FINAL

Bloomberg Transcript

Q4 2011 Earnings Call

Company Participants

- Clovis Poggetti, CFO/IRO
- Eduardo Chedid Simoes, EVP of Products and Business Development, Strategic Planning and Projects Departments
- Roberta Noronha, IR
- Romulo de Mello Dias, CEO

Other Participants

- Alexandre Spada, Analyst
- Carlos Macedo, Analyst
- Craig Maurer, Analyst
- Jorge Kuri, Analyst
- Mario Pierry, Analyst
- Paulo Ribeiro, Analyst
- Saul Martinez, Analyst

Presentation

Operator

Good morning. Welcome everyone to Cielo's Fourth Quarter 2011 earnings conference call. At this time all lines are in listen-only. Later there will be a question-and-answer session and instructions to participate will be given at that time.

(Operator Instructions) As a reminder this conference is being recorded. This conference call is being broadcasted live on www.cielo.com.br/ir. We remind you the questions for the q-and-a session may be posted on that website.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Cielo management and on information currently available to the Company. 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 would like to thank you all for joining us as we present our results for the Fourth Quarter and the year of 2011. With me today are Romulo de Mello Dias, our CEO, Clovis Poggetti Junior, our CFO and IR Officer, and our management team. Romulo will now begin our presentation.

Romulo de Mello Dias {BIO 2054119 <GO>}

Good morning, everyone. Thank you for joining us for another results conference call. The Fourth Quarter of 2011 reports a record net income as a result of our strategy of differentiation. We continue to consolidate our relationship with banks to guarantee distribution, promote new products such as Cielo Premia and guarantee availability and security of our network with the most modern device.

Besides we foster closer relationships with our clients through our sales team in tools like Cielo Fidelidade that today has more than 220,000 clients. Given our growth, we invest BRL360 million in POS in the year 2011. For 2012, our estimate is to invest BRL300 million and even more if required to support the continued growth of the Company.

On slide 3, we have some highlights of the quarter and the year. Net income totaled BRL505 million, up 14% year-on-year with net margin 37%. Adjusted EBITDA was BRL833 million, increasing 16% of the same quarter of the previous year.

Year-on-year, our financial volume grew under both criteria we have been presenting. Under the market criterion in which installments are recognized at the time of the purchase, volume was up 26% and under accounting criterion it was up 23%.

Credit volume was up 25% over Q4 and debit volume 21%. Our net operating revenue plus prepayment of receivables adjusted to present value totaled almost BRL1.4 billion at 21%.

For the year net income was BRL1.8 billion, flat over 2010 with margin 38%. Adjusted EBITDA closed the year at BRL2,975 million with margin 62%.

On slide 4, I'd like to talk about our (delivery) with regards to the guidance disclosed in Q2. We were pleasantly surprised with our numbers with regard to the merchant discount rate; growth in Q4 above the range we had expected both with credit and debit. The credit net MDR for the quarter was 119 basis points while the guidance range was 112 to 116 and the debit net MDR was 81 basis points.

We also gave guidance for second half growth of total financial volume between 19.5% and 21.5% over the same period of 2010. This growth was actually 21% reaching BRL171 billion. Second half investment in POS basis was forecast between BRL210 million and BRL230 million while in the period the number was over BRL270 million.

We want to emphasize that this number, although above guidance, were in response to an increase in clients that we're seeing in Q4. For instance, we have 1.2 million active clients.

Also we financed BRL150 million of these investments with BNDES, an operation that Cielo was the first one to pursue. Finally with regards to costs and expenses, our guidance for 2011 unit cost plus expenses excluding subsidiaries was Q4 number of 2010 unit level which was BRL0.41 per transaction.

On the next slide number 5, I want to show the break-down of financial transaction volume among market participants based on public available data. The graph on the left shows the break-down between Cielo and our main competitor, and you can see that in Q4 we gained 1.6percentage points market share.

