

## Q4 2016 Earnings Call

### Company Participants

- Clovis Poggetti, Executive Vice President and Investor Relations Officer
- Eduardo Campoza Gouveia, Chief Executive Officer

### Other Participants

- Alexandre Spada, Analyst
- Carlos Gomez-Lopez, Analyst
- Domingos Falavina, Analyst
- Eduardo Nishio, Analyst
- Eduardo Rosman, Analyst
- Jorge Kuri, Analyst
- Marcelo Cintra, Analyst
- Mario Pierry, Analyst
- Rafael Frade, Analyst
- Robert Wildhack, Analyst
- Tito LaBarta, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning and thank you for waiting. Welcome to Cielo's Q4 2016 Results Conference Call. Be informed that this event is being recorded and all participants will be in the listen-only mode during the company's presentation. Next, we will begin the Q&A session. At that time, further instructions will be given.

This event is also being broadcast live via webcast and may be accessed through Cielo's website at [www.cielo.com.br/ir](http://www.cielo.com.br/ir), where the presentation is also available. Participants may view these slides in any order they wish. The replay will be available after the event is concluded. Those following the presentation via the webcast may post their questions on our website.

Before proceeding, we would like to clarify that any forward statements are based on beliefs and assumptions of Cielo's management and on information currently available to the company. They involve risks and uncertainties because they relate to future events and also 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.

Now, I'd like to turn the conference over to Mr. Eduardo Gouveia, who will be giving his presentation. Mr. Eduardo, you have the floor.

## **Eduardo Campoza Gouveia** {BIO 16447861 <GO>}

Good morning. It's a great pleasure to be with you here during my first presentation of results concerning Q4 2016. We have here with us Clovis, CFO of the company, Clovis Poggetti, Victor Schabbel (02:40), Director of Investors Relations and other members of the board.

First, I'd like to say that I'm very proud to be here. I'm very proud to be in such an important company. I'll give you a strategic read of my contribution to Cielo. And then, we will have a supplement with highlights.

During the conference, we will be able to clarify any of your doubts. We have four pillars, digital transformation, innovation, being close to the clients, human capital and operational efficiency, where the company has been very competent.

The first pillar, digital transformation, we have had a great focus on bringing the client to the center of our business. We want to be protagonist in all of the developments for technological solutions. We want to really deliver value to the right segments, according to the clients' demands and this process is not a simple project. It's truly a transformation and it's we've had lot of focus, we launched LIO. LIO, for us, is a very important reinforcement in terms of adding value, so delivering more values and more solution to take care of our clients' needs and not only a card company. So, we will look at our client base in a segmented way and understand the right situation for each segment, each client and thus give them a good solution. We want to have a more agile company, more connected with the digital revolution. So we're beginning this program, we began at the end of last year and we hope to continue in this truly a transformation for the company.

The second element, the second pillar of my work is commercial proximity. What is commercial proximity? Of course, the assets that I have, in my career, I graduated in science and we do this very naturally. And we want to have a great focus on being close to the clients. For example, I've been here for a month and I visited three states, (05:53), Rio de Janeiro (05:55) visiting clients. I have visited many clients in São Paulo. So, we have a strong look and we want our sales area to be more connected to the clients, closer to the clients. This is what we want to do in the next few years. We want to understand clearly what are the needs of each client, each segment to deliver value and have this great perception of delivery.

We had a good surprise with what we found in terms of technology, commercial technology. Every one of our consultants has an iPad or smartphone, and every morning they receive all the information they need for the day, the routes, the clients to be visited

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and the type of product to be offered, all the information, all the clients information with all of the sales persons hands. It's impressive, the technology that we have in the hands of our sales people.

The third element is the strengthening of distribution channels. We have a strong distribution area. So this is an important pillar strengthening this area with our management, our commercial relationship with our clients.

The third pillar, which is also very important and my vision, is to take care of our talents. I have a personal belief that people who are happy contribute to the profit. We must work even more strongly to have a company with talent we want to recognize the good practices and I want to reinforce engagements.

In the last six years, we have been chosen as one of the best companies to work in Brazil. Also, we are very strong in meritocracy in terms of compensation and we have our modern system. And we launched last year the Cielo program and we have a lot of knowledge, alignments, training is fundamental for our employees. So, we have a strong Cielo University, and this is a landmark of our management, focusing on the talent we have, the people we have.

