Q4 2010 Earnings Call

Company Participants

- Clovis Poggetti Junior, CFO
- Paulo Guzzo, Vice President of IT and Operations
- Roberta Noronha, IR
- Romulo Dias, CEO

Other Participants

- Alexandro Speda, Analyst
- Carlos Macedo, Analyst
- Daniel Abut, Analyst
- Domingos Saluvina, Analyst
- Marcelo Telles, Analyst
- Paulo Ribeiro, Analyst
- Saul Martinez, Analyst

Presentation

Operator

Good morning. Welcome, everyone, to Cielo's Fourth Quarter 2010 earnings conference call. At this time all lines are in a listen-only mode. Later there will be a question and answer session and instructions to participate will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded. This conference call is being broadcast live on www.cielo.com.br/ir. We remind you that questions for the Q&A session may be posted on the website.

Before proceeding let me mention that forward-looking statements are based on the beliefs and assumptions of Cielo's management and on information currently available to the Company. They involve risks and uncertainties as they relate to future events and, therefore, depend on circumstances that may or may not occur. Actual performance could differ materially from those anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.

Now I'll turn the conference over to Mrs. Noronha.

Roberta Noronha {BIO 20488075 <GO>}

Good morning. I'd like to thank you all for joining us as we present our results from the Fourth Quarter and 2010. With me today here are Romulo Dias, our CEO; Clovis Poggetti

Junior, Vice President of Finance and Investor Relations Officer; Roberto Dumani, Vice President of Organizational Development; Paulo Guzzo, Vice President of IT and Operations; and the finance and IR team. Now I would like to hand you over to Romulo.

Romulo Dias {BIO 2054119 <GO>}

Good morning. Thank you for joining us on this conference call about the Fourth Quarter of 2010.

Our challenge began long before the industry milestone that was the beginning of the multi-brand brand scenario. We developed, implemented and consolidated the Cielo brand. It was a huge challenge because VisaNet had been in the market for 15 years as a brand and company. This product was reflect in the results of a survey conducted by Instituto Expertise which found that after just six months of the campaigns on new corporate identity 82% of the Brazilian merchants already knew that the brand name had changed.

Preparation required major joint efforts from just about the whole Company, as well as a lot of dedication and commitment to deadlines. We've hired more personnel for our call center and invest in staff training to ensure that we would answer all the calls we would receive. The result was that in March of 2010, four months before the start of the multi-brand scenario, we are fully prepared to capture transactions with MasterCard. In July, in addition to MasterCard, we also began capturing Amex transactions, becoming the only acquirer in Brazil to capture the transaction of the world's three largest international brands, Visa, Master and Amex.

On slide two we present the operating and financial highlights for the Fourth Quarter of the year. We will comment on each of these lines in detail shortly.

It's worth noting that net income increased 0.6% in the Fourth Quarter compared with the same quarter in 2009, to BRL444m. It's also worth mentioning that our accounting policy recognized each installment when it happens. In other words, a portion of the credit installments happen Christmas will be recognized by Cielo in the coming quarters.

There were operational innovations and new partnerships in the quarter. In November we announced the launch of the Brazilian first payment solution application for the iPhone, iPad and iPod Touch. This application is targeted to self-employed professionals and had more than 20,000 downloads since its launch, reflecting the interest of the intended audience for this service.

We enforce our strategy to offer a strong brand portfolio and, therefore, allowing the merchants to capture a high volume. We announced in Q4 a partnership with JCB, the world's sixth largest payment card brand. We also partner with Good Card and CrediSystem, and after the end of this quarter we announced partnerships with local brands Cabal, Verochque, CBA and Banestes. Another relevant partnership launched with Dotz, a market-leading coalition in loyalty programs in Latin America.

Annualized for the year we'd like to say that our net profit increased 19% to BRL1.8b.

In 2010 we've seen many key corporate awards. We'd like to highlight one of them important to us and also to the industry. We were elected for the first time of -- the Company of the Year by Valor Economico, the most recognized business newspaper in Brazil. This represented Cielo's recognition not only as the best Company in the specialized service sector, but also the best one among all the sectors.

On slide three let's talk about macroeconomic environment that was the foundation of our performance. GDP increased 7.5% in the Fourth Quarter, which is the most recent data available. And according to the projections by Central Bank, it should end the year with growth of 7.3%. For 2011 Central Bank projects growth of 4.5%, roughly in line with the average market forecast for GDP, 4.6%.

