regions of the country, we also see that the matter of price is not as sensitive, which guarantees ourselves to position ourselves positively because Cielo is positioned and scattered throughout the entire country.

Operator

The next question, from Otávio Tanganelli, Credit Suisse.

Q - Otávio Tanganelli

I would like to understand your price dynamic, if there is a disparity between the price that you offer and the price of your inventory. How should we see the sequential drop of prices from here on?

A - Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

Otávio, this is Gustavo speaking. Thank you for your question. The information that I will disclose is regarding how much of our current base is running at new prices. And what I refer to is prices that were -- that are being practiced in the First Quarter. We're talking about 50%, almost 50% of our portfolio in practice has prices of new customers or customers that renegotiated. This is half of our portfolio.

Operator

Next question, from Giovanna Rosa, Bank of America.

A - Paulo Rogério Caffarelli

Giovanna, we can't hear you. (technical difficulty)

Q - Giovanna Rosa {BIO 21036371 <GO>}

Can you hear me?

A - Paulo RogÃ©rio Caffarelli

Yes. We can hear you, Giovanna.

Q - Giovanna Rosa {BIO 21036371 <GO>}

I also have 2 questions here. You said that you hired a consultancy company to help you with cost. Could you elaborate on what kind of efficiency you expect to gain? And in what period of time will this emerge? And now during the second semester, I believe you renegotiated with banks. What are you pursuing with this renegotiation? And what kind of evolution do you expect? And when we will -- when will we have news regarding this?

A - Paulo RogÃ©rio Caffarelli

I will start with the second question. You're talking about incentive contract that we have with Bradesco and Bank of Brazil. And this contract expires at the end of the year. The negotiation terms, we do not disclose the details. If there is a target or if we're following a certain directions, we are negotiating. But I cannot tell you in advance what is the trend or what is the foundation of this debate.

Now specifically regarding your first question about costs, I am going to comment on your question. And then I'm going to elaborate a little bit more on costs. So let's start. So what we're doing is something traditional. And many companies do this on an ongoing basis. That is to review our cost budget, applying matrix budgets and consulting companies do this. And this is a consulting company called Gradus. What we expect here is to see our routine activities and to find efficiency in all the fronts, from processing all the expenses with technology, call centers, facilities and up to advertising campaigns, expenses with travels, with logistics, et cetera.

I am not going to give you a figure or a target in terms of savings, although I have it here. Why not? Because we really do not know how much of these savings will be reflected on the bottom line. As we are developing new products in the company, perhaps part of these savings will be geared toward investments in new products and new projects. And in our horizon, we're in the middle of the deployment of this project. In 7 weeks, we will conclude the first stage. And we want to. But we believe that this is projected up till the first semester of next year.

I am going to extrapolate the cost that I had mentioned. So number one, when we see Cielo's cost, I believe that a good way of analyzing this is to analyze Cielo Brazil to see only the acquiring activity and to see the cost per transaction, this way isolating the other variables. When we do this and we withdraw 3 items, we observe that Cielo, at least in the past three years, has been stable in its transaction costs. This is clear to us. And even the processing cost will go through an efficiency base.

So which are the 3 costs that were withdrawn from this account? And it is important to consider them because this dynamic is a bit different. The first cost would be the

marketing cost. And marketing expenses will depend in the market's competitive environment and how we're going to promote our products.

The second cost is the brand fee. It's impossible just to deal with transaction costs because we deal with major credit card brands. And the third one that is under our management that is -- that's losses. The -- when you see losses, these are uncollectible credits. And now as we have fierce competitiveness in the market, we have a new customer 2, three months, then the competition steals the customer from us. And they don't end their business with us and I continue charging the lease. But this wasn't performed in my finance. This is something that we have to improve. Now withdrawing these items that lost marketing and brand fee, you will see an improvement when we -- you see the acquiring part. Nonetheless, we will continue working with efficiency to have better cost structures.

Q - Giovanna Rosa {BIO 21036371 <GO>}

Could you follow-up on costs? You do -- do you have an initiative with Cateno? What will be the evolution of results with Cateno?

A - Paulo Rog rio Caffarelli

The Cateno volume grew 11%. When we see costs from Cateno, there was a growth that is directly associated to the transactional volume. When we see costs, in reality, there was growth that was lower than the transaction volume. When the transaction volume grew 11%, the cost and rendered serviced grew 3.4%. Now in expenses, as I said, in Cielo, we've invested in new products, Cateno has also -- has an increase in operational expenses because of investments in new products. What we will tend to see in Cateno, we will have an increase of transaction. The cost of transaction will grow below the growth of transaction volume. And occasional higher expenses are because of the development of new products.

Operator

Our next question from Rafael Frade, Bradesco.