In terms of meritocracy, we know that the most important metric, the most important goal is here, we are making an important transformation. We want consistent bottom-line results in order to deliver value to you, our shareholders.

And the last, this is an important point. We have had a good performance, expense control. So, we will continue strongly with expense control and try to be more and more efficient, looking at every detail so we can deliver profitability and also higher margins in a sustainable way in order to deliver always the bottom-line.

So in terms of strategy for the next few years, I will be working on these four pillars, transformation, digital information, proximity and also human talents. So, I'm very – I believe this is a great challenge. It's important have challenges in our career and we're very happy concerning the potential and the possibilities of this company.

Now, I'd like to pass the call to Clovis. He will talk about the results of Q4.

### **Clovis Poggetti** {BIO 16529642 <GO>}

Thank you, Gouveia. Good morning. Concerning the highlights for 2016. But, first, we would like to call your attention to page 4 please. We would like to highlight the growth of 6.7% of the volume captured in acquiring and acquisition reaching BRL 585 billion.

The growth is a little more modest than the ones in previous years, and as you already know, especially due to the economic scenario that is very challenging that we have had. In terms of competition, this year included hard work, a year where we tried to preserve the franchise, the book vehicles are in the profitability of our operation. In this context, we

prepared ourselves for the new model, multivan, and we are ready to begin to capture with the new model as full acquiring.

I'd like to stress that the market continues to have a behavior that is similar to previous years. We haven't seen any changes. Also, it's important to say we have an economic scenario and competition. We have seen a lot of difficulty in retail, and due to this our base had a drop of 9% during the year. But it's important to stress that although we had a drop, revenue remained resilient during the year. So, the base of our equipment represent 60%.

Another highlight is the delivery of our guidance, the expenses grew 5.8%, below the guidance that we gave to the market for this year. Third, our last points, the financial deleveraging process also had an important role, financial deleverage and important contribution to the profit 14%.

Having said this, I'd like to pass the floor back to Mr. Gouveia.

**Eduardo Camposana Gouveia** {BIO 16447861 <GO>}

Well, now we can begin the Q&A session. We already have some questions. So, let's begin the Q&A and then we'll make the final comments.

## Q&A

### Operator

Ladies and gentlemen, we'll begin now the Q&A session. Our first question comes from Mr. Mario Pierry, Bank of America Merrill Lynch.

### Q - Mario Pierry

 {BIO 1505554 <GO>}

Good morning. I have two questions. The first, looking at your revenue yield, it dropped a lot in this quarter. We had 10%. I'd like to understand better this drop, were there any changes, maybe the mix contributed to this, but did you have changes in interchange during the quarter. Because in Q4 of last year, we also saw a large drop in this area, but that was a recovery. So I'd like to understand, is there a point that is nonrecurring point or can we expect more of this looking forward?

The second question has to do with regulatory changes announced by the governments, specially the cycle for prepayments announced by the Treasury Ministry. So, how should we monitor this situation from now on, and if you have any studies concerning this reduction from payment terms from 30 days to 3 days, the impact this will have?

### A - Operator

Mario, thank you. It's a pleasure to talk to you again. Concerning yields, there was no change and incentives that we think continues the same as last year. We had an impact on

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volumes and a greater relevance in large accounts right now with stronger loss at the base of the pyramid. It's important to say that this loss - we had the loss but we had a resilient revenue. We had lost some POS dial, less wireless, where we have an average price that is a little higher. So there is no effect that is not normal.

Now the second-ish question, once again, it's complex. But I think we have a strong case that the regulating agency will work with the industry. We're working strongly to support this discussion on the part of the Treasury Ministry. To give you numbers, rotating credit represents 30% and credit card, loans, and the impact, if we think a little, if we have a stronger change in payment terms of credit cards.

Let me supplement this. It's important at this point concerning the impact on net profit to demystify the importance of RV in our business. We have shown the contribution of the managerial result of RV. We always have said everyone to look at this number because there we have the value of number of money as time goes by. So Gouveia mentioned very well considering RV as a whole, the contribution, where profit will be close to 20%, 21% in this quarter. Since we have 30% concerning credit, this would be the part that is at risk, 40% of 20, 21 percentage.