On graph number two we see the growth of retail sales, which was a reflection of the booming economy. In November sales volume was up almost 10% over the same period in 2009. The pillars of this growth have been solid macroeconomic fundamentals, such as the labor market. The unemployment rate ended the year at 5.3%, the lowest level since March 2002.

On graph four we see that credit operations grew 20% in 2010. Credit for individuals accounts for almost half that amount, growing 24% in the year.

All these factors provide a favorable environment for the growth of our industry, which will benefit from both the increased use of cards as payments and broader access to cards.

On slide four, the penetration of cards as a means of payment, which is still low compared to that of other countries but has been growing gradually up to 22% in 2009 to almost 24% in 2010.

In graph two we can see that sector's revenue increased 21% in the quarter over the Fourth Quarter 2009, to BRL539 billion according to ABECS.

On graph three we show the evolution of the number of cards issued, which grew 11% in the quarter to 628 million cards.

The average ticket increased 4.6% in the period to BRL84 per transaction considering the combined credit and debit volume.

Now I'd like to hand over to our CFO, Clovis Poggetti, who will represent our operating and financial performance.

Clovis Poggetti Junior

Okay. Thank you, Romulo. Good morning, everyone. Let's move on to slide five where we show the annual and quarterly comparison of our key indicators. On the next slides we will discuss in more detail each of these lines.

In the quarter-on-quarter comparison, even though net MDR decreased, our net income was higher. In the Fourth Quarter net income was up 0.6%, to BRL444.5 million and the blended MDR dropped 15 basis points. On the annual comparison, net income was up 19.1%, to BRL1.8b, while the combined MDR fell 5 basis points. In both cases, the pressure on MDR was stronger on credit than on debit.

On our next slide, number six, we show more details of the indicators already mentioned. We see that the number of transactions was up 15.1% in the quarter and in the year we captured over 4 billion transactions.

On graph two we show that the transaction financial volume reached BRL262b, which is equivalent to 7% of Brazil GDP.

Regarding to the Fourth Quarter, transaction financial volume increased 20.4% over the same quarter in 2009.

Graph three shows the number of active merchants, which are those that have carried out at least one transaction in the last 60 days. They total 1,140,000. Also in this chart we have the number of active merchants considering at least one transaction in six months. Under this criteria the number of merchants is at 1.5m.

Let's go to next slide, number seven. On graph one we show our revenue breakdown. We can see that the participation of our Prepayment business has increased and in the Fourth Quarter it accounted for 8.6% of total earnings.

The share of revenue from credit and POS rental in the total have declined due to more competitive scenario we are facing.

On the graph two we show the evolution of our net revenue that reached BRL4.4 billion in 2010, up 11.7% in the Fourth Quarter over the same quarter in 2009.

On graph three we present credit and debit commissions. Revenue from credit totaled BRL2.4 billion (sic; see presentation) in 2010 and revenue from debit BRL785m. Quarter on quarter, credit increased 3.8% and debit 13.4%.

As for credit installments I would like to ring towards a comment already made by Romulo, that we recognize the revenue for each of the installments rather than all at once at the time of purchase. This means that part of the equipment volume is going to be recognized in the First Quarter this year.

For POS rental revenue in graph four, it amounted to BRL1.2 billion in 2010 but declined 2.3% in the Fourth Quarter compared with the same quarter in 2009. As of this quarter, in order to improve the understanding about the revenue line, we will start disclosing the number of installed POS terminals, which totaled 1.3 million at the end of 2010.

Considering the installed base to calculate the average rental price, we get to BRL71.9 in the Fourth Quarter of 2010. Also important to mention that our POS base is the most modern in the country with an average age of just one year and seven months, and we are seeing a growing interest in the wireless equipment from our clients; equipment that has higher rental prices.

On the next slide, number eight, our Prepayment business, which has been growing gradually, maintaining the return level sustainably since the beginning of this business in early 2009.

On graph one we have the quarterly growth of Prepayment revenue without adjustments at present value that reached almost BRL120m, up 82.2% over the Fourth Quarter 2009.

On graph two you can see that the share of Prepayment over the financial volume of credit was at 6.7% at the end of the year, up 1.4percentage points over the last quarter 2009.

On graph three we have the average term, which was at 66 days.

On slight nine we will comment on the cost and expense performance. The cost of service totaled BRL1.181 million in 2010. In the Fourth Quarter of 2010 it increased 41% over the same quarter 2009. However, these costs were impacted by factors which harmed the actual assessment of our performance, such as costs related to our controlling companies Orizon and M4U, which has become more relevant but don't impact the number of transactions.

