Q2 2011 Earnings Call

Company Participants

- Clovis Poggetti Junior, EVP of Finance and IR Officer
- Eduardo Chedid, VP of Product and Businesses
- Roberta Noronha, IR
- Romulo de Melo Dias, CEO

Other Participants

- Alexandre Spada, Analyst
- Carlos Macedo, Analyst
- Craig Maurer, Analyst
- Daniel Abut, Analyst
- Domingos Saluvina, Analyst
- Henrique Cordeiro, Analyst
- Paulo Ribeiro, Analyst
- Saul Martinez, Analyst
- Victor Schabbel, Analyst

Presentation

Operator

Good morning. (Technical difficulty) Second Quarter 2011 earnings conference call. At this time all lines are in a listen-only mode. Later there will be a question-and-answer session.

(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 the questions for the Q&A session may be posted on the website.

Before proceeding, let me mention the forward-looking statements are based on the beliefs and assumptions of Cielo management and on the 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 Ms. Noronha, who will begin the presentation.

Roberta Noronha {BIO 20488075 <GO>}

Good morning. I'd like to thank you all for joining us as we present our results from the Second Quarter of 2011. With me today are Romulo de Melo Dias, CEO, Clovis Poggetti Junior, Executive Vice President of Finance and Investor Relations Officer, Eduardo Chedid, Vice President of Product and Businesses; Paulo Guzzo, Vice President of Technology and Operations; the finance and IR teams.

Now, I'd like to hand it over to Romulo.

Romulo de Melo Dias {BIO 2054119 <GO>}

Good morning. Thank you for joining us for another results conference call. With the Second Quarter numbers, we also have the results after a year in the new multi-brand scenario. As we had previously mentioned in conference calls on results from previous quarters, the competitive dynamic experienced in this new environment has impacted our commission revenue and our POS rental revenue, a fact that became clear from our results from Q4.

Over the first six months of the multi-brand scenario, we have experienced more rational competition in this first half of 2011. However, we are most optimist on the card market outlook, which still grows significantly and with quite encouraging prospects for the future. Regarding Cielo's operating variables, mostly costs and expenses, we are delivering what we are committed to. We said that our total unit cost for 2011, excluding controlling companies, would take into consideration the total unit cost of the Q4 of last year.

Cielo continues its effort to pursue (inaudible), which lead us to act behind our traditional scope, as no card payment transactions or transactions that do not invoke payment, for limited use such as mobile payment and e-payment a factor in which our (inaudible) prospect leave us well positioned.

On the slide 3, we have some highlights of the quarter, like our year-on-year growth of 21.2% in transaction financial volume. In the same period, credit volume was up 20.4% and debit volume was up 22.7%. This growth shows some -- shows that market growth remains resilient. Our net operating revenues plus net prepayment of receivables in Q2 were BRL1.2 billion, up 6.7% over Q2 of last year.

Adjusted EBITDA was BRL716 million, down 2.6% year-on-year and net income totaled BRL424 million, down 7.4% as compared with Q2 of last year. In this quarter EBITDA margin was up 0.8% quarter-on-quarter and net margin decreased 1.4% in the same period. In the Second Quarter we announced an expansion of the mobile payment solution for Android devices. Now, besides Apple products, all equipment with Android systems can be utilized at Cielo's terminal, which now provides the possibility to use the mobiles at POS machine for more than 42% of total mobiles in Brazil.

As previously mentioned, we are now in a position of pursuing a leading gateway in the Brazilian e-commerce market. With such a position we have taken a position in order to capture this industry growth mostly among medium and small online retailer. And finally, we also announced the beginning of the shares trading under ticket code CIOX in OTCQX, the highest segment in over-the-counter market in US.

With the OTCQX trading platform, we start offering to investors transparent trading, higher quality information and easy access by regulated brokers in the US.

Cielo was elected the best Brazilian company in the specialized service category by Exame Magazine, and Cielo was also ranked among the 14 most valuable brands in Brazil by Interbrand.

On the slide 4, let's talk about the macroeconomic environment that was the foundation of our performance. GDP grew 7.5% in last year, the most recent data available, which was the highest rate in decades. For 2011, according to data from the most recent Focus report, GDP is expected to grow 3.9%. Retail sales slowed but continued to grow, both in sales volume and revenues.

In May, sales volume was up 6.2% year-on-year. Driving this growth is basically the lowest unemployment in history and increased credit availability. In May, lowest (inaudible) was increased 23.4% compared to the same period last year while therefore -- this category fell to 0.3%.