Let me supplement, I also remembered something. RV is an important unit for us. So if this is very important for the company's results. So my first action was to talk to the providers of call centers, active, passive, to see how we can improve conversion. We put together a very aggressive plan concerning performance, penetration, in order to somehow improve the delivery.

**Q - Mario Pierry {BIO 1505554 <GO>}**

Just to make clear, so in the worst scenario, we can imagine an 8% drop to the company's profit. So, I'd like to understand, do you have any timing? Is there a date we should look at for announcements from the Treasury Ministry, the regulating agency?

**A - Operator**

Yes, that's the number and timing we do not have. We're giving support. We're working together, but we don't have the timing. There is no decision made yet.

**Q - Mario Pierry {BIO 1505554 <GO>}**

Now going back to my first question on revenue yield. You explained we had mix POS. So when we see a drop in Q4 2015, in Q1, revenue yield went up. It went back to the higher levels. If I understood well, we should not expect a great change in revenue yield from now on, this revenue yield that we saw in Q4 should continue, should be maintained?

**A - Operator**

The intention we have, we have some solutions, for example, the POS plan. We have been working strongly to deliver more value, and it is a tool where we can add value and we can also evaluate this. We hope there is resilience in revenue, but we don't expect any changes, especially in the large accounts. Mario, reminding you, as Clovis has said don't

forget to consider in your analysis that for some time we have been very strong in debit. When we look at Q1, this has nothing to do with debit growing more than credit. This is a characteristic of year-end sales.

Now, I'd like to reinforce the other points mentioned by Gouveia. So, there is a seasonality effect in Q4.

**Q - Mario Pierry** {BIO 1505554 <GO>}

Thank you. Thank you very much.

**A - Operator**

Thank you, Mario.

Next question Eduardo Rosman, BTG Pactual Bank.

**Q - Eduardo Rosman** {BIO 16314825 <GO>}

Good morning. Two questions. The first, concerning prepayment, in the call to the press you mentioned the guidance of 19% to 21% penetration. I'd like to confirm this is the right number, the same that was delivered in 2016. The second question concerning the migration to the full acquirer model. How do you believe the prices will be - how will the prices behave? Do you believe that the competitors with pricing power will be more aggressive or whether the impact has already happened in the last few months since now you can operate Elo?

**A - Operator**

Eduardo, thank you. It's a great pleasure to talk to you. This is an information that we are giving about the performance, we believe we will continue with this performance without greater losses. Once again, just reinforcing the point we're working very strongly on the plan to have better conversion and better profitability in our view. This is very important in our business.

Now, everyone, all the players are capturing all the branch and everyone is working for the clients. So, you can ask me, as of July with Elo full acquiring, we also in our segment an important opportunity in Amex, they're different from Elo, as Elo has a participation in debits that is very strong. Then, we also have Amex that is very strong in credit with the higher ticket value. So, we hope somehow we offset this loss in revenue. We're working strongly to preserve the bottom line, that's an important concept for us. Competition is important, it's healthy, but we will have a great focus on the bottom line and not only in share, delivering revenue and profits. So we can have a sustainable performance in the long-term.

**Q - Eduardo Rosman** {BIO 16314825 <GO>}

That's very clear. Thank you. Just a follow-up. It's very good to see the company talking about focus on bottom line. Can't you give us a range or guidance for the bottom line for

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next year, since this is the main goal of the company? And this is how we also evaluate the main executives.

## A - Operator

Thank you for the question. The company's goal when offering a guidance is to try to help you to make projections. As we are in an environment we know with many uncertainties, we can't give you a profit guidance because the company's effort is always in the medium and long-term to generate value to the shareholders and not only generation of profit in one quarter. So we have a strong commitment with the medium and long range and not only the profits in one quarter. We try to avoid this trap to think too much about the profit, signaling profit when our commitment is value generation.

## Q - Eduardo Rosman {BIO 16314825 <GO>}

Thank you, very clear. Thank you.

## A - Operator

Thank you, Eduardo. Pleasure to talk to you.

Next question Marcelo Cintra, Goldman Sachs.

