

## Q1 2022 Earnings Call

### Company Participants

- Filipe Augusto dos Santos Oliveira, Executive Director and DRI
- Gustavo Henrique Santos de Sousa, Chief Executive Officer and DRI

### Other Participants

- Tito Labarta

### Presentation

#### Operator

Good morning everyone, and thank you for waiting. Welcome to Cielo First Quarter of 2022 Results Conference Call. With us here today we have a Mr. Gustavo Sousa, Filipe Oliveira, Daniel Diniz, and all the company's executive officers.

This event is being recorded and also is being broadcast live via webcast and maybe accessed through Cielo's website at [ri.cielo.com.br/en](http://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 may be answered soon. Before proceeding let me mention that forward statements are based on the beliefs and assumptions of Cielo's management and information currently available to the company. 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 on 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 it to Mr. Gustavo Sousa for opening remarks.

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

Hello, thank you for joining our earnings call. Before opening for Q&A, I would like to start this conference with some highlights from our first Q 2022 results. Our bottom line

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reached BRL185 million in the quarter, printing a 36% growth year-over-year on a recurring basis. Adjusted net income growth came strong, despite the pressure in our net investment revenue, due to the hike in the SELIC rates as compared to the first quarter 2021.

Our operational trends remained solid. We posted strong growth in recurring EBITDA both at Cielo and Cateno. At Cielo this metric showed an increase of almost 40%. Our acquiring core business keeps improving as a result of the measures we've been implementing in the last several years. It's important to note that we start to see more rationality in the competitive environment, which is important to maintain this trend.

Operational performance was pushed by higher volumes, growth in the prepayment business, and discipline in costs. TPV grew 24% year-over-year, it's the best first quarter in terms of TPV ever. TPV performed well in SMB and even better in large accounts, where we saw a growth of 30%. It's worth mentioning that we haven't changed our strategy in the large accounts segment. We stay committed to prioritize profitability over volumes, growth gained because these large accounts, customers have a good perception of the value we deliver to this segment. And because our commercial teams have been gaining productivity both in the SMB and in the large account segments.

We keep fostering the prepayment business reaching an all-time record in capital allocation in acquisition of receivables and automatic prepayment, which is a result of our strategy to diversify revenues and optimize returns of the company's cash position. Following the increase in volumes and prepayment we also saw an acceleration in our revenues with a growth of 13%.

In the first quarter, we didn't have the full impact from repricing. We initiated these measures in January with a gradual approach, which generated somewhat limited impact on the reported revenue here in the first quarter. In the presentation available in our site, we shared revenue yield information from April. Looking at the cost side, we saw again a nominal drop in normalized expenses, even with an increase in the initiatives we are making to improve service quality, and with a challenging environment in terms of inflation. We are carrying our cost-cutting efforts carefully with responsibility, establishing a strong cost control culture in the company.

We had a good quarter indeed and not only because of financial performance. In the first quarter, we announced the sale of MerchantE. This transaction was a milestone for us since it represents the end of the divestment cycle and allows us to turn the page and to concentrate all of our efforts on the core business and to keep evolving the implementation of our strategy. Looking forward, we will prioritize even more our capacity to attract and retain customers. We have an objective to resume growth in our client base. We understand that changes in the commercial strategy of our main competitors, which increased the size of their sales teams drove a hike in structural churn of the industry, a reality we will need to cope with to reach that target.

We are evaluating alternatives to curb churn and keep increasing productivity on the different distribution channels. Expanding the sales team is always a possibility, but we will

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be very careful when it comes to increasing the size of our salesforce. We don't want to indefinitely keep increasing salesforce, continually expanding Cielo's and the industry's cost structure. However, we will be stand our share in the SMB segment and seek to resume growth in our customer base.

Finally, I would like to emphasize our commitment to reposition Cielo in terms of quality of service. We presented in our previous earnings calls, milestones related to improvements in our operations. Our focus right now is to end the cycle of business transformation, requisition Cielo's perceived a service quality.

Once again, I would like to take this opportunity to thank our shareholders for their trust and our employees for their dedication.

We can now move to the Q&A section. Thank you.

## Questions And Answers

### Operator

(Question And Answer)

Thank you. Mr.Gustavo. This floor is now open for questions. (Operator Instructions) Our first question comes from Tito Labarta, Goldman Sachs. Please proceeds.