On the right, we have the same analysis considering the prior quarters. In this case, our market share increased 1.3percentage points over Q3. It's important to point out that our market share gains in this quarter were not driven by any change in our pricing policy.

On the contrary, our credit net MDR increased from 118 to 119 basis points and the debit from 77 to 81 basis points. In other words, our focus will continue to be profitability. We believe that this volume increase is the result of our strategy of differentiation, which our clients are perceiving and recognizing.

Our focus is growth with profitability. In 2011, we are consolidating our position by investing BRL300 million -- almost BRL300 million in POS to fetch more affiliated merchants.

Now I'd like to hand you to Clovis Poggetti who will take it from here.

Clovis Poggetti {BIO 16529642 <GO>}

Thank you, Romulo. Good morning everyone. On slide 6, we start the detail of Fourth Quarter performance and show the key indicators compared year-on-year and quarter-on-quarter. For credit, net MDR fell 12 basis points over the same quarter of the previous year, but at a 119 basis points it was up 1 basis point quarter-on-quarter.

For debit, net MDR closed the quarter at 81 basis points, up 4 basis points both quarter-on-quarter and year-on-year and this mainly because price renegotiations.

On slide 7, we have the annual comparisons. We can see here that our financial volume continues to show solid growth, up 21%, but revenues were negatively impacted by the 16 basis points decline in the net MDR even though our revenue increased 10% year-on-year. Net income remained practically stable in comparison with 2010.

On our next slide, number 8, on the upper left we can see that the number of transactions was up almost 18% over Fourth Quarter 2010. In 2011, we processed 4.6

billion transactions. On the right graph, we see the 23% increase in transaction financial volume of credit and debit captured in the period, which totaled BRL91 billion.

In 2011, the financial volume captured by Cielo was BRL316 billion. On the left graph of this slide, we have the number of active clients. Active clients are those that have carried on a transaction in the past 60 days and this figure was at 5% over Fourth Quarter 2010 to 1.2 million.

On slide 9, we have the break-down of our client profile. Since the beginning of the multi-brand scenario, medium and small clients have increased slightly in terms of relative volume and revenue. In the Fourth Quarter 2011, they represented 41% of our volume and 68% of revenues from commissions and rentals.

On slide 10, we have the evolution of our revenues from commissions and POS rentals. Revenue from commissions was up BRL140 million, or 16% year-on-year mainly due to the 23% increase in the transaction financial volume partially offset by a reduction in the gross MDR and payment of incentives to partner banks. In 2011, our revenue from commissions represented BRL3.3 billion.

Revenue with POS rentals was up 7.5% year-on-year with a 16% increase in the installed base, enough to offset the 7.5% decline in the average rental price which closed the quarter at BRL67 per month per device. Rental revenues totaled BRL1.1 billion in 2011.

On slide 11, we have some information about our prepayment of receivables operation which has grown gradually while maintaining levels of return. In the upper graph, we can see the prepayment of receivables generated BRL193 million in revenue in the quarter, up 21% quarter-on-quarter.

On the lower left, the prepaid financial volume grew for the 10th consecutive quarter reaching BRL4.9 billion or 8.7% of the total credit volume. The average term of operations in the Fourth Quarter 2011 held stable at 56 days as most clients of this product are small retailers. In 2011, prepayment revenues increased 62% reaching BRL587 million.

On slide 12, let's talk about costs. The cost of service provided was BRL406 million in Fourth Quarter '11, up 14% year-on-year and 11% quarter-on-quarter. We have a cost analysis here where we eliminated the impact of our subsidiaries and additional brands fee.

This is important because it let us compare our performance in cost control on an equivalent basis. As we can see and as a result of this analysis, our cost in absolute value will be 6% greater than the one in the same quarter of 2010 and 14% greater than the Third Quarter '11.

Looking at unit cost in yellow on the slide, according to the same methodology, the reduction would have been 9% over the Fourth Quarter 2010. And finally, if we exclude depreciation, to eliminate the fact of the change in the POS mix the reduction in unit cost would be a significant 12%.

In the same analysis, but quarter-on-quarter, the unit cost would have been 2% higher, and without depreciation 4%.

On the next slide, number 13, we have the same analysis for the annual comparison. Excluding subsidiaries and additional brands fee the absolute cost would be 6% greater than the one in 2010. Looking at unit costs, again in yellow and according to the same methodology, the cost fell 7% over 2010.

And finally, if we exclude depreciation to eliminate the impact of the change in the POS mix, unit cost would have fallen 10%.

On slide 14, we have our operating expenses in the quarter, which reached BRL208 million, up 59% over the Fourth Quarter 2010 and 25% over the Third Quarter 2011. These increases are (particularly) due to increased commercial and marketing expenses.

In addition to the traditional market expenses, that is institutional marketing and others, this line also includes other proven initiatives that are chiefly responsible for this increase. Among these initiatives are campaigns we carry out with partner banks like Caixa, Bradesco and Banco do Brasil and brands like Elo.

Also in this line are actions with major gas station chains and with franchisers as well as the new client loyalty program, Cielo Fidelidade.

On slide 15, we have our operating expenses for the year. These total BRL634 million, up 44% over 2010. As you can see on the graph, the two key lines impacting our expenses in the year were commercial marketing expenses. As already mentioned, commercial marketing expenses were impacted by the new initiatives that we believe were key in generating revenue, especially the actions with partner banks and directly with retailers as was the case with gas stations and franchisers.

The increase in other operating expenses was mainly due to the new provisions for tax, labor and seasonal contingencies in 2011.

Adjusted EBITDA shown the last on slide 16 totaled BRL833 million in the quarter, up 16% year-on-year and 12% quarter-on-quarter. In the Fourth Quarter '11, EBITDA margin was at 60%.

Net income totaled BRL505 million in the quarter, up 14% over the Fourth Quarter 2010 and 10% over the previous quarter. Net margin was at 37%.

Thank you for joining and now we'll take your questions. Operator, please.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions) Craig Maurer, CLSA.

Q - Craig Maurer {BIO 4162139 <GO>}

Should the Itau bid for Redecard go through, it would seem to me that Cielo would have a material opportunity to gain market share among banks as Redecard's affiliating banks will now have the realization that they're 100% supporting a competitor's ability to compete against them. So is this something you've thought about that if Redecard becomes wholly owned by Itau that Cielo could take advantage of that feeling among other affiliating banks?

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

Hi Craig, thanks for that question. I think it's too early to say anything about this. We should also question Itau and Redecard directly what are its strategies.

But we do believe that Cielo has some, let's say steps and some things that we're trying to develop that differentiate ourselves. But again it's too early to say something and I understand that the idea to continue to work with our partner banks. But let's wait and see.

Q - Craig Maurer {BIO 4162139 <GO>}

Okay. And if I can just ask a question about the MDR, you said the debit MDR was up due to contractual negotiations. Could you just discuss a little bit what's going into that? It's a surprise that that would be going up versus going down. Thank you.

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

About the debit MDR, things happen and help I'd say in increasing the net MDR. The first one was related to I'd say the mix of the clients. We work -- we are not working any more with some clients that (we didn't) have the same, let's say a certain level of rentability and profitability that we want to reach.

And the second one was related to the renegotiation with some contracts, with some clients. We renegotiated some contracts. This -- so both -- two reasons why the net MDR was up to 81 basis points.

Q - Craig Maurer {BIO 4162139 <GO>}

And going forward should we expect a normal reduction in line with volume growth as contracts have been rewritten now?

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

About the trend of both MDR, we need to understand more and proceed in new environments what's going to happen with the new Redecard not being public and as well the competitors that are participating in the market. But of course there is something that's also related to our risk strategy.

Depending on the mix of the clients, the break-down of the clients that you have in our portfolio, if we increase more the big merchants, of course the net MDR is low when compared to the small and medium merchants. So far we are growing both let's say side of equations with big merchants and the small and medium merchants.

Q - Craig Maurer {BIO 4162139 <GO>}

Okay. Thank you.

Operator

Mario Pierry, Deutsche Bank.

Q - Mario Pierry {BIO 1505554 <GO>}

Let me ask you two questions, Romulo. I know we have discussed this many times before, but can you just remind us about your controlling shareholders' intentions of keeping Cielo as a public company, just given these recent events?

Then the second question is with regards to your expense base. We saw Redecard undergo a massive headcount reduction in the company that has been very beneficial for their operating margins. I know the companies are very different, but do you see also room for Cielo to focus on expenses to reduce personnel in order to improve margins? Thank you.

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

Thank you, Mario for that question. About the controlling shareholders, if they have the intention or not to keep Cielo public, I think this question should be sent to them. On our side, what we know that we don't have any information about that.

And I also like to point out that it doesn't mean if our main competitor had a different strategy that necessarily our shareholders will follow the same step. We have two controlling shareholders.

We have partnership with different banks. We have strategies that we're trying to follow and to deliver resources for 100% of the shareholders. So this is what I can tell you at this stage.

About the expenses, I think we need to look at the expenses and as well to the revenue. The expenses and the costs are related. Some of them are related to the efforts that we tried to pursue in order to provide more revenue in order to gain more clients, in order to have a higher percentage in the market.

We have campaigns such as Cielo loyalty, (DBM) banks, shopping and as well other such events, institutional campaigns, that at the end of the day, now in Q4, the number if we just take a look then expenses were not so good. But considering your model that the same level that you reach in 2011, which means 3.9%, so around 4% is going to be the number for 2012.

About the question, if you're going to follow or to do -- to reduce the headcount, we do respect what the market is doing but we have a different strategy. It doesn't mean that we are not concerned about costs and expenses. It doesn't mean at all.

It means that we are reinforcing our sales team, that we are investing in projects and service, that we're trying to deliver total value-added proposal to our clients, that at the end of the day they recognize, we expect at the least that they'll be able to recognize Cielo as let's say the charge for them.

So we -- the message about profitability, the message about expenses and costs, we are really concerned about this. But we are more concerned about if you do something that at the end of the day is not sustainable in the medium to long-term and will affect the profitability of the business, and profitability should take into consideration the bottom-line of the Company, I would say that we will not take this kind of decision because I think clients need to be serviced, clients need to be -- to keep in touch with the merchants.

It's not just about low cost, low fare. Our position is to have the best solution, the best value-added solution for our clients.

Q - Mario Pierry {BIO 1505554 <GO>}

Right. Thank you, Romulo.

Operator

Saul Martinez, JPMorgan.

Q - Saul Martinez {BIO 5811266 <GO>}

I also have a couple of questions and I understand the logic that you express that it is too early to really have an assessment of the Itau -- the implications of the Itau Redecard transaction, but maybe asking a broader question related to that, and it seems like you're seeing more -- a lot of your competitors are moving towards a model where the acquirer is fully owned by the bank. And the Itau Redecard, should that deal close, Santander/GetNet, even Citibank/(Yellowline).

And perhaps part of the logic is to be able to using the acquired to add value for the whole banking franchise as well through bundled products and whatnot. Curious what your take is on that strategy and what the pluses and minuses are of using an approach that more fully leverages the bundling of banking services with card acceptance and POS and prepay and core merchant acquiring business.

Then secondly on your marketing costs you've seen a big bump. Can you give us some color as to whether you see that normalizing in the next couple quarters? And can you give some guidance in terms of what a good run-rate might be either as a percentage of revenues or in absolute terms?

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

Okay. Thank you Saul for your question. About the first one, as you said I just wanted to say something, but I also would stress that there are many different strategies that can be followed by acquirers.

If you take a look what is happening in the world, you have monoline strategies such as the one that you mentioned Santander and Citi (and all of them), and the one that I don't know what's going to happen about Redecard. But there are also acquirers that work with many banks with different strategies. So I wouldn't expect to have just one model to be followed by Brazilian market.

Having said that I would say that Cielo is trying to develop it for each bank that has a very good relationship with Cielo, a different strategy, a different approach in order to work not only with Bradesco and Banco do Brasil, but as well as with HSBC, Caixa Economica Federal and others that we -- are available to work with Cielo.

About the second question, market expenses, I would expect -- I would give let's say a soft guidance to you, something around 4% of the revenues of the Company, okay? But marketing, not only market but also commercial expenses, sales expenses in terms of the net revenues.

Q - Saul Martinez {BIO 5811266 <GO>}

That's net including prepayment income?

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

Yes. And by the way was the number that we reached in year 2011. The Fourth Quarter of 2011 was above 3.9%, and some of the expenses that you had in Q4 don't expect to be -- that we're going to repeat this number, okay? So 3.9% as a whole was the number that we reached in 2011. Expect something around 4%, which in other words is going to be flat.

But don't forget please that it is not only related to market expense, to institutional banks. It's also related to the gas stations, to the franchise companies, some clients that you gain and as well, DBM, Cielo loyalty, many things that you're trying to develop in order to provide to our clients the best service and products that are available in the market.

Q - Saul Martinez {BIO 5811266 <GO>}

Thank you. And just to follow up on the first question and it's a follow-up on Craig Maurer's question as well. Do you think the monoline approach hurts banks, hurts acquirer's abilities to work with multiple bank partners?

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

If you have the ability to work with them?

Q - Saul Martinez {BIO 5811266 <GO>}

Yes, no, do you think a monoline strategy is -- negatively impacts the acquirer's ability if they choose to -- if they are partners, if they are owned by a bank, would there be an impediment for Redecard or other acquirers to really fully develop the relationships with other banks? Redecard did indicate on the call yesterday that they do plan to continue to work with multiple bank partners.

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

I think we should ask this question to them even though I would make my -- I will give you my personal opinion. It depends on the strategy of each bank. It depends on the target that each bank has. I like to say that at the end of the day the bottom-line for each bank is the result that they have from the acquirer side and from the banking side.

And normally, I heard -- I will hear some comments saying that okay, you are going to have a (subsidize), it's going to affect you, so on and so forth. But let's not forget that the banks, Banco do Brasil and Bradesco they have let's say adequate participation in Cielo.

So at the end of the day they receive, let's say -- concept that explanation, they receive the result that they have in banking plus the participation that they have directly in Cielo.

In other words, the bottom-line for banks like Banco do Brasil, Itau, Santander, at the end of the day they are competing among them and they need to deliver the bottom-line. If you upset the line of the acquiring business and as it gets like, okay, the acquiring business is going to suffer and in the future Cielo would suffer, I understand the comment. But in the long term, the result on the banks as a whole will appear. Not all in the short term or in the medium term.

Having said that I would come back to my previous comments saying that it's too early and the monoline is not the only one solution. And the monoline doesn't mean it's not equal that you are going to say and to provide something that will be much cheaper or not. Let's wait and see, let's see the behavior of each bank, how they act in other line of the business, how they are -- what's their focus, what's their intention as a whole and we need to see it to have a better understanding about it.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Thank you very much.

Operator

Carlos Macedo, Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

I have a couple of questions. I'll try not to ask any questions on Redecard, but this has to do with Redecard. Questions on competition and market share gains that you had in the Fourth Quarter, you did obviously gain a lot of market share.

You are growing at a much faster pace than your closest competitor. Are those gains sustainable? What will -- what have you been doing to improve your market share position over the last two quarters to the point where you are today? And do you think you'll be able to do that going forward? Obviously, from what we've seen in your MDRs it doesn't really have to do that much with MDRs.

And that brings me to the second question, and I'd like to delve a little bit deeper into the marketing expenses that you mentioned Romulo, because as you said there are promotional expenses there with the gas stations and whatnot. And if you could give us some more color on the break-down of that because I would almost argue that rather than put them as marketing expenses you should deduct them from your revenues on the revenue line so that we can see what the real MDR ends up being for those business?

And if you can give us some color there it would be -- it'd probably help us try to understand where that line is going to go. Because if the guidance you gave is correct, 4% of revenues, it's well above the guidance that Redecard has been giving for this business which -- or for that specific line for them. And obviously you have different strategies. But it's -- theirs is 2.5% of credit and debit revenues only. So it's quite a substantial difference.

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

About the first question, Carlos, (thank you for) questions. The market share gains, we are not focused to gain market share. We are focused to have the -- a very good profitability, the bottom-line of the Company.

If you ask me if those gains are sustainable, I would say to depend on the competition, to depend on the other players that you -- participate, but in the long run of course I would -- I wouldn't expect to keep this same percentage that we reach in Q4.

What we're doing to reach and to try to differentiate ourselves, what we did to gain more clients, we've -- it's related to the second question that you mentioned. If you split the analogies and if you just take a look in the cost and you don't forget cost and expenses and you forget about the other things, at the end of the day we can, as a Company, take at least from our perspective the wrong decisions.

It's the reason why we are -- we invest in products and service. It's the reason why we invest more in POS, BRL360 million in the year 2011. It's the reason why we've bought some companies, we have developed some services, that when you are in front of a big client and you present the solutions that you developed such as Cielo Premia, such as Cielo Mobile, for some of the clients are important these kind of solution. Some of the clients are also give importance to the level of service that you provide to them. So at the end of the day the bundle of products and service that you need to be clear and address.

Talking about -- specifically about market expansion, I understand your point, but even if you consider some -- it's not because we are trying to have -- to provide a guidance about net MDR. Just forget, it's nothing about that.

It's because the business unit that we develop with some clients is the way as it is, the life as it is. And even consider the same -- the impact on the Fourth Quarter profits would be something about 3 basis points. But don't consider Q4 as the basics for 2012. Why? Because this is it, it's something around 4%. The 5.9% that you reach in Q4 is not going to be repeated. So you make the comparison.

About our main competitor provide a guidance of 2.5%, I do respect what we are doing, but what's the impact in terms of the whole things that you're -- it's a different strategy. We are trying to -- I'm not going to repeat myself, but the question about distribution, the question about cards, is a question about to serve the clients, is a question in why we are -- at the end of the day we're able, let's say, what we're doing as you said to gain more clients because we are trying to provide a better service, a better solution.

At the end of the day, it impacts the numbers. It impacts the revenues. But on the line of the revenue -- on the line of the cost and the marketing and commercial expenses, it's a fact that repeating even if you consider a small portion of this because I cannot provide in the break-down -- and moreover, in the new momentum that we're leaving right now.

But what I can tell you that the percentage as a whole, 4%, we will try to follow. But some of the lines of the 4% will be increased, some will be decreased. At the end of the day we expect to provide the bottom-line for 100% of the shareholders. It's the reason why we have a different percentage. It's the reason why we have a different strategy.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Thank you, Romulo.

Operator

Jorge Kuri, Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

I have two questions if I may. The first one is on the visibility on key strategic information and data. Now with Redecard very likely becoming a public company, is there going to be any change in the type of information that you disclosed to the market given that your number one competitor is going to be able to see your books, but you're not going to be able to see them? What -- how is your preliminary thinking on how that's going to change the way you disclose things?

Second question is on guidance for 2012. What do you think transaction value is going to be for credit and debit cards? Could we repeat the 2011 performance where both grew 20%, 21%? Is it going to be a bit lower, probably higher? Any color that