## Q - Marcelo Cintra {BIO 16463628 <GO>}

Good morning. Thank you. I have two questions. The first concerning the changes in multivan for the quarter. I'd like to understand, where we see the evolution in multivan, it has accelerated especially in the Elo base. You said 58% of Elo is already in multivan. So what I'd like to know, two things. First, in a scenario, where the whole market goes to full acquirer to all players, hence based on the numbers, 15% goes to your competitors. Do you have an estimate of the impact of this, the effect of the bottom-line, and is this will be permanently offset by agreements with Elo?

How should we see revenue in this delivered? And if your guidance for growth in transactions for Cielo Brasil, have you considered this volume of full acquirer leaving Elo, because I mentioned it today. So part of Cielo is through multivan, so you might lose this project, is this considered in the guidance?

## A - Operator

Good morning, Cintra. It's a great pleasure to have you here. As I said, in the previous question, the scenario is open as of July. We hope that the part of Elo captured will be partially offset by capturing Amex. So, results of the guidance that we gave in terms of volume and expenses already includes this movement in full acquirer.

## Q - Marcelo Cintra {BIO 16463628 <GO>}

Thank you. My second question is about POS. In this quarter, there was a sharp drop, you mentioned during the call. Do you have any visibility how much of this drop is related to mortality and which part is related to competition?

Did the competition have a relevant impact on the drop of the number of POS, and how should we imagine this in the future? Normally, Q4 is stronger in terms of POS due to seasonality. In Q1, there is a drop. You believe this will be the scenario in 2017, or can we expect a recovery?

### A - Operator

Thank you. Once again, when we talk about yield, we notice a stronger drop in dial than in the increase in wireless because of market demand. This is demanded by the consumer. For example, BRL 200,000 that we lost, 27% were dial. So that's why the POS is more expensive with more added value. What we noticed, Cintra, yes, there is a higher mortality rate. In this quarter, we had done many surveys, visits to the clients, to the field. We know when people start - decreased transactions and we see higher mortality rate in the last quarter, 70% is due to competition.

### Q - Marcelo Cintra {BIO 16463628 <GO>}

Okay. How should we look at this in the future?

### A - Operator

So, theoretically, this should not have great effect in Q1. There should be a recovery.

### Q - Marcelo Cintra {BIO 16463628 <GO>}

Do you see any recovery in January, number of POS as a whole?

### A - Operator

There is, we have the impact of the economy. As I said, one of the four pillars is proximity to the client. We're trying to deliver this to be closer to the client, more focus on each segment. But if the economy improves, we will have more clients to capture.

### Q - Marcelo Cintra {BIO 16463628 <GO>}

Thank you.

### A - Operator

Thank you. Pleasure to have you with us.

Next question in English, Jorge Kuri, Morgan Stanley.

### Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good morning, everyone.

### A - Operator

Hello, Jorge.



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**Q - Jorge Kuri** {BIO 3937764 <GO>}

So, I wanted to understand your guidance of Cielo Brasil volumes, 4% to 6% for this year. That number last year was 7%. Do you expect - it was close to 7%, so you're expecting lower volume growth this year.

In the context of an economy that is supposed to do much better than last year, albeit, on an absolute basis, still not fully recovered, but year-on-year there is very strong improvement on the fundamentals, economy contracted 3% last year, probably going to grow close to 1% this year.

Unemployment is probably going to start improving in the second half. A lot of the initiatives that you've been working on over the last two years hopefully start to bear fruit this year, particularly on LIO. So, why the lower expectation for volumes vis-à-vis last year? Should we've seen a recovery this year versus what you were able to deliver in 2015 and 2016? Thank you.

**A - Operator**

Okay.

**Q - Jorge Kuri** {BIO 3937764 <GO>}

Hello? Hello?

**A - Operator**

Jorge, could you please repeat the question, we were not able to hear the full question. Could you please talk a little closer to the microphone, Jorge?

**Q - Jorge Kuri** {BIO 3937764 <GO>}

Yeah. Sure. So, you're translating my question in Portuguese or should I just - I don't understand.

**A - Operator**

Please repeat.