There are also additional costs related to the brand fee which contaminates the comparison base.

In an exercise to show the evolution of costs in an equalized way we present in graph two the impact of these variables. The quarterly comparison after adjustments cost reached BRL300.6m, up 19.6% over the same period in 2009, while the number of transactions increased 15.1% in the same period.

In the table on the same slide we show the same comparison taking into considering the unit cost. We see that it increased 6.6% in the Fourth Quarter of 2010 from the same quarter in 2009.

In graph three, operating expenses totaled BRL441 million in 2010. In the Fourth Quarter 2010 they increased 9.8% in comparison with the Fourth Quarter 2009, mainly due to increasing marketing expenses which boosted the two campaigns for positioning the new corporate brand.

On slide 10 we see that adjusted EBITDA, which consists of the net income of Prepayment of receivables, totaled BRL2.926 billion (sic -see presentation), up 19.4%, and EBITDA-adjusted margin was 67%.

In the last quarter of 2010 EBITDA adjusted reached BRL716m, up 2.2% over the same quarter of 2009, although the margin dropped from 68% to 62%.

The net income in the Fourth Quarter of 2010 rose 0.6% over the same quarter of the last year. Nevertheless, net income margin plummeted 4.3percentage points, reaching in the Fourth Quarter 39%.

Finally, on slide 11, despite the fact that we focus our analysis on a year-over-year basis, we present a comparison between the fourth and the Third Quarters of 2010 as this was the First Quarter in which we showed the impact of the new competitive landscape.

We can see that both of our net profit and our adjusted EBITDA declined 9% and 5.9% respectively. Our net revenue increased 0.9% due to a more competitive landscape, which is putting pressure in the net merchant discount rate that declined 11bps in the period and jeopardized the 10% growth in financial volume.

On the manageable issues, cost of services excluding impact of controlling companies and additional brand fees, it increased 5.6%, below the increase in the number of transactions for the same period, of 6.8%. Operating expenses increased 19.8%, mainly due to marketing expenses for our marketing position of Cielo brand, which we consider crucial in the new landscape.

Our active merchant days was roughly stable in the period as we saw a 3% reduction in the installed POS base.

Now I would like to hand it all back to Romulo.

Romulo Dias {BIO 2054119 <GO>}

This scenario that Clovis has just presented will continue to be a big challenge in the many adjustment 2011. As he mentioned, the new competitive landscape has pressured margins driving our market share, which were supposed to decrease due to the fact that Visa is around 50% higher than MasterCard. You can see these numbers reflect on the Fourth Quarter results that we've just presented. I'd like to note that these adjustments are demanding more efforts from the Company.

On slide 12 we present our strategic approach for the future. We believe in our fundamentals and we will, more than ever, use our expertise and leverage our competitive edge, lookating (sic) -- sorry, looking for differentiation.

In the segment of traditional transaction with cards we bring our reliability both security of transactions and in network availability and we rely on a unique distribution with HSBC, Banco de Brasil and Bradesco on a preferred basis and also just begun to work with Caixa Economica Federal.

Our differentiation will also be a result of a brand portfolio which offers merchants the opportunity to capture increased volume. That's why we will keep on closing more partnerships in 2011.

We are leading the emerging payment technology process. In 2010 we acquired M4U, which is a leader in the development of technological platforms for mobile solutions. Another move was the creation of a joint venture with Oi aiming at mobile payment and we launched an impressive application in Brazil for payments through Apple device.

As for alternative transaction service, we are positioned in the healthcare sector with our controlled company Orizon. Also, in the alternative service segment we believe to be well positioned to supply a loyalty to our clients.

Now let's open for Q&A session.

Questions And Answers

Operator

Thank you. We will now begin the question and answer session. (Operator Instructions) The first question comes from Daniel Abut of Citi. Please go ahead.

Q - Daniel Abut {BIO 1505546 <GO>}

Romulo, if you go back to slide four of your presentation where you show some of the metrics and trends for the industry as a whole, there are a couple of slides that I wanted to comment on. If you look at the volume growth, which you show there for the past five years have been on average about 22%, that's roughly, although they are preliminary numbers from ABECS here, that's roughly where it seems the industry grew in 2010, so in line with historical level.