Now I'd like to go to Clovis Poggetti Junior, who will continue our presentation.

Clovis Poggetti Junior

Thank you, Romulo. Good morning to all. On slide 5, we detail our Second Quarter performance and show the key indicators with year-on-year and quarter-on-quarter comparisons.

As you can see on the whole, the indicators were up year-on-year, while costs and expenses grew above revenues. Quarter-on-quarter we continued to see the impact of the increased competition on our numbers. However, relevant indicators, such as net MDR for credit transactions, started to show a reduction in the decline rate, reaching 117 bps in the quarter, 5 bps lower than the one presented in the previous quarter.

When analyzing the debit product, the net MDR was 74 bps, a reduction of 2 bps compared to the previous quarter and which is directly related to the higher participation of our aggregate cost product in the quarter mix.

On our next slide, number 6, the purple left graph shows the 13.4% increase in the number of transaction as compared with the same quarter in 2010. On the left, the 21.2% growth in the transaction financial volume of credit and debit transactions captured in the quarter which totaled BRL74.6 billion. And in the left graph on this slide, we have the number of active clients, that is clients which have carried out a transaction in the last 60 days, reaching 1.115 million compared to 1.153 million in the Second Quarter last year. When comparing to the previous quarter, active clients increased 2.8%.

On slide 7, we have our revenue breakdown. Credit and debit commissions were responsible for 61.2% of our total revenue. POS rental accounted for 21.5% of total revenues, showing more resilience of this segment regarding the competitive scenario. Prepayment of receivables represented 11%, up 4.2percentage points over the Second Quarter of 2010.

In the graph on the upper right, we have the evolution of our net revenue, including the net amount of prepayment of receivables, which totaled BRL1.119 billion, up 6.7% year-on-year. Our revenue from credit card commissions, on the lower left, in black, fell 2.2% to BRL550 million, while revenue from debit transaction, in blue, was up 14.4% to BRL205 million.

On the bottom right, we have the revenue from POS rental, which fell 12.8% in the Second Quarter this year, with a 1.5% decline in the installed POS base and 11.5% drop in the average rental price representing BRL65.4 per terminal per month.

On slide 8, we have some information about our prepayment of receivables operation, which has grown gradually and maintained its level of return. In the first graph, prepayment of receivables without the present value adjustments generated BRL138 million in revenue in this quarter, up 41.8% over the Second Quarter last year.

The second graph shows the financial volume prepaid in the Second Quarter this year, which grew for the 18 consecutive quarter to BRL3.4 billion and represented 7.2% of the total credit volume. The average term of these operations fell from 63 to 58 days in the quarter. Yes, related to this topic, we will like to call your attention to the increase we had in the financial expenses line, results from more prepayment of our receivables with the issuing banks in order to fulfill our customer demand for our prepayment product.

On slide 9, let's look at our performance with costs and expenses. The cost of services provided increased 33% in the Second Quarter as compared with the same quarter of 2010, totaling BRL342 million. The main drivers of this growth were additional brand fee and costs with our subsidiaries. By elimination of these impacts cost would have increased 14% as a consequence mainly of our depreciation due to the renewal of our POS base and to higher participation of wireless terminals, having this impact being offset by the efficiency gains in our operation.

It's worth mentioning that in the year-on-year comparison our costs were inline with the increase in the number of transactions in the period. Operating expense were up 16.2% year-on-year basis, chiefly due to general and administrative expenses and personnel. As for the G&A, note that the increment observed in the year-on-the-year analysis was also due to the reversion in the Second Quarter last year of some provisions for projects related to the multi-brand scenario.

Taking costs and expenses together per transaction in the quarter, we had BRL0.422, up 13.1% year-on-year. Considering the fee structure equivalent to the Second Quarter last year and excluding the effect of the controlled companies, the unit cost and expense together would have increased 1.3%.

Adjusted EBITDA, in the first graph, on slide 10, totaled BRL716 million in the quarter, down 2.6% as compared to the same quarter in 2010 and up 4.7% compared to the last quarter. EBITDA margin was 64%, down 6percentage points year-on-year. Net income fell 7.5% year-on-year and remained practically stable quarter-on-quarter with the margin at 38%, down 6percentage points over the same quarter last year.

Now, I would like to hand it over to Romulo.

Romulo de Melo Dias {BIO 2054119 <GO>}

On slide 11, we reinforce our strategy for the future. We trust our fundamentals and we more than ever use our strategies and boost our competitive advantage to distinguish ourselves. In the segment of traditional card transactions, Cielo relies on the reliability of both transactions to secure the network availability, with a unique distribution due to our strategic position mostly from bank partnerships. Besides we reinforce our sales team.

We also stand apart for our brand portfolio that offers merchants the opportunity to capture a greater volume, and that's why we have continued to establish partnerships in 2011. We are leading the process in developing emerging market payment transactions. We announced last year the acquisition of M4U, leader in developing technology platform for mobile solutions. We also announced a joint venture with Oi Paggo on mobile payment, and we are pioneers in Brazil with financial phone applications for payment with Apple and Android devices.

In this quarter we also moved this way by acquiring Braspag, a leading company in the Brazilian gateway segment. In alternative transaction service, as we had positioned ourselves in the healthcare industry with our subsidiary, Orizon -- we also positioned ourselves with our subsidiary, Orizon -- sorry. Also in alternative services (inaudible) Elo (Premier) and now with Cielo Fidelidade innovative products, we believe that we will be well positioned to provide a large tool for clients to use.

And finally, on the slide 12, as we had already mentioned to the market, when we have the better visibility we will provide guidance. It's the reason why we can share such vision with our other stakeholders. Therefore, we present our guidance with some operating indicators.

With regards to the net MDR, we believe that we will end the year with a reduction between 1 to 5 basis points in the value presented this quarter for credit and between 1 to 4 basis points for debit. In the case of our financial volume, both for credit and debit, the guidance is that our growth should be between 19.5 to 21.5 leading to a range between BRL169 billion to BRL172 billion in the second half of 2011.

For POS investments, in the second half of this year we made expenditures between BRL210 billion and BRL230 billion. And lastly, referring to cost and expenses, we will maintain the guidance previously given. Thus for the year of 2011, costs plus expense per transaction, excluding our subsidiaries, will remain at the same level posted in Q4 of last year, which means BRL0.406 per transaction.

Once again this guidance was provided in the light of the current competitive scenario. We reinforce our commitment to transparency, in the case we identified changes in the dynamics, we promptly communicated. Thank you for joining us, and now we'll take your questions.

Operator, please.

Questions And Answers

Operator

(Operator Instructions)

Daniel Abut, Citi.

Q - Daniel Abut {BIO 1505546 <GO>}

First as a clarification, Romulo, on the guidance in page 12, to make sure that I'm reading it correctly, because it's in three different sections and appear to be given with different timeframes.

The last one, you are giving guidance on cost and you're saying that that's going to be the average cost for the year as a whole, including what we already saw in the first half plus the second half, everything mixed will give that as an average number for the total year. Is that correct?

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Yes.

Q - Daniel Abut {BIO 1505546 <GO>}

Then, in the middle section of the guidance, you are giving for second half. So for example, if you're saying that transaction volume growth will range from 19.5 to 21.5, that should be the pace of growth for the second and -- for the third and Fourth Quarter combined, so which should be growing at a year-on-year pace around that level. That has nothing to do with what we saw in the first half of the year already. We saw at the second half alone.

Then the first part, which just say in December -- well, you mean by December is the Fourth Quarter; a year, a quarter that will end in December or just the month of December? In other words, that by the Fourth Quarter -- in the Fourth Quarter we are going to see an average MDR in credit card that should be in the 1.12 to 1.16 or that's at the month of December or just the year as a whole? Because it's very different depending what you mean.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Yes, by the end -- it's going to be by the end of the quarter. So when you present the numbers of the last quarter of this year, you're going to see the net MDR between -- it's between October and December in the number that is (inaudible).

Q - Daniel Abut {BIO 1505546 <GO>}

So the guidance on MDR refers to the Fourth Quarter and therefore is consistent to what you said, that you're expecting an additional decline in credit that could be 1 to 5 basis points compared to what we saw in the Second Quarter, which was 117. That makes sense. Could you clarify then the guidance for costs? Is that a guidance for the year as whole?

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Yes. You are completely right. Our total costs, excluding subsidiaries, total cost per transaction is going to be the same level that you had in the last quarter of last year. In other words, $0.406 -- costs plus expenses.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you, Romulo. Now, having clarified that, let me ask you my question, which is related to the prepayment business in page 8. I think Clovis described there that that business has continued to grow and particularly in its contribution to the bottom line, even though we saw in the last quarter a continuation of decline in the average term and the percentage prepay has flattened out at about 7.2%.

So my question is twofold. One, what you'd be calling this trend in the decline in the average term, which has been consistently happening for several quarters now? Initially, I understood that the reason the numbers have gone to the high 60s and 70s was that there has been increase in the use in the discount of installment transactions, and that led to an extension in the average term.

What has reserved that? What's really behind this trend of lowering the average term?

And second, I observed that the reason -- the contribution of the prepayment business increases despite the decline in the average term and despite the fact that the percentage of prepaid has not increased is that the average -- the implied average spread has increased a lot in the Second Quarter. Is that a sustainable level, and what explains such an increase in the average monthly spread?

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Yes, let me try to answer your first question. The first question that you made is related to the tenure of the transaction. What's happening in Brazil, that the merchants are more, let's say, trying to sell nothing -- 15 transactions installments as they used to do in the past, which affects the whole system as a whole, okay.

So it's the reason why we had seen a reduction in the tenure of the transaction from 69 to 58 days. On the other hand, it also affects the probability to fund the transactions because if the merchants are trying to sell in a certain period of time, of course it affects the probability to make more repayments.

And about the segment, the second question, what we have seen is the following. You've seen that there is a mix. Mainly the big merchants, they are not so well interested to fund or to finance their transactions, and it's the reason why when you take a look now at revenues, you can see that our revenues increased from BRL120 million to BRL137 million. Okay?

Q - Daniel Abut {BIO 1505546 <GO>}

So if I understood correctly, Romulo, the latter part of your answer is that there's has been a change in the mix. You're doing more prepayment with smaller merchants and less with larger merchants that are less interested. Is that correct?

A - Romulo de Melo Dias {BIO 2054119 <GO>}

It was the reality. It doesn't mean, on the other hand, that we are not focused on corporate clients. We are focused on corporate clients. And by the way, considering the new scenario that you are facing right now in terms of the lock-in and the price of the new lock-in, I would say that we continue to have the expectation that they continue to grow in both segments, corporate, middle markets and as well the retails.

But in this momentum what you're seeing that the small merchants are more interested to anticipate. But I'd also like to make a point that, as I said in other conference calls, that we firmly believe that this business has -- it's not very easy at all to have, let's say, 20% penetration considering the fact that the banks are able to anticipate not only the performance sales but as well the non-performance sales.

So if you remember in other conference calls, I mentioned that in the future this business would be more related to banks because they are able to anticipate $1 in performance sales and $8 in non-performance sales, which does not mean at all, at all, that Cielo is not interested to work with corporate, middle and small clients. We just have, let's say, to build depths at -- the penetration of -- 20% above would be something really difficult to achieve considering the scenario.

If you ask me about our expectation for this product, I would say that we continue to have very good expectations, mainly in terms of records. We'll continue to focus because prepayment for us is really, really a key for us in order to be well-positioned when talking to our merchants.

Q - Daniel Abut {BIO 1505546 <GO>}

So you're again directly saying that the spreads that we saw on average in the Second Quarter may be kind of sustainable, because you are going to prioritize revenues and you're going to continue to do business mostly and predominantly more with the smaller merchants than with the larger merchants.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Yes. If the mix changed, if you -- and we expect that we are going to work more with corporate and big names, of course the spread will not be the same.

Q - Daniel Abut {BIO 1505546 <GO>}

And on the answer that you gave me to the first part of my question, are you saying that merchants have been trying to push more transactions done without installments, i.e. in one shot or with installments but with the lower number of installments, as opposed to over 10 installments?

A - Clovis Poggetti Junior

No. Hi, Daniel, it's Clovis. What Romulo mentioned was that if we compared the average number of installments that we have in the Second Quarter to the ones previously in the Fourth Quarter, for example, in the past week, the number of installments averaged 4.5, and now we are operating with 3.5 number of installments, okay. That's the (inaudible).

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Yes. With the facts -- it's the reason why the tenure in terms of prepayment was already reduced -- was also reduced.

Q - Daniel Abut {BIO 1505546 <GO>}

But the percentage of transactions are done when installments have remained pretty much the same -- it used to be above half of all transactions in credit cards. I mean installments have not changed.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Yes.

Q - Daniel Abut {BIO 1505546 <GO>}

It is the average installment will have changed.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Yes. The mix between the products is the same but the average number of installments have decreased, from the 4.5 to 3.5.

Q - Daniel Abut {BIO 1505546 <GO>}

Perfect. Very clear now. Thank you very much.

Operator

Craig Maurer, CLSA.

Q - Craig Maurer {BIO 4162139 <GO>}

Two questions. First, regarding large merchants. Are we at a point now where 100% of new large merchant contracts are processing with Cielo or your competitor or are there still some contracts still out there that have not begun processing yet? Secondly, regarding Elo, have we seen the first cards issued yet, and if not, what do you anticipate the timeframe is for that? Thank you.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

About the first question, I would say that we -- we've said in the First Quarter that we had 80% of our merchants had negotiated the contracts. What we haven't seen, after one year, in the new scenario, that some of the merchants didn't say anything to us about the fact that they would choose Cielo or not, so which is clear for us that, let's say, a good percentage of the merchants will continue to operate with more acquirers, with three acquirers, and also that the number was concluded. Because in our statistics we have that this number, 80% to 85% concluded the negotiation and the remaining didn't conclude, which is clear for us, as I said, that the remaining portion they were at-- let's say, took the decision considering the fact that we -- they continued to work with us and as well with other acquirers.

About the second question, I will ask Chedid to address your question.

A - Eduardo Chedid {BIO 16447904 <GO>}

Yes. About Elo, we've concluded the migration of all our terminals, meaning that all our stand-alone POS terminals are already accepting Elo cards. And on the issuing side, around 250,000 cards have been already issued, and that pace is basically picking up as banks start to really pick up on issuing. They are actually issuing both directly as well as through the Elo promotora street shops. So basically, Elo is already a reality. It's still 250,000 cards, but picking up.

Q - Craig Maurer {BIO 4162139 <GO>}

Okay. And are we seeing the Elo issuance at the expense of -- well, considering the banks are active with Elo, are we seeing the Elo issuance mainly at the expense of new Visa card issuance?

A - Eduardo Chedid {BIO 16447904 <GO>}

I wouldn't say that right now. It's still too early in the game. It's basically new accounts that have been issued with the Elo brand.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

And if you consider, Craig, the new, let's say, customers that are not working with any product, we are talking about new customers, a new market. But of course, if you talk about the current base, the current clients that the bank have, it's going to affect in the future not only Visa but as well the other banks, not only Visa.

Q - Craig Maurer {BIO 4162139 <GO>}

Yes. Thank you.

Operator

Victor Schabbel, Credit Suisse.

Q - Victor Schabbel {BIO 17149929 <GO>}

Just a follow-up question on Daniel's question about the prepayment. This quarter you have a strong revenue generation coming from the prepayment, but also a higher financial expenses as well. So the question is how sustainable -- or how should this lines basically behave in the coming quarters. So basically, the higher spreads boding well for the prepayment revenues, but the financial expanses coming in the similar BRL70 million we had during the second Q. How should we work with these lines going forward? Thanks.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

I will start with the financial expenses, okay. It's very important considering that for this level of prepayment, okay. And in the case we use our cash for something else, then we may consider this new level of financial expenses as a good proxy, okay?

When I say use our cash for something else but repayment, I'm going to give you an example, for dividends. And in this case, please do not forget that according to our policy we pay dividends twice a year, okay. In terms of how sustainable is the business? Since the beginning we say that this is a start up for us. In this quarter we prepaid 7.2% of our financial volume, credit volume. We are focusing the small and medium version.

We have our targets, okay. We are still not giving a specific guidance for the prepayment, but we always said that the number should be above this. But not the one that the market or my main competitor is prepaying, okay? We always say that we believe part of the business shall migrate to the banks given the fact that for the big guys, the banks can be considered almost a one-stop shop, okay?

I don't know if I answered well your question.

Q - Victor Schabbel {BIO 17149929 <GO>}

Yes, sure. Thanks, very helpful.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Okay. You are welcome.

Operator

Carlos Macedo, Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

I just have a couple of questions. The first question is actually based on the home loan, what you said about the guidance. And you were talking about staying at BRL0.41 per transaction. This obviously needs to take into account the fact that the franchise fee payment that you make to Visa will go up in the second half of the year. I was just wondering if there will be enough that many of the other lines and expenses or costs, maybe something like marketing, which has come down significantly this quarter?

The second question is related to the rental revenues. We did see the rental revenues, particularly on the average rent per terminal declined this quarter. I was wondering if you could comment a bit, give us some color on how the renegotiations are going with the smaller merchants, and particularly since the rental -- the rent that you charge is used as a mechanism or tool to keep -- to improve -- to keep the merchants within your base. And how much do you think is already negotiated with these merchants and what could be the impact on that going forward?

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Okay, Carlos, thank you for the questions. About the guidance? Yes. We said that would be almost BRL0.41, and it already includes the higher fees that we are going to pay to Visa. And also the market that we -- as you can -- as we showed to you, we had a reduction in the market expenses. But if the market expenses go -- be another one --- a lower one as we -- as you had in the Second Quarter. Some can go up. But what I suggest to you that considering the whole cost plus expenses per transaction is BRL0.41, including the higher fees that we're going to pay to Visa. So markets can go -- went down --what we're trying is to control the whole as a piece that we have in our hands in order to deliver as much as you can the guidance that we provide to you.

About the rental revenues, if I got your point with the smaller merchants, we have a strategy -- it's not just a question when you talk about the small merchants, is to reduce the rent. We have, let's say, more than 12 steps more than -- we developed some important tools such as Cielo loyalty and such as Cielo Premier. These important tools are helping us in terms of, let's say, to keep the clients with us, plus technology, plus innovation, plus other things.

But regarding specifically to your question, rental revenues, I would say that the -- and one of the reasons why we didn't provide the guidance for rental revenues that we are, let's say, we don't have the same confidence that you have with the level of information that you have today for the net MDR. We don't have the same level of comfort about the rental revenues. But I would say -- I would say that we -- the pace would be almost the same that you are having considering the First Quarter to the Second Quarter.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay, Romulo. Thank you.

Operator

Marcelo Martinez, JPMorgan.

Q - Saul Martinez {BIO 5811266 <GO>}

This is Saul Martinez from JPMorgan. Marcello must be another guy. It's just a couple of quick questions. Most of my questions have actually been asked. And I hate to be the dead horse on the cost question. You may have addressed it, but I think I missed it. To be perfect, to be a 100% clear, the unit cost of BRL0.406, that is for the full year 2011. In which case in the first semester you had BRL0.387, which would imply in the second half that would be something higher than that or is the BRL0.406 what we should expect just for the second half?

And I apologize if you had answered it, but I must have missed it and it's still a bit unclear in my head.

Then, secondly, just on the competitive dynamics, if you can just talk a little bit about whether you are seeing any new competitors, specifically Santander, show up in any of the competitions or are they -- or do you see them with larger merchants, and if you could just comment and update us in terms of what your updated views are on potential new competitors and their impact on the market?

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Regarding your first question, what did I give in terms of guidance, is that for the whole year, 2011, okay, cost plus expenses together, excluding the fact of our controlled company, shall be -- this -- close to BRL0.41, okay. Which means that in the case we had in the first half of the year, BRL0.387 -- I'm saying here that we do expect to have a higher cost and expenses per transaction. And why? Don't forget that starting July this year, we had, for example, an increase in the grant fees, okay.

Q - Saul Martinez {BIO 5811266 <GO>}

Yes.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Another example that we may face close to Christmas, more expenditures in terms of logistics and et cetera. I think my question then, is this clear for you?

Q - Saul Martinez {BIO 5811266 <GO>}

Yes, no, it's 100% clear now. Thank you. I just wanted to make certain I understood it.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

So about your second question, competitive dynamics, Santander and others, what you are seeing in the Brazilian market is that Santander, let's say, is a peer and we are, let's say, meeting with Santander and some clients, and we do respect Santander. And their order acquirers are not ready. They visit some clients, but they're not ready to in terms of technology and other aspects.

But the level of information that we have considering the new competitive dynamics in the Brazilian market and as well with Santander approach, allow us to give this guidance for the, let's say, the last quarter of this year. But if for some reason that we do not control, something appears, and then it's necessary to make an adjustment in terms, what's going on the competitive dynamics, as we said during my speech, we will provide, let's say, the whole market -- enough data in terms of the information.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Great. And just one quick follow-up on costs. I mean, obviously, this new competitive landscape, the brand fees are being recalibrated which puts pressure on your unit cost. But looking out over a couple of years, it seems to me this is business where unit cost tend to fall over time. Is that a scenario that you still see playing out when you look out over a couple of years? Do you expect unit costs to -- once we see a sort of -- if you can call it a stabilization in the competitive backdrop, do you see this being a business where your cost per transactions against are to decline, maybe not at the rate they did in '07, '08, '09, but at some rate which allows you to benefit from economies of scale or is that played out already?

A - Romulo de Melo Dias {BIO 2054119 <GO>}

You're completely right. We should expect the coming years the benefits from the scale.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Okay. Great. Thank you very much.

Operator

(Henrique Cordeiro), Barclays Capital

Q - Henrique Cordeiro

Thanks for the questions. All my questions have been answered at this point. Thank you.

Operator

Alexandre Spada, Itau BBA.

Q - Alexandre Spada {BIO 16687974 <GO>}

I have two quick questions. The first one is, can you provide a update on the project of capturing AmEx? How's that going?

And the second one is, can you provide a breakdown between Visa and MasterCard based on the second Q of volumes you captured? Thank you.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Alexandre, in terms of AmEx we -- what we can you tell you is that the number of active merchants that are working with our AmEx more than once -- it's three times more. Okay, we continue to work and to develop a very good solution for our merchants and for our clients. So AmEx is a key component of our strategy, is increasing the penetration of AmEx related to the merchants because, as you know, in Brazil we didn't have -- AmEx didn't have the same level of penetration due to the fact that not so many merchants were working with AmEx. So AmEx is really going well.

And your second question is related to?

Q - Alexandre Spada {BIO 16687974 <GO>}

To the volume breakdown between Visa and MasterCard. Can you tell us --

A - Romulo de Melo Dias {BIO 2054119 <GO>}

We are not providing this level of information. But what I can tell you that MasterCard continues to increase and to increase a lot in our portfolio, and it's becoming more and more important in terms of our net MDR and our solution for the merchants.

Q - Alexandre Spada {BIO 16687974 <GO>}

Okay, fair enough. Thank you.

Operator

Paulo Ribeiro, HSBC.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

I just want to confirm -- my answers have been mostly answered already -- my questions, sorry. And I want to confirm that when you talk about guidance for POS investment, that you've done 98 so far in the first half of the year, that the BRL210 million, BRL230 million that you are giving us as guidance is for the full year and not just for the second half, because it -- and it's a bit confusing in the table here?

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Yes. We increase the level of cutbacks for the second half from almost BRL100 million to BRL210 million and BRL230 million because we are increasing. And the GPRS continues to be more and more important in our portfolio because we -- we're seeing that the merchants want to have mobility, the merchants does not -- they don't want to pay for the telco's expenses. So this is the reason why we are expecting to grow in the case of POS.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Yes.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

So which means the conclusion for the full year, you should take the number between BRL310 million and BRL330 million, okay. This BRL210 million to BRL230 million means what we expect to have in terms of investment in POS for the second half of 2011.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Okay. And in terms of -- so of prices that you've been paying for POS, have them -- they've been declining. Is this one thing that where you are getting the benefit of scale by buying in bunch or also by technological development and things like that or also the prices have been increasing not just that you're increasing the number of units that you're buying, but prices are also going up?

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Paulo, we're already one of the largest, probably the second largest buyer in case of POS in the world.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

I know.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

So we already have the benefits of the scale. You have a very good price when dealing with the suppliers. So I wouldn't expect a reduction in terms of the price per POS because we already have a very good one.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

But in terms of -- in general, the new POS that you're buying are more expensive, right. That's why you are increasing the guidance for the second half of the year.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Yes, yes.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Okay. Thank you.

Operator

Domingos Saluvina, UBS.

Q - Domingos Saluvina

My question also is regarding the prepayment of receivables. Actually, we had an understanding here that acquirers had a tax advantage (inaudible) a tax advantage of performing this operation.

Checking with some banks here we came across some of them claiming they are able to perform it without any kind of IOF increase, and instead of just having the account locked, they have also the receivables. So the acquirer will have to transfer the right of the receivables and also lock the account when the banks could perform it in some structuring in which they will have any extra tax burden. Does that apply to Cielo? Is that correct? Or did we get a wrong understanding?

A - Clovis Poggetti Junior

Look, Domingos, what I can tell you is the following. For us, the prepayment business is considered from a legal perspective as a commercial discount, and being so, that's why we do not have this IOF and some other taxes, okay. I cannot tell you how the banks treat such a product from their side.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

But what's important to understand, Domingos, is that we didn't reach a maturity of prepayments. We continue to, let's say, to have good expectations about the products. While the fact that the revenues present a very good performance in the Second Quarter compared to the First Quarter just confirm our status. And in terms of penetration, 7.2%, even though being flat compared to the last quarter, we expect to increase, not on the same level that you're increasing the quarter before, but we see room to, let's say, to grow in this line of business.

A - Clovis Poggetti Junior

And you know, Domingos, its important also to remember -- I mentioned before that from a big merchant perspective, the banks, prepaying with the banks, can be considered as a kind of one-stop shop. And why? Because we -- because Cielo, the acquirer, we do not have the (inaudible), which means that we only prepay what was already performed, okay. And sometimes this can be seen as a limitation from the -- for the big merchants, okay. That's the underlying explanation what I mentioned before about the one-stop shop.

Q - Domingos Saluvina

Yes, I understand the leverage on the receivables and the reason why some merchants even prefer, they don't consider it to be a loan. But it's just that I caught their attention the -- this giving away the receivables and how the bank could do it too.

The second question, very briefly, I noticed the basis points that you had a very small reduction basis, 2 basis points in debit. And on the explanation you mentioned interchange fee. Could you explain a bit? It was not as an explanation for the credit MDR, but it was for the debit. Could you explain a bit this interchange fee exactly?

A - Romulo de Melo Dias {BIO 2054119 <GO>}

You're talking about decrease in terms of the net MDR for debits? Sorry.

Q - Domingos Saluvina

The net MDR for debit, yes. One of the reasons for the increase in interchange fees. I was wondering if it is that reason to --

A - Clovis Poggetti Junior

No, not in the interchange fee -- sorry, not in the interchange fee, Domingos. The decrease is mainly due change in the mix -- the increase in the agribusiness in this second half compared to the previous one, and the agribusiness is a product because of it's a higher ticket, okay? The price for this both gross MDR and also interchange are quite different and quite lower compared to our regular debit transaction. That's what we mentioned before. Okay?

The decrease of 2 bps in the net MDR for debit is directly related to the increase of agribusiness in the mix of the debit product.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

And in the Second Quarter and the First Quarter usually because of the special, say, characters of the product. It's the two quarters when we the product has a better performance. In the Third Quarter it is going to be higher, the performance of agro business and, of course, agro cards.

Q - Domingos Saluvina

Understood. Thank you. And congratulations again on the results.

Operator

(Operator Instructions)

Daniel Abut, Citi.

Q - Daniel Abut {BIO 1505546 <GO>}

Just as quick follow-up, Romulo, and related to a prior question. When I look at your guidance for net MDRs in credit and debit, I realize that you are kind of expecting a similar decline in both in the second half of the year in order to get you to that level by the Fourth Quarter, i.e., something in the 1 to 5 basis point, or 1 to 6 basis point, which surprises me, because up until now, most of the decline has happened in credit and because credit is starting from a higher base, it had more to lose.

Why your expectations, I mean, in the second half, we're going to see similar pace of the decline at both? Is it related to Agro card? That you continue to expect an increase in the mix in the participation of Agro card transactions? Otherwise, it's difficult to understand why you expect similar decline in both.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Yes, you have a good point. Your answer is correct as well. When you pay incentives to banks, you also consider a reduction in both credit and debit.

Q - Daniel Abut {BIO 1505546 <GO>}

Just to be conservative or you do see that happening? I mean, I would imagine, again, even where Brazil is compared to other markets, it says that there was much more room to decrease prices on the credit side than on the debit side.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Yes, let me try to answer in another way. You're asking me why -- what's the difference between -- why we're having, let's say, almost the same level of decrease in terms of expectation by credit and debit? That's right?

Q - Daniel Abut {BIO 1505546 <GO>}

Right. Because this -- even in this quarter, with the Agro card impact, you have 5 basis points decline in credit and 2 basis points in debit, and you are assuming that in the second half you are going to see a similar decline in both.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Yes. There are two answers, as I said. One is related to Agro card and the second is related to the incentives that we pay to the banks. When you pay incentives to the banks, you reduce our revenues proportionally in the credit and the debit.

Q - Daniel Abut {BIO 1505546 <GO>}

Okay.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Did you get it? Okay.

Q - Daniel Abut {BIO 1505546 <GO>}

Understood.

Operator

I am showing no further questions at this time, so this concludes the question-and-answer section. At this time, I would like to turn the floor back to Mr. Romulo Dias for any closing remarks.

A - Romulo de Melo Dias {BIO 2054119 <GO>}

Okay. I'd like to thank you all for participation and reiterate what I said earlier, that we are going to continue to leverage our competitive advantage as a market leader with the largest distribution network of an extremely reliable product, not just in availability, but also in security.

We continue to focus on innovation for products that effectively add value to merchants, and with that, build excellent relationships with them, which we are certain will be fundamental in the new market.

Finally, I'd like to stress our commitment to transparency with the quality in everything that we do, respecting all our stakeholders and always guided by the best corporate governance practice to add value for our shareholders. Thank you 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.