**Q - Jorge Kuri** {BIO 3937764 <GO>}

All right. So, I wanted to understand your guidance for the year in terms of Cielo Brasil volumes. You're saying 4% to 6% 2017. That's below the number that you delivered in 2016, when you did almost 7%, given that the economy is supposed to do better this year versus last year. Last year the economy contracted 3%. This year, hopefully it's going to grow close to 1%. Unemployment, particularly doing much better this year than the last year, and some of the initiatives that you've been working on over the last couple of years are going to start bear fruit this year, particularly everything you're going on LIO. So, I'm just wondering why you're expecting a more modest outlook for volumes this year versus last year when everything points - at least from the macro side, everything points to a recovery of 2017 versus 2016 and 2015.

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Sorry, I can't hear anything. Hello?

## A - Operator

Thank you, Jorge. We noticed clearly the economy improving at the end of the year and non-recurring effect of multivan this year. And our expectation is, that the economy will come back with investments and consumptions. So the combination of these factors gives us a guidance between 4% and 6%, a little lower than this year. This combination makes us a little more conservative concerning our expectations this year reminding we have strong work. We're working strongly on the bottom-line more than on volume. So, we are looking very much at the efficiency of the company.

## Q - Jorge Kuri {BIO 3937764 <GO>}

Hello.

## Operator

Next question, Rafael Frade, Bradesco Bank.

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

Good morning two questions. First, exploring the guidance for 2017, growth in 4% to 6%, I'd like to understand how do you see revenue. Because the mix will be unfavorable with debit growing more than the credit. And, how should we imagine the impact of a renegotiation of rebates with controllers? Will this have an impact on revenue? And I guess, how we should see this 4% to 6% growth in volume and effect on revenue?

And also, if I'm not mistaken Mr. Gouveia based on your prior experience, and you were to anticipate receivables in other companies, you said you're reevaluating the processes. Do you see anything that could be done based on your experience having an impact anticipating receivables in 2017?

## A - Eduardo Camposana Gouveia {BIO 16447861 <GO>}

Thank you for the question. Let me begin with incentives. There is no change in incentives. We didn't have any change in incentives in the last quarter. Once again, we're looking at this process as something natural. It's a process that is always win-win. There is no pressure from shareholders for results tomorrow. So, we're looking at this in a tranquil way, tranquility concerning this topic.

Now, in relation to guidance, the market is more competitive. You have more pressure that's natural, competition in place, but we're concerned with the bottom-line. We want to deliver results in a sustainable and consistent way as we have done in the previous years. And this will be the first point.

The second, we are working the links. It is an important component of our business. As you know, you mentioned, and now we did an important improvement in efficiency in RV, that was one of the pillars to grow the company's results. And this has already been done

very efficiently. Now, we're looking at each process. And also, we know that this is very important for the company's results. It's on my list. It's on my daily list to do this.

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

Thank you. Just a follow-up concerning the first question the volumes. So, I am imagining the volume going up from 4% to 6%. Revenue, maybe growing a little less due to pressure in comps going up 4% to 6%. So we should have pressure on the margin, maybe the margin will be lower than that of 2016. Is that right?

**A - Operator**

No. Don't forget to consider the impact of the deleverage process. Operationally, yes. You are right, but we have the result of RV and the deleveraging will contribute to the bottom-line of the company.

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

Thank you.

**Operator**

Next question, Eduardo Nishio, Plural Bank.

**Q - Eduardo Nishio** {BIO 15333200 <GO>}

Good morning. I'd like to go back to the regulatory issues. Last year, we asked the same question. Maybe the only thing that was on the radar was the opening of the banners.

In the last few months, we had a lot of progress in the regulatory (40:32) price and now payments. We'd like to know from you how do you see regulatory issues, what the company is doing? The follow-up, what do you see on your radar that is important for us investors to know? And if there is any other important point that we should monitor right now? And I'm sorry to - I'm going back to the reduction of the cycle. I'd like to know from you, should this be done gradually during many years or should this be resolved in the short-term in a more radical way?

**A - Operator**

Okay, it's a pleasure. Let me see. Concerning your first point, regulatory issues, we are cooperating closely. We're always there. It's on our list to be close to the regulating agency. The Treasury Ministry were working on our side to add value to the client. I can't give you any information yet. We don't have any expectations concerning the Treasury Ministry and the terms now.