I would have expected that in line of all the new environment and the significant drop in pricing which is making it more accessible to merchants, and the other facilities that you're providing and the other competitors in terms of making cheaper the POS rental revenues and making inter-changeable also for -- that that could accelerate the process of growth. And for some reason it doesn't seem that we saw it in 2010.

What are you expectations in terms of growth for the industry as a whole going forward? Do you think there's a case to be made that we could start to see growth above this 20%, 22% annual growth we've seen in recent years because -- precisely because of the new competitive environment and, therefore, accelerate the penetration of plastic, which has been growing, as you show in your first slide -- in your first chart in slide four, at about 1.5

to 2percentage points per year? Could we see that start to take off and accelerate the pace of development?

A - Romulo Dias {BIO 2054119 <GO>}

Thank you, Daniel for your question. Our expectation that the market will probably grow around 19%, 20%, or 21% in this year. Let's not forget that we are taking into consideration a big number when compared to 2009 and also the macroeconomic scenario that seems to me that probably it will be -- I'd say, to some extent will affect a little bit the pace of acceleration that we -- the pace of acceleration that you have experienced so far. So this is our let's say perspective and our expectation about the macroeconomic scenario; around 20%, 21%, something around.

Q - Daniel Abut {BIO 1505546 <GO>}

But that's because more of what's happening with the economy and the efforts that the government is making to decelerate after the big growth next year. Again, I'm trying to get a sense of if you normalize for that and you start to think more 2012, is there a case to be made that the industry should start to grow faster than the past because of the benefits of the new competitive environment from the point of view of the user?

A - Romulo Dias {BIO 2054119 <GO>}

Yes. Another good point. The new competitive environment to some extent accelerate the process of the -- or the penetration of the credit card. But on the other hand, we also saw some macroeconomic indicators who were better saying that Central Bank is concerned about the level of indebtedness that POS have seen -- now have in Brazil. But I would say that given this number, Daniel, 20%, 21% is something good. We can have something higher than this number, but this is the number that we have for the industry. I'm not talking about Cielo.

But the new competitors of course will happen to accelerate the penetration of the credit card. And even though that we do not see at least, let's say for 2011, let's say this effect coming from the new competitors like strongly. I'm not talking about Santander. I'm talking about the other ones we have just mentioned that will begin to work in Brazil.

Q - Daniel Abut {BIO 1505546 <GO>}

Okay, Romulo, thank you.

Quickly, on MDR, although the comparisons are always difficult because of the accounting differences that you and Clovis explained, we have seen now for two consecutive quarters that your MDRs in both credit and debit seems to be settling at a higher level than your main -- your main competitor. What do you expect to be the evolution going forward, particular as you complete the big round of renegotiations with the large merchant that was still going on in the latter part of the year?

A - Romulo Dias {BIO 2054119 <GO>}

Our proposal, or value-add proposal to the merchants, take into consideration not only price. Of course price is one of the main concerns that we have. We try to position Cielo offering services and as well more sales to them, having reached agreements with the most recognized brands in the credit card business.

Let's also remember that Cielo is present from the north to the south, so I would say that we have a mix of clients that, in terms of the new -- the low entry level of the -- these -- the other merchants accept to pay higher net MDRs. So concluding and the answer, we are trying to position ourselves not leading the efforts to reduce the price. And in the retail specifically, the small retail, they are more sensitive to POS rental than the -- in spite of being sensitive to MDR.

So we do see let's say for the coming quarters, some additional decreases in the net MDR, but probably that -- this is our expectation considering the level of information that you have today. Probably by the end of June we are going to have more visibility and probably let's say more conditions to say that how is the new level of MDR.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you, Romulo.

Operator

The next question comes from Carlos Macedo of Goldman Sachs. Please go ahead.

Q - Carlos Macedo {BIO 15158925 <GO>}

Good morning, Romulo. Good morning, Clovis. Just a couple of questions. One again on MDRs, just to follow up what Daniel was saying. How close are we -- I know we're renegotiating on an ongoing basis -- how close are we to the end of this renegotiation? Are we going to reach a new stabilized level of MDRs once we're at the end, or will there be continuous pressure to push them down and the level that we get at the end of this first round of renegotiation, just the first step for a second round?

And the second question has to do with expenses. There was a significant increase in admin expenses, an increase in marketing expenses. Is this a new level of expenses we are to expect going forward, particularly on a marketing side? Or are -- or should we expect there to be a little bit of relief going into the first and Second Quarter of this year?