Q - Rafael Berger Frade {BIO 16621076 <GO>}

One question would be is, here, we have the figures of the quarter. Could you tell us throughout the quarter -- we've seen a number of initiatives from you and from the competition regarding a change of prices throughout the quarter. I would like to know how the growth performance was throughout the quarter.

And my second question is the new credit initiative. You said that this is a pilot project. Could you give us an idea regarding rates, sizes? You said that you could have a portfolio of BRL 1 billion. Could you please estimate what could be the potential of this and how -- and what will your relationship be with partner banks? Which bank would be for credit? What are you doing to mitigate any occasional conflicts that may emerge?

A - Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

Thank you, Rafael, for your question. So we'll start with growth. The metric that I will mention of the quarter will be the growth of volume during the month of June. In June, we had, in total Cielo and the 2 segments, that would be major accounts and retail accounts, all of them grow slightly above 10%. So this was Caffarelli's remark.

For the first time in a number of years, we didn't see such a strong growth in the retail as strong as major accounts. Here, in June, there was an acceleration in the retail, almost the same as major accounts. Regarding Receba Mais, I would like to highlight one point that is important. It is running as a pilot right now. Up till the moment, we had BRL 40 million granted. If we were to assess the potential of this product based on the pace of daily concession, we believe that this product can reach a volume of 1 billion in 12 months very easily. But I go back to my point, Rafael: it is a pilot project. The rates, our monthly rates, depending on the size, between 2% and 3%.

Now how are we going to approach customers from different banks? We still haven't concluded anything because of this reason, because this is a pilot project and we want to see how our customer base will accept it. And we want to perfect our credit methodology. So when you ask us where the funding is coming from and how we deal with customers, well, currently, we're testing this.

What is even more important, although you are not going to include this in your model, Rafael, I would like to tell you that we have a potential new avenue of results. The deadline to conclude this pilot is the end of this year. In December, we will assess everything. And perhaps, we will have more solid answers to provide you with.

Operator

Our next question, from Domingos Falavina, JPMorgan.

Q - Domingos Falavina {BIO 16313407 <GO>}

My question is regarding the financial area. I can't conciliate your financial expense. Your net incomes dropped. And we can see that you had greater volume. We believe that there was a drop of BRL 37 million. So what does this mean, that you had a greater expense of BRL 70 million? When I see your balance sheet and accounts receivables from merchants and accounts payables plus cash, I believe that your net cash position didn't drop as much. I believe it's between BRL 3 billion, BRL 3.7 billion. And there is a higher expense, financial expense. I don't know how to conciliate this. Is there an anticipation below the Selic rate that we can't see this -- this is -- is this why financial expenses have increased so much?

A - Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

Domingos, thank you for your question. Number one, when you talk about the stability of our cash position, we have to see Cielo without Cateno's cash position that is more stable and that is higher and can lead you to see relative stability.

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What we had during the Second Quarter was a growth. On the total amount that was invested in ARV and the monthly concession, the balance at the end of the period had a very important increase. So we ended the balance of accounts receivable anticipated at the end of March, BRL 9 billion. The same balance at the end of June was BRL 10.6 billion. We have not subsidized ARV -- or we haven't had an ARV that is deficitary [ph]. But what we've had is in ARV and Receba R  pido dias, there has been greater competitiveness in retail rates. So what you can see in our financial result is an increase of expenses because greater funding. And in the ARV result, there has been a drop in rate. But there are no rates that are below Selic that would generate a negative result to the company.

Q - Domingos Falavina {BIO 16313407 <GO>}

But you adjusted to 104% of the CD. But when we see the delta is 40 million. And it dropped 100. This compression would be captured in the management part. Are you using bank or debt BRL 70 million in a quarter is BRL 4 billion in cash position with this Selic? I can't conciliate something here.

A - Thiago Stanger

This is Thiago. The exercise considers that 100% of the ARV would be through funding through third parties because, in the past, we could have a greater cash position we had. And we used our own cash position in the operation. This exercise can only be assessed considering that 100% of the ARV should be funded by third parties. And when you see the balance here, you can see our cash balance. So when you see both aspects, you are not comparing bananas with bananas. You're comparing different things.

Q - Domingos Falavina {BIO 16313407 <GO>}

My second question, 800,000 in machines sold, how many are sold to new customers and how many were old customers?

A - Mario Casasanta

Domingos, thank you for the question. These are new customers. Caffarelli has strongly highlighted that Cielo did not work in this segment. And through the terminal sales model, we had a repressed demand mainly in the portfolio of our partner bank. So we started focusing on this segment that was only explored by the competition.