Concerning timing, we have no information, no sign in the short-term that we can give to you, in terms of what will be done apart from what was already announced by the Central Bank. No other item apart from the reduction in the cycle for the time being, no, none. As I said, we have been classifying in a very precise way, and the changes have an impact of 8% in our Elo, the change in the terms from 30 days to 3 days. So this will be gradual.

My second question has to do with competition. The competitive scenario. So, how do you see this in the next few years any changes that favor price increase? So, the dynamics of MDR, rental POS you launched LIO last year, you have the objective of 50,000 POSs by the end of the year. What happened? Why did you delay the objective, postpone the objective and next year?

Please repeat your question?

Concerning competition, I'd like to know how you see prices for MDR and POS? Two points, I would like you to give us more detail, so, MDR some regulatory issues that favor this on the acquirer side. And POS, too, you have the objective of having 50,000 POSs last year. So, I'd like to know about the results, if you reached this objective and what is the goal for 2017? Thank you.

Thank you. Competition, there was no change. Competition is rational in terms of acquiring. We don't see any change. We don't see more aggressiveness on the part of the competition.

Now, concerning LIO, we launched a concept, we have an entry level for those who have BRL 1,000 to BRL 5,000 including the cost of rental, a package that had a good acceptance but, for each terminal, we're trying to deliver the value that must be delivered. Concerning LIO, we have strong bets on the project, we're betting strongly on the project. I would say that I'm very well impressed about the concept.

I have LIO inside my car, every time I visit someone I have it, I demonstrate the concept. The acceptance has been very good with LIO - without content is a traditional POS. So, we're working very strongly to include more content, more value that we can deliver to clients, concerning accounts payable, receivable, ERP, concerning their clients, so there is a race to deliver value that LIO promises. The project continues. It has our total priority and we - I will repeat, every time I visit a client, I have shown the potential and people are very - we have had a very good acceptance. So, we continue with it.

Any the goals for this year?

We have worked towards a goal of 1 million terminals. Certainly, continue pursuing this number, they're - we are developing new things and we hope to get to 100,000 LIOs by the end of this year.

Thank you.

Next question in English, Mr. Tito LaBarta, Deutsche Bank.

**Q - Tito LaBarta** {BIO 20837559 <GO>}

Hi, good morning, and thanks for the call. Hi. Can you hear me? Hi, yes. Good morning. A couple of questions also, first to follow-up on revenue growth. We saw revenues at the

subsidiaries in the quarter fell 11%, and year-over-year, it was impacted by the depreciation of the dollar, given the dollar revenues. But just wanted to get maybe some guidance in terms of how you expect revenues at the subsidiaries to perform this year? I mean, there was strong growth for the full year. During the quarter, we saw a big drop even get understand that (48:46) of the revenues at the other subsidiaries going forward.

And then the second question, in terms of your expense guidance, 4% to 6%, but there was a difference between cost of services and operating expenses at the cost of services, and so there's a change in the remuneration model for certain products that aren't for you. So, just wanted to get a little bit more color on that, and meanwhile, operating expenses grew quite a bit faster, particularly personnel expenses growing 8% in the quarter. So, if you can maybe give some color in terms of how the cost of services will grow compared to your operating expenses would appreciate that? Thank you.

## Operator

Mr. LaBarta, please hold your question. It's being translated to the speaker. Thank you.

Okay. You are right. Yes. We have the effect of the U.S. currency, the exchange rate hurting us. And this was also affected by the turnaround process that we had in the company. Since 2012, we worked on changes in the platform. At the end of 2015, we focused more on the business. We had a change in management. We also changed our location, our headquarters, and this had an impact on the results of that company.

Now, concerning the second part of your question, concerning the change in the operational profile, yes, we left a model where we bought and resold minutes of telephony and now we have a commission. We optimized we had revenue and costs and now we have revenue concerning commission - coming from commission.

## Q - Tito LaBarta {BIO 20837559 <GO>}

Yes. Maybe to follow-up on both of that - those questions on the revenue, so what kind of growth - if we exclude the impact of the currency, what kind of growth can we expect in the other subsidiaries for 2017, if you could give some color on that? And then also on the - what do you expect the growth in cost versus growth in operating expenses, given we saw a big increase in personnel expenses this quarter?