A - Romulo Dias {BIO 2054119 <GO>}

Thank you, Carlos. Talking about MDR, we -- the level of negotiation with the big merchants that we reach is around 70%. Some of them were reflected in the Fourth Quarter and some will be reflected in the coming quarters.

About your question, if in the second round the merchants will be able to have a better price, considering the information that I have today it's hard to say something, but even though that I expect that I wouldn't expect deep or additional decrease in terms of the net MDR.

In terms of the expenses, your second question, I will give you an indication for year 2011. After, I'll ask Clovis to explain the breakdown of the expenses.

For 2011 we expect to have the total expense of the Company considering operational expense plus the cost, total operational expenses. The unit, the total operational cost per unit, is going to be the same that we had in year 200; -- in the Third Quarter of this year.

A - Clovis Poggetti Junior

Hi Carlos, it's Clovis. No, just talking about to reinforce the point of Romulo, considering costs plus expenses, okay. In considering expenses, what we have in this sense, we are talking about personal expenses, okay. That's the G&A, and also marketing. Okay?

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. But just -- so the marketing that -- the new marketing investments that you made, are we to expect then that those are going to remain high? Or if they're not, if they're going to come down, they're going to be compensated by an increase in some other expense or cost line?

A - Romulo Dias {BIO 2054119 <GO>}

Yes, yes, is what we're saying. Considering the level that you had in year two -- in the last quarter, September to December, you should expect the same cost plus expense per unit for year 2011. I will ask Clovis to explain the difference between -- because we also recognize Orizon and M4U.

A - Clovis Poggetti Junior

So yes, in this sense, when we say customers' expenses, we are talking about Cielo only, the acquiring operation, okay? So excluding all the effect that we have from our controlled companies, or Orizon and M4U, everything that is -- that remains, this divided by the number of transactions, you are going to have a cost per unit, a total cost plus expenses per unit paid, and this is going to be flat for 2011.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay, perfect. Do -- just one follow-up question then. How much did Orizon and M4U contribute to revenues this quarter? Was it significant?

A - Clovis Poggetti Junior

The revenues, give me two seconds, please. Let's do the following. I'm going to get the information. I come back to you in a few minutes, okay?

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay, no problem.

Operator

The next question comes from Saul Martinez of JP Morgan. Please go ahead.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi. Good morning, everybody. I also have a couple of questions. First on market share evolution and what your expectations are there. You obviously, even on an equal footing in equal accounting footing, you lost share to Redecard and you guys had indicated that that was likely to occur given the greater upside they have from acquiring Visa versus you guys acquiring MasterCard. But as we go forward, what are your expectations in terms of relative market share evolution versus your primary competitor? Because as we head out into the further -- the next round to renegotiation, it should be more concentrated in small and mid-sized merchants where presumably you guys have a bigger advantage than -- you guys have a stronger footprint than Redecard. Should we see the discrepancy in terms of growth start to narrow? And at what point do you think you guys can start to grow pretty much in line with your primary competitor?

And I also have a follow-up as well after you guys answer that question.

A - Romulo Dias {BIO 2054119 <GO>}

Hi Saul. We do expect to have an additional decrease compared -- taking into consideration Visa and MasterCard transactions. We are fighting not for share. We are fighting for profitability, even though that we do expect that in the end when this scenario is more clear and when you have more visibility, we continue to be the leader in the market, okay? And also let's not forget about the accounting policy that we recognize and we present on a managerial basis the numbers in 2004 to enter last quarter, the Fourth Quarter of last year. But this also didn't reflect the revenues that will come the coming quarters.

Q - Saul Martinez {BIO 5811266 <GO>}

No, no, understood. But you do expect that that until the competitive environment normalizes, you guys to grow at a slower clip than--?

A - Romulo Dias {BIO 2054119 <GO>}

Yes, because you're comparing Visa transaction, which is around 50% higher when compared to MasterCard, okay. So it's right, if you have just 40, and I had 6, we had 59.5 and they had let's say 40.5. But let's consider that -- 39, 4.5, that's considered 6 against 40. So they could increase 150% and we could increased receive 66%.

Q - Saul Martinez {BIO 5811266 <GO>}

No, understood.

A - Romulo Dias {BIO 2054119 <GO>}

Take it into consideration, I would say that the market was expecting to have a market shift, a decrease in our market share. And in our business plan we also were expecting to have a lower market share due to the fact that Visa now has been captured by other acquiring companies.

