

Q3 2021 Earnings Call

Company Participants

- Filipe Oliveira, Head of Strategy and FP&A
- Gustavo Henrique Santos de Sousa, Chief Executive Officer and Investor Relations Officer

Other Participants

- Jason Mollin, Scotiabank
- Tito Labarta, Analyst

Presentation

Operator

Good afternoon, everyone and thank you for waiting. Welcome to Cielo Third Quarter of 2021 Results Conference Call. With us here today, we have Mr. Gustavo Sousa, Filipe Oliveira, and Daniel Diniz. This event is being recorded and also is being broadcast live via webcast and may be accessed through Cielo website at ri.cielo.com.br/en, where the presentation is also available. Participants may view the slides in any order they wish. The replay will be available shortly after the event is concluded. Remember that the participants of the webcast will be able to register via website questions to Cielo that will be answered soon.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Cielo management and on information currently available to the company. So they involve risks and uncertainties, because they relate to future events and, therefore, depend on circumstances that may or may not occur. Investors and analysts should understand that conditions related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Based on the presentation published this morning of the company's website, this conference call is open exclusively for questions and answers, which will be preceded by a message from the CEO of the company, Mr. Gustavo Sousa. (Operator Instructions)

I will now pass the floor over to Mr. Gustavo Sousa for the opening remarks.

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

Thank you very much for participating today. Before we go to Q&A, I would like to start this conversation with some highlights of our earnings and share important improvements

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that we have had in the quarter related to our operations. I will also comment about other developments and strategies from Cielo. Our net income reached BRL212 million in the quarter. That's a 111% higher year-over-year and that's an 18% increase Q-over-Q. Cielo had been showing a very consistent story of recovery in its results. It is the fourth consecutive quarter of growth in net income on a year-over-year basis. The recovery in our earnings is based on the operational performance, with revenues growing and expenses under control.

This quarter, we showed a growth of 7% in net revenue as compared to the previous quarter. The main highlight was Receba Rapido, the solution in which the merchants received all the proceeds from their credit cards transaction in up to two days. And which was a major focus of our team in the last quarter. We understand that there is a big opportunity for us to go deeper in the penetration of this product and we will continue distributing Receba Rapido as a priority. Receba Rapido is profitable and is also important to help SMBs manage their cash flows.

Our stance on costs, the discipline is here to stay and once again showed a decline -- we have presented once again a decline in our normalized expenses. In addition to the financial performance, I would like to share some important achievements that we have had in this quarter in terms of operations and strategy. It is important to remember that at our last meeting, I said that one of our main goals at Cielo is to be a company that is a benchmark in terms of quality of service.

Over the past three months, we had made important achievements and developments in terms of moving closer to this goal. We had an important case related to the Heroes project. The Heroes are professionals who go to customers to install equipment and provide other services, fast and personalized assistance. The Heroes were being tested in six cities and in August, we started operating in the Heroes model in 153 cities, which represent most of Cielo's demand for service. Our satisfaction metrics are expected to improve in the coming months with the Heroes, but we have other measures that have already shown some results in the third quarter. We made advances in commercial productivity, logistics and service.

Our sales team, which was reinforced at the beginning of the year, had been gaining traction in recent months. Metrics such as activation rate, new affiliation, and the volume of new customers showed evolution. In logistics, we further improved the speed of equipment delivery. Operational improvements are already a reality, but ambition -- our ambition here is much higher. As new steps, we have additional initiatives in logistics, customer service, technology platform, billing and pricing, in addition to the commercial model. We are also accelerating our journey to cloud. These are initiatives that will be complete by the end of 2022, when we will have flawless services, more integrated operation, and increasing use of analytics in many areas of the business mainly in our commercial activity. Before this deadline, we will have intermediate deliveries, which will allow us to capture value along the journey and be accountable in our next earning releases. As I mentioned, our ambition is very high in terms of quality of service and customer satisfaction. This agenda is aligned with earnings recovery, greater commercial productivity and lower churn will be essential for Cielo to resume customer base growth and regain market share.

Again, I thank you for your attention and we will now move to our Q&A session. Thank you.

Questions And Answers

Operator

Thank you, Mr. Gustavo. The floor is now open for questions. Our first question comes from Jason Mollin with Scotiabank.