And due to the great power ownership with our partner banks, we are opening new fronts in order to approach this new public that is growing more in this segment. So 800,000 new terminals sold to new customers. And to clarify this, it is important to say that these 850,000 new machines sold were driven by Stelo that was incorporated to Cielo.

Operator

Our next question from Giuliana Agrumi, Itau BBA.

Q - Giuliana Agrumi Dos Santos

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I have 2 questions. Number one, I would like to understand the volume growth of this quarter. And how do you see this from here on? And what can we expect in terms of growth? Do you believe that this volume will grow the same in the upcoming quarter? And the Second Quarter as you've had an increase in your customer base, how do you expect to have more profit from these customers?

A - Paulo Rog rio Caffarelli

Now regarding the volume growth, what we expect to continue happening. And I am not going to project figures, I will talk about trends. We will repeat this growth trend of the First Quarter and then stronger on the Second Quarter. And this is a priority in the growth in our retail accounts.

Now your question of how we will profit from these customers, we have to divide these conversations. The products that are explored by all the acquirers in the country and other products that will still be created. So when we see the traditional acquiring products, these products present strong competitiveness in price. Even a new customer in the upcoming quarters, we believe that the competition will try to steal the customer from us. It can be in service, quality of service or offering them a better price. Our products that materialize in revenues of MDR, anticipation of accounts receivables of rental, they are still in an environment of fierce price competition.

Now when I talk about other products, this is what we showed at the end of the presentation. More and more, we're going to have to look for new sources of revenue to have better profit from our customer. What I mentioned, for example, our pilot project of Receba Mais and all others that still show that they can grow, we still don't have results like the digital accounts, all the e-commerce alternatives, QR codes are other ways to stay -- to have a strong relationship with our customer. Now we are talking about very early efforts and this is a way to have better relationship with better profit.

Operator

Daniel Federle, Credit Suisse.

Q - Daniel Federle {BIO 16643672 <GO>}

One, the segment of entrepreneurs, I would like to know -- so the new comments are the result of the sale of the first machine. And my -- you said -- in retail, you said that 50% of your base is practicing the new price. Do you know -- could you tell us how long you will be able to have 100% of your customer base with the new prices? What is the implicit revenue yield once you reach 100% of your prices updated?

A - Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

I will start with your second question. No. We are not offering you a projection that shows you how quick our portfolio will remain at a lower rate. And it's very difficult to forecast this. We also do not have a guidance on a new revenue yield because the competition continues. And it's very difficult to project what the price will be in three months or even at

the end of the year. Now regarding the new customers of Cielo and specifically entrepreneurs, Mario Casasanta will answer. Mario?

A - Mario Casasanta

Thank you for the question. What we have observed is that there is still a great opportunity in this segment. Although the market has grown a lot in the past 12 months, there is still room to install terminals for micro and small entrepreneurs. We have to mention that entrepreneurship in Brazil is not limited to Rio and São Paulo. We see this in the north, in the northeast. And Cielo has its network ready to approach these customers. But we have observed that there is a great number, we're talking about 30 million of small and micro entrepreneurs in Brazil. Every month, this figure increases. And we are ready to capture these new opportunities.

Operator

Next question from Eduardo Nishio, Banco Plural.

Q - Eduardo Nishio {BIO 15333200 <GO>}

I have 2 questions. The first one would be a regulatory question. Could you tell us what we will have in terms of regulatory changes? This year, we have instant payments. Next year, you have to register your accounts receivables. And how do you believe this will impact your business? In terms of payment, I believe it will be more regarding debit and prepayment in accounts receivables. How will this impact your business?

A - Paulo Rog rio Caffarelli

This is Caffarelli. What the regulator is doing. And we can see this according to the speech of the Central Bank, there is a great concern currently because they want to digitalize this financial system. It could be banks or acquirers. So here, we have -- we're talking instantaneous payment, it's not expected this year and yes, for next year. And it will be welcome like the TAT [ph] today can be done 24 and 24 hours at any day as this is an open system. This will be the greatest addition that we will have from payment system because we will have other systems participating of this process.

The second point that comes from 4,707 norm and where the Central Bank gives the industry an alternative, an option or, in here, the merchant will be able to use their resources and not only to concentrate on a bank, on one bank because there was a banking block where they had to block all their accounts receivables in one place.

So from 100, they would take 10. 100 would be locked out. After the adoption of the bank system and the acquirers, something that will happen throughout this year, now we have the following, we -- there will be maximum reference value.

Now this MVDR (sic) MDR [ph], when it's above 0, it has a value that has to be announced. And you preserve the 10 of the creditor. And you give them 90. So they can freely negotiate with another bank or another acquirer. These are actions that we're seeing. This is because of the transparency that the Central Bank has. And this is convenient for the

industry. And this is even more convenient for the merchant and the consumer. Other measures are expected. And I believe that these measures are being strongly debated right now. I believe that we will have a productive change.