Q - Saul Martinez {BIO 5811266 <GO>}

Yes. And I guess what I'm trying to get at though is how long this normalization process takes for that dynamic to play out and for the competitive environment to normalize to a point where you're on an equal footing and hence the growth going forward is based on competition as opposed to Redecard now being acquired -- able to acquire Visa, which offers more upside?

A - Romulo Dias {BIO 2054119 <GO>}

You're talking about the level from the net MDR or the share?

Q - Saul Martinez {BIO 5811266 <GO>}

No, no, no, the volumes, the volumes. How long -- how long does this adjustment process take where Redecard takes share because of the relative upside they get from acquiring Visa?

A - Romulo Dias {BIO 2054119 <GO>}

It's difficult to say. It's difficult to say. And although I do have an expectation, but it's difficult to say.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Then secondly, on the Prepayment. You had the revenue line has been pretty impressive I think in the last couple of quarters. You're actually not that much far from Redecard in terms of revenue. But can you just comment a little bit on your expectations for that business? I think on the Portuguese call you gave some comments that you're seeing more competition from banks there. And you didn't expect the Prepayment as a percentage of volumes to increase that much more. But can you just comment a little bit on what you're seeing there and what your expectations for that business are going forward?

A - Romulo Dias {BIO 2054119 <GO>}

Yes. Prepayment for us is a core business. We do expect increase in the coming quarters. In the new scenario for the most brands that you have just talked, I would say that this for us is an opportunity because Visa transactions was more (locked) with the banks and MasterCard now is more available. So taking this into consideration, I would say that Prepayment for us is an opportunity we will continue to follow and to try to have another level of participation as well in terms of revenues.

When I mentioned banks as a competitor, and I just try, I'm not saying that let's say for the 20% of the level Prepayment that the industry has, is going to come to 15% or 10%. I'm not saying nothing about that. I'm just saying that we have an expectation. It's not the history. It's not what's happened right now. Then consider the fact that the banks are -- they can do the (promote) or the unrealized sales, they have the ability to provide more money to the merchants.

And one year ago, the level of unrealized gains, unrealized say compared to realized sale was 1 to 2 compared to 1 to 3. And now we have banks that are giving 1 to 8. So if they have $100 in sales they can provide $900 in terms of participation to the markets. These are some things that we cannot provide and we cannot compete because we are not banks.

But I'm not saying on the other hand that we do not have an opportunity to grow in the coming quarters. We expect that the industry will continue to have this rather good product to be -- to gain revenues from these products. But in the long run probably the level of penetrate -- the level of participation probably is going to be lower, but not so the level that we expect is not very different from the level that you have to date. But probably this level 20%, 21%, 25%, is going to be lower, okay?

Q - Saul Martinez {BIO 5811266 <GO>}

Great. Thank you very much.

A - Clovis Poggetti Junior

Saul, it's Clovis.

Q - Saul Martinez {BIO 5811266 <GO>}

Yes?

A - Clovis Poggetti Junior

Sorry allow me to jump in just to answer the question that was previously asked by Carlos Macedo. I already have the numbers. So the contribution in terms of helping us, of our controlled companies, M4U -- the contribution from M4U was BRL27.7 million and Orizon BRL5 point -- in the Fourth Quarter, okay, BRL5.5m. This all recognized in the Fourth Quarter and are considered in the Other Revenues line.

Q - Saul Martinez {BIO 5811266 <GO>}

Did they make money, net of costs? Or was it pretty much break even?

A - Romulo Dias {BIO 2054119 <GO>}

No. They are making money. Orizon is making money, and Orizon is around breakeven.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay.

A - Romulo Dias {BIO 2054119 <GO>}

They are just increasing the numbers and they're increasing a lot of revenues and we are expecting them to have a better profitability in the coming quarters.

Q - Saul Martinez {BIO 5811266 <GO>}

Great. Thank you.

Operator

The next question comes from Domingos Saluvina of UBS. Please go ahead.

Q - Domingos Saluvina

Good afternoon, Romulo, Clovis and Roberto. Thank you for taking the call. Actually I have a question concerning your revenue recognition. I saw you disclosed both informations on volume; one to make comparison possible with banks. My question concerns revenue. The revenue disclosed in this quarter, its view on the old methodology, and I mean not taking into consideration the installment payments at the time of the transaction, but rather in a macro basis. Is that correct?

A - Clovis Poggetti Junior

Yes. We have, for financial volume in revenues, the installments are considered in each installment, okay.

Q - Domingos Saluvina

So the comparison of revenue, when we do it on a per quarter year-over-year, it's the exact same accounting principle?