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

Hi, good morning. Thank you for the call and taking my question. A couple questions. First on the revenue yield, you mentioned it increased to 76 basis points in April, so just to understand, why sort of the sudden increase in April when in 1Q, I mean you were only slightly higher than in 4Q. So did something change in your strategy on the repricing in April? And is that something that can continue? Would that have any impact on churn?

And then my second question is more related to Cateno, you mentioned they had lower operating losses and also reimbursements related to Ourocard, just wanted to understand, is that recurring, is that one time? I think it was like 53 million, just to understand the recurring nature of that or some of that is one time. Thank you.

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

Filipe?

### A - Filipe Augusto dos Santos Oliveira {BIO 16681552 <GO>}

First on your revenue question, indeed we had a discussion of our repricing strategy during the course of April. What we did in January was basically started repricing, trying to understand how the market was going to respond and trying to understand what the churn levels will be. And we gave ourselves a few months to measure the effects of those

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repricing initiatives. And what we've seen is that churn has been lower than what we expected, that's one.

And second, the competitors started repricing at even higher levels than what we expected. So, with this new information, we decided to move forward with a little bit more of an aggressive approach and this requires repositioning. And that's why we have this higher yield in April. Looking forward, we don't really give any guidance looking forward what we -- the number that we gave is already in our view some sort of formal guidance regarding the quarter. However, we are going to continue measuring what's -- what's happening in terms of churn, we're going to continue measuring what's happening in terms of pricing with the competition, and we'll adjust our strategy as time goes by, if there is no progression.

Regarding Cateno and Cateno costs, basically the lower losses that we see in Cateno are the result of increased efficiency in managing losses, and managing fraud, has been done in the side of Cateno, and we understand that those operational improvements are -- they are recurrent and they will keep benefiting in the future. Of course the company has some sort of losses risk, and we will never know how it's going to behave in the future. However, the company has been improving its capabilities in that sense.

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

Great. Thanks. Just one follow-up on Cateno, first on the reimbursements related to Ourocard, can you quantify that and is that recurring or is that one time?

**A - Filipe Augusto dos Santos Oliveira** {BIO 16681552 <GO>}

We had a variation. So if you're comparing year-over-year, last year we had a reimbursement that was returned. So basically, you have a good quarter and that can change over every quarter. Last year we had reimbursement that has been returned to the -- from Cateno. So, that's almost non-recurrent because we shouldn't see that level of payback from Cateno and when we look at this quarter, we have 8 million that has been paid through Cateno from Banco do Brasil. And that could be recovered, we don't know we don't know exactly what the level is. It depends on exactly what the volume is going to be another variance in the contract. So we can't really give any guidance, but it is expected that the number that we had last year is probably not going to repeat itself. Okay?

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

Okay. And sorry that number from last year is that related to the 8 million from Banco do Brasil or --

**A - Filipe Augusto dos Santos Oliveira** {BIO 16681552 <GO>}

Last year is minus 20 that you see in the yearly comparison for the first quarter of 2021. That's a minus 20.5.

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

Okay. Perfect. Thanks a lot. If I can ask just one follow-up on the -- are you still repricing into May have you paused that, just to get a sense of -- is there some more offside, I know you don't give guidance, but just is that -- are you still in the repricing mode?

**A - Filipe Augusto dos Santos Oliveira** {BIO 16681552 <GO>}

(Technical Difficulty)

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

Sorry Filipe, you cut out for a minute. So I don't know if it was me, but I didn't hear your response.

**A - Filipe Augusto dos Santos Oliveira** {BIO 16681552 <GO>}

Can you hear me now.

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

Yeah, okay.

**A - Filipe Augusto dos Santos Oliveira** {BIO 16681552 <GO>}

Yeah, so basically we're going to keep looking at the market dynamic and see how it's going to evolve over the last -- over the next months and we -- strategy from there. We don't have a strategy set out for me yet.

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

Okay, perfect. Great. Thanks a lot for me.

**Operator**

Excuse me, this concludes today's question-and-answer session. I would like to invite Mr.Gustavo Sousa to proceed with his closing statement. Please go ahead sir.

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

Thank you everyone for participating and if you do have any other questions, please follow-up with our IR team. Thank you very much. See you next time.

**Operator**

That does conclude Cielo conference call for today. Thank you very much for your participation and have a nice day.

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