## A - Operator

Tito, unfortunately, I won't be able to help you in this area. The company doesn't give guidance to its subsidiaries. The company's guidance has to do with Cielo Brazil and Cateno. But it's obvious that the company maintains its goal to operate in an efficient way, more and more efficient way, and this also includes our subsidiaries.

## Q - Tito LaBarta {BIO 20837559 <GO>}

Okay. And then, the question on the expenses versus cost of services?

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## A - Operator

Tito, in the same way that we did last year in 2016, the guidance that we're giving has to do with total expenses. We talk about Cielo Brasil plus Cateno cost, plus expenses growing from 46% in 2017. I'll give you more information. It's important to observe not only the projections of growth in the number of transactions, but also if we look at an average inflation projections for 2017, if we see what we'll have in terms of expenses, it is lower than inflation. So, yes, as Gouveia said, the company will continue to work in an absolutely paranoiac way to really keep expenses under control.

Okay. Thank you.

Okay.

Next question, Gustavo Lôbo, JPMorgan.

## Q - Domingos Falavina {BIO 16313407 <GO>}

Good morning. Domingos from JPMorgan. We noticed a strong drop in POS in Q4, but we thought that it's included to have a store owner, it's strange returning the machine before Christmas. Do you have data concerning January, February, concerning the installed base of POS or active store owners? I'd like to know if this drop is getting stronger? Thank you.

## A - Operator

Now that they returned the POS, they closed. They closed their business. So, we have made surveys, we have gone to the field and there are stores that are closing with this challenging situation. Christmas, for example, the sales were very bad, the sales in Christmas, still the economy as a whole that is not doing well.

And once again when we see these signs, we know that there is trouble in the stores. But, you look at the shopping malls, for example, the return is stronger, some stores closed after Christmas.

## Q - Domingos Falavina {BIO 16313407 <GO>}

In January and February did it get worse, this is what I'd like to know?

## A - Operator

It's very early to talk about this, we have done our follow-up, we are - we have all our people working more aggressively to acquire new clients. It's very early, I can't give you information about February, we don't have these numbers yet.

## Q - Domingos Falavina {BIO 16313407 <GO>}

Also, the use of cash, the company has a debt of 2.5% and since prepayment is not that strong. So, could it go - could you go back to 50%, 80% payout? Are you discussing this?

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## A - Operator

This is something that we're always discussing with the board. So, we lowered, especially at the time of curtailing. We have always discussed this and it's the company's capital. Today, it's 30%, the payment, and I have no additional information concerning changes, but we're analyzing, we're looking at this. So, we're in a deleveraging process and this is being analyzed.

## Q - Domingos Falavina {BIO 16313407 <GO>}

Thank you.

## A - Operator

Thank you.

Next question Alexandre Spada, Itaú BBA.

## Q - Alexandre Spada {BIO 16687974 <GO>}

Good morning. Thank you for the opportunity. I have two questions. The first has to do with CapEx. When you look at 2016, you spent with terminals, BRL 300 million, with the U.S. currency with a stronger dollar than this year, the exchange rate was higher last year. And also, we see also a drop. What justifies this guidance of BRL 400 million? Are the LIO terminals more expensive? What is the reason for such a high guidance in comparison with last year?

## A - Operator

Thank you. It's a great pleasure to have you. That's right. That's right. We have a stronger investment - a higher investment in terminals. LIO is a little more expensive. We are also renewing the equipments and we should invest more in LIO.

## Q - Alexandre Spada {BIO 16687974 <GO>}

Thank you. Second question, concerning Cateno. I understand that for example, you have an approval at the Central Bank, you need approval from the Central Bank for cost expense reductions. What are the opportunities in this front concerning also the timing and the size of efficiencies that can be captured in Cateno concerning expenses?

## A - Operator

What can be captured, we're already captured, Spada. So, I became Chairman of the Council at Cateno, so we had more participation in this process and we don't have a - by the end of this year, we should have the authorization. Whatever we can do, we are already doing. We have captured some savings, but the great synergy will come after the authorization from the Central Bank.

## Q - Alexandre Spada {BIO 16687974 <GO>}

Could you give us an example of what could be done, that can't be done yet?

FINAL

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## A - Operator

I can't give you this information now. We're working on many points in order to have a stronger cost synergy.

## Q - Alexandre Spada {BIO 16687974 <GO>}

Any idea about timing when this approval will come?

## A - Operator

By the end of the year, we should have this.

## Q - Alexandre Spada {BIO 16687974 <GO>}

Thank you.

## Operator

The next question, Carlos Gomez, HSBC Bank.

## Q - Carlos Gomez-Lopez {BIO 18107094 <GO>}

Good morning.

## A - Operator

Please, closer to the mike.

## Q - Carlos Gomez-Lopez {BIO 18107094 <GO>}

First question, Cateno. Your expectations concerning growth in the medium and long-term, could you comment on the future of this business?

## A - Operator

I will try to answer the first question. How we can foresee if there are any other clients - other clients for Cateno. We have the roadmap, we see Cateno working with other clients. So, we have in our roadmap this year, new clients, not only older clients from Bank of Brazil, but others. We have difficulty hearing your question. Did I answer your question?

## Q - Carlos Gomez-Lopez {BIO 18107094 <GO>}

Yes.

## A - Operator

Please repeat the second part of your question?

## Q - Carlos Gomez-Lopez {BIO 18107094 <GO>}

Will you maintain the business in the U.S. or do you want to sell it?

FINAL

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## A - Operator

We understand that it's a strategic investment. It was made to bring technology. By the end of this year, we should reap good results, and in Q1 2018, we hope that probably, we will have all the retail clients, the smaller ones and some large clients this year using the results of the new system. We have a new platform, an architecture that is totally open and modern. So, this operation in the U.S. is strategic. We are working more strongly to get the operational and also operational efficiency of the company. The next question?

Our next question comes from Craig Maurer, Autonomous Research.

## Q - Robert Wildhack {BIO 20663446 <GO>}

Good morning guys. This is Rob Wildhack on for Craig. A question on distribution channels. Can you expand on which particular channels, you're most focused on strengthening and then, give some more detail on how exactly you're paying for improvement. Thanks

## Operator

Please hold, Mr. Maurer.

Thank you, Craig. Our concept is to strengthen the relationship that we have with the banks that are our partners, so, to be closer to the branches of these banks. To be able to reach the places that we can't reach with our efforts. We have almost 1,000 people in this effort around Brazil, who have this direct relationship and acquiring client portfolios.

We have an important part, that is digital, there is the part that is, the web, the sites, call center, we have the contact center. So, we have a joint work to strengthen all the channels and points of contact with these clients.

The next question comes from (01:07:07) Bank of Brazil.

Good morning, good afternoon. I have a question concerning the impact of the interest - interest rates especially concerning receivables with a strong drop of the interest rates is there a difference between the cost of getting loans and the revenue? Is there a great difference, something that could come up in the next quarters?

Okay. In the short term, we can see that this drop in the interest rates is productive because of the cost of money and it may or may not affect the price of their receivables. Of course, with the lower interest rate, with the dropping interest rate, you have pressure on the product. Now, let's not forget get the positive side depending on the drop in the interest rates, as far as we know, this should promote an increase in volume and this increase in volume coming from debit, credit. Maybe part of this volume may also offset the pressure that comes from the lower interest rates. Carlos (01:08:49), as I mentioned, this is on our daily work list to work on the efficiency of the company. We're very focused. We work on this. We have this every day to improve efficiency penetration.

Thank you.

We'd like to conclude the Q&A session. Now, I'd like to pass the floor to Mr. Eduardo Gouveia for his final comments.

## **A - Eduardo Camposana Gouveia** {BIO 16447861 <GO>}

Thank you. As I said in the beginning, it's a great honor and pleasure to participate in this first report. I'd like to reinforce our commitment with the four important pillars in my management; digital transformation, proximity, closeness to commercial, also focus on people, on talents and also operational efficiency.

Personally, I have a strong commitment, strong partnership to the market. I'm very happy to be back. I worked for 4 years in Multiplus, we had a close relationship, very transparent work with the market. We want to have this commitment to deliver sustainable results with a high-level of corporate governance as we already have. Soon, we're going to continue making this effort, so let's continue and we're very happy with the possibility of really continuing to manage this company. Thank you.

## **Operator**

The audio conference of Cielo is concluded. We like to thank you all for your participation, and thank you for using Chorus Call.

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