A - Clovis Poggetti Junior

Yes. Yes.

Q - Domingos Saluvina

Okay. And my follow-up question, very briefly, is also an addition to Daniel's question. We note that your MDR is indeed higher than the market. And also another difference that we note is that the drivers, or different mainly for the decrease are different mainly as a reason for the partnership with banks. So when we compare on a year-over-year basis, (out of 18) basis points, then basis points were insensitive to partnering banks. My question is, though you don't have clarity on the competition going forward and how that could jeopardize your MDR, do you have any visibility on partnership with banks? Is that a sustainable level this 10 basis points or could we expect increase on that front?

A - Romulo Dias {BIO 2054119 <GO>}

We -- the level of incentive that you provide to the banks in the next quarter, let's say, is the normal level that you expect for the coming quarters. They can be slightly higher. They can be slightly higher, depending on the performance that they provided to us.

Q - Domingos Saluvina

But nothing major, at least from that avenue?

A - Romulo Dias {BIO 2054119 <GO>}

No, no, we do not expect with a big change with the other banks.

Q - Domingos Saluvina

Okay. Thank you.

Operator

The next question comes from Paulo Ribeiro of HSBC. Please go ahead.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Good morning. I'm going to repeat a little bit what everyone asked. But I want to drive home the point your level of pricing, be it POS or MDR, is considerably higher than the competition and we know there are accounting differences and all that. But do you expect it to converge to a point where you have following on what they are doing and that brings a little bit of the market share? I know you're not fighting for share, but for profitability, but presumably so are they. They want to be profitable too. And -- or you expect really to settle on this in this higher level? I know you already talked a little about that. But could be that your difference is the mix of clients and you have more, smaller retailers, they focus more on larger ones, or what else? What is different here that would allow you to -- package of service is great, but they have -- I don't know if that's enough to justify the difference here because they also have very good package of service.

So that's one question, a long one.

A - Romulo Dias {BIO 2054119 <GO>}

I think in your question you raise two points that are not in the same -- there are too many reasons why we have a higher net MDR. First is related to the mix of clients. And secondly, when you say that you are pursuing profitability and not market share, we are not saying that. We are not doing the same. I'm just saying what we're doing. We -- when you see -- propose that our standards are not -- is not good for Cielo, we do not have doubt to -- not to work with this client. So mix of clients plus also other let's say the presence that you have, the mark, not least with the level of information that you have today, we -- this is what I can tell you right now.

A - Clovis Poggetti Junior

Hi, Paulo. It's Clovis. Just allow me to jump in as well. Just a comment to make it clear. I will not say that our MDR is higher, because of the accounting policy, okay? As I just mentioned before, if we will continue the managerial MDR, okay, doing all the changes because of the accounting of the installments, we will have slightly lower MDR, okay? And even in this way, I believe higher than what we are taking into consideration.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Right, absolutely, exactly. I know that, that's why it's all the more surprising that you -- you're able to do that, have a higher level, in particular in debit. I mean, this quarter debit I know declined a little and it's at a point that it's a lot higher in percentage terms than the competitor and it's a little puzzling. And that's (partly) you also had higher volume growth in debit that you couldn't quite really explain. So it seems that debit is a black box there.

But just quickly, I just want to -- another point. Guidance for 2011; your competitors seem so confident that by the end of the Second Quarter they will seem to have stabilized in term -- in increased visibility, that they said they will give that guidance. Can you promise us you'll do the same?

A - Romulo Dias {BIO 2054119 <GO>}

I cannot comment, but I do -- we expect to have a better visibility after the Second Quarter.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

And Cielo Day, which is related. You -- last year you had close to Bradesco day. This year you're not having -- it's because of that, it's because of lack of visibility you have it later in the year?

A - Romulo Dias {BIO 2054119 <GO>}

I didn't get the point.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Well you had a Cielo Day beginning of the year where you allowed analysts to talk to all your staff and managers and everything, and you have not scheduled one for this year, and you scheduled last year close to Bradesco. Bradesco announced theirs. You have announced yours. Will you have a Cielo Day, or are you waiting for this increased visibility? That's what's holding you back is lack of visibility?

A - Romulo Dias {BIO 2054119 <GO>}

No, no, no, nothing have -- we just -- when it's appropriate we will say to the market we're going to launch the Cielo Day. It doesn't have anything with the lack of visibility or even related to Bradesco. That's just a coincidence. They can get advantage of the last few years that the people were coming to visit Bradesco and let's have the Cielo Day, we decided to do. But we -- we're going to have a Cielo Day, but we didn't decide when.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Okay. Great, thank you.