Q - Jason Mollin {BIO 1888181 <GO>}

Hi. Hello, everyone. Thanks for the opportunity to ask questions. My question is on the TPV growth that we saw in the quarter. Looked quite strong. Wanted to get your sense if you think this is kind of an underlying trend? Or there was something that drove the growth in TPV, I guess, I see it in credit cards and debit cards with pretty robust growth in the SMB and Long-Tail? Thanks.

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

Jason, I think we had a bit of chopped question here. I understood your question on TPV, did you have any other question other than that?

Q - Jason Mollin {BIO 1888181 <GO>}

No, I'm just asking for some color there. You got the question on TPV, that would be great.

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

Perfect. Thank you for your question. Filipe Oliveira here will answer. Thank you.

A - Filipe Oliveira {BIO 16681552 <GO>}

Hi, Jason. We had a couple of effects here. So, first we had the entire market recovering from the crisis that we had with COVID. So we already see a recovery in terms of economic activity and specifically in the retail section -- sector in Brazil. So that's one. Second, Cielo has also done quite well in terms of volume growth in both in SMBs and micro merchants and in large accounts. So we see that as a structural trend going forward that Cielo is doing pretty well in terms of excellent volumes and we don't see any downturn in terms of market volumes overall. So we see it as a trend that's going to continue in the next quarters.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you very much.

A - Filipe Oliveira {BIO 16681552 <GO>}

Thank you, Jason.

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The next question comes from Tito Labarta with Goldman Sachs.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi, good afternoon. Thank you for the call. Also a couple of questions. One, I guess on the competitive environment. Maybe following up a little bit on Jason's question on TPV growth, is it just kind of a recovery, the industry, volumes are expected to grow over 20% for the industry this year and next year, I think, as well? Is it just the industry recovering sort of some pre-COVID lows or COVID lows I should say and you are kind of benefiting from that? Are you getting any market share? I mean, the stability in the take rate indicate maybe some competitive pressures may have subsided a bit. I guess help us think about the competitive environment and how that's evolving.

And then my second question on, you mentioned good performance on expenses, margins. Do you think margins are now stabilizing? Is this a recurring level of margin that we can expect going forward? How should we think about margins from here? Thank you.

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

Thank you, thank you for your question. So, starting with competitive environment, Cielo, I believe, has been the market player that has been the most vocal about how competitive our environment has been over the best two years, right. So, we see a continuation of this competition. And for Cielo, we haven't started to regain market share in SMBs yet. This is our objective, with the change that we made in our commercial model early this year, right. So, we changed the function of our sales professionals. We had two of hunters and farmers. Now we have consultants with both functions with a reduced geographical coverage, reduced number of clients per portfolio and we are now -- after we hired those professionals in January of this year, trained them, we are now continuing to give them tools, even more training, better digital channels, better client service on the call center in order to support their activity. It is our expectation to have this new sales model, this new commercial model being responsible for having Cielo resume market share gains.

When we look at market share overall, at TPV overall, we can never forget the dynamics of our large accounts. They are still responsible for roughly 60% of our TPV. We have made a good negotiation effort to have more profitability to eliminate eventual negative margins that we had with some clients in this segment. And this caused loss some of the TPV from those accounts, right. So with that, overall, over the past quarter as a result of that, we saw market share contraction. As we have been explaining in the margins, I made my point in the first comment, is we intend to resume market share growth as a result of the work of our new commercial team.

In terms of margins, the competitive pressure is a pressure on margins. What we have been shown to the market is that, yes, we face those pressures as well. Cielo has a price that is compatible to what we see in the market, but one offsetting item that we have in terms of pricing is that we have extended our automatic prepayment product, the Receba Rapido. We have been showing strong increases in that. We are now at 41% penetration of Receba Rapido and other prepayment alternatives in our SMB's portfolio. That is an

important metric for us. If we look back over one year ago, we were at close to 20% in this metric and we are now above 40%, right. So I don't see the competitive pressure reducing in the short term. I don't think we can talk about stability. But we can see that Cielo with a new sales team with better service, and with the ability to distribute other products has been presenting a somewhat stable revenue yield.

Q - Tito Labarta {BIO 20837559 <GO>}

Great. Thank you, Gustavo. It's helpful.

Operator

(Operator Instructions) That does conclude Cielo conference call for today. I would like to turn the conference back over to Mr. Gustavo for his closing remarks.

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

Thank you, everyone, for the participation. We'll see you on the next call. In the meantime, our Investor Relations team is always available to you. Thank you very much. Bye-bye.

Operator

Thank you very much for your participation on today's call. Have a nice day.

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