Now change in payments. Well in debit, we will have many payment alternatives, transfers between people, it can be credit, it could be through a merchant. And quarter-by-quarter, we've seen an increase in volumes. The last measure of -- was 38%, now goes to 70%, 80% of credit card.

The industry expects to grow significantly. We're talking about 17%. Next year, the industry expects to grow over 17%. Well we have a fierce market. But we have to take into account that the Central Bank is an inspecting hostage of the card industry.

Q - Eduardo Nishio {BIO 15333200 <GO>}

In terms of accounts receivables, do you believe in the marketplace of accounts receivables after the registry?

A - Paulo Rog rio Caffarelli

This will be defined throughout time. This is not clear. We will need a clearinghouse. And when you have a clearinghouse, everything is possible. But this hasn't been defined up until the moment.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Now my second question regarding competition, could you break out the competitive scenario in the middle of the pyramid? And the small entrepreneur? Is your growth a result of new customers or if it's a result of the old customers? You grew 9%. Get Net grew only 6%. They lost a relevant amount of their share in the quarter. These are the 2 companies that have reported the figures up till the moment per segment, could you explain what is happening?

A - Gustavo Henrique Santos de Sousa {BIO 17683157 <GO>}

Now let's talk about the segment. The micro entrepreneurs segment has grown 40% -- 35%, 40%. And this is why we decided to participate in our market, considering our capillarity. Now the retail segment will always provide greater margins. The trend of these customers is to anticipate in the plus 2 30 or 30 [ph]. I'm talking about operations in installments or short-term transactions like instantaneous payment. For us that concentrate more in major accounts, of course, this result predominantly comes from major accounts. But what is important for us. And this is the first signals that shows us that our strategy is on the right path, is that we want to recover the retail market.

This mix of 60% of major accounts and 40% retail and entrepreneurs is not adequate. So we want customers now from the retail market and entrepreneurs because the mix of our pyramid changes significantly. We are not going to waive major accounts. Of course, we have expertise. And we add value to their day by day.

What is the greatest asset that Cielo has throughout this process? Nobody has 40% of the formal -- total transactions going through the acquirers. This is a great input for us. And based on this data -- and when we treat the data, we can provide consultancy to our customers. And this adds value to their daily activities. We're talking about airline companies. 90% of them are our customers. We have an anti-fraud system. So through the service that we give to certain purchases, the company can save an MDR 0.25, 25 basis points.

These are things that add value. Now obviously, when we talk about our major accounts, the margin is lower. What is happening in practice is this: we are going to grow in retail and entrepreneurs. And the explanation is to bring this growth in a short, medium term so that we can change the mix of our portfolio.

Operator

Next question, Giovanna Rosa, Bank of America.

Q - Giovanna Rosa {BIO 21036371 <GO>}

Could you elaborate on the affiliation by your own sales force? And what has happened since you hired hunters and farmers?

A - Paulo Rog rio Caffarelli

Giovanna, thank you. I will add on to the answer that we gave to Eduardo. He asked about the growth in retail, entrepreneurs. He said if these were new customers or old customers, okay? In retail, our customer growth, well, 80% comes through old customers and 20% new customers. And entrepreneurs is 40% and 60% new customers. One important point when we were talking about the effectiveness of the hunters, there is a survey that we follow market share data volume values. This is a survey that we use internally. But I will tell you about the qualitative results.

So -- and we use a number of metrics. One of them is in which percentage of the customers of the sample Cielo is present, in the first or second alternatives?

When we see the survey, Cielo was losing momentum and continues being a leader. And the first and Second Quarter now is more present and is growing more in these customers. Now the most important figure from this survey was after hiring the hunters, Cielo became the company that -- more prospects, customers. And that converts more customers. Now this is a result of the hunters' job. So what we have now.

Of course, we have to improve. But I do confess that we had a celebration when we saw the data that showed this variable. So this shows how intense we are in the channel. Those that are knocking more on our customers' doors and who are turning prospects into new businesses, well, is Cielo.

In terms of effectiveness and going after new customers, we have 60% new customers coming from banks and the other from the Cielo channel. And hunters are the ones that

are driving this entire process.

Operator

Well we -- we're going to bring our Q&A session to an end. Mr. Paulo Caffarelli has the floor for his final comments.

A - Paulo Rog rio Caffarelli

Thank you very much to everyone for your participation. Regardless of this conference call, our entire team, Gustavo, myself, are at your disposal to clarify any type of questions that you may have. Please have a very good day and thank you very much for your attention.

Operator

The Cielo conference call has come to an end. We thank you very much for your participation and have a very good day.

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