Operator

The next question comes from Marcelo Telles of Credit Suisse. Please go ahead.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hello everyone. Thanks for the opportunity. I have two questions. The first one, going back to the agreements, the renegotiation, I understand that the length of those agreements is usually 12 months. So I was wondering if there's new renegotiations, if you're seeing any pressure from merchants to maybe like reduce the term of the agreements maybe, I don't know, nine months or 10 months?

And the second question, regarding the negotiations with the banks, would -- do you expect maybe additional renegotiations with banks? I would include your own shareholders, Bradesco and Banco do Brasil. Do you think that could happen still in 2011? Thank you.

A - Romulo Dias {BIO 2054119 <GO>}

In 2011 we do not expect, regarding the banks, to increase the level of additional net MDRs that we have provided to the banks.

Regarding the merchants, we, after one year of course, the merchant can renegotiate a contract. But it's too early to say that something is going to be -- is going to happen or is going to be another one, it's going to be lower than the one that they had. I would say that probably, with the level of information that you have today, that we do not expect a big change in the level of net MDR after one year after the term of the contract that you sign with the merchants.

Q - Marcelo Telles {BIO 3560829 <GO>}

Thank you. Just a follow-up on my first question. The fact that you have new agreements with Safra, Caixa Economica, HSBC, the agreements that you currently have with Bradesco and Banco do Brasil, you think that it's considered to be competitive with the agreements you had for the other banks? Are they on like similar conditions, or more or less favorable? That's what I wanted to have a sense as well, if possible, thank you.

A - Romulo Dias {BIO 2054119 <GO>}

We have a policy that you try to follow in order to convince the banks to work with us. Each of these contracts of course is a private information. But what I can tell you, that all the contracts that we sign with Bradesco, Banco do Brasil, Caixa Economica Federal, HSBC, Safra, they are market conditions.

Q - Marcelo Telles {BIO 3560829 <GO>}

Okay. Thanks for your time, appreciate it.

Operator

The next question comes from (Alexandro Speda) from Itau DBA. Please go ahead.

Q - Alexandro Speda

Good afternoon, gentlemen. Thank you for taking my questions. Actually I have two quick questions. The first is regarding the Prepayment spread. Do you expect the spreads to go up now that banks are raising their spreads and the Selic rate is going up as well?

And also, can you provide us brief update on the (ILO) project? Thank you.

A - Romulo Dias {BIO 2054119 <GO>}

Hi, Hi Alexandro. Regarding the spread Prepayment, of course we work usually as a percentage of CGI. And if CGI goes up, usually we are able also to increase. We also have to take into consideration that you also need to raise funds from the market. So the spread that I made is the difference of course between the cost that you have plus the spread that you are able to do with the merchants.

And your second questions related to--?

Q - Alexandro Speda

To ILO.

A - Romulo Dias {BIO 2054119 <GO>}

To ILO. ILO -- you have some final discussions with the banks and we have some final adjustments. What I can tell you, that Cielo is 100% prepared to work with POS. And that's it. That's the ECFs we issue sorry. We are just speaking. I will ask our IT Vice President to talk a little bit more about this.

A - Paulo Guzzo {BIO 16447955 <GO>}

Regarding to ECR solutions, we are in negotiation with the software providers to have it ready as soon as our sales guys can negotiate with the chain, when they do, be ready to adjust and update their sequence. But I can tell for you that we are 100% ready to accept Halo cards on (My Stripe) or chip cards, ready for them, no matter.

A - Romulo Dias {BIO 2054119 <GO>}

But in terms of (inaudible) we expect to probably importantly have some delays. It was not related to our network structure or technical issues. It was related to some negotiations. And when the negotiations are over, we will launch this -- we will launch ILO product.

Q - Alexandro Speda

Alright.

A - Romulo Dias {BIO 2054119 <GO>}

And we expect for the coming days, okay? We expect for the coming days.

Q - Alexandro Speda

Okay. Thanks.

Operator

(Operator Instructions) This concludes the question and answer section. At this time, I would like to turn the floor back to Romulo Dias for any closing remarks.

A - Romulo Dias {BIO 2054119 <GO>}

So we are aware of the challenges in the new landscape, but we keep on working to which our objective in our business fronts, penetrating markets with innovative products and service. So thank you a lot for joining us, and have a nice day.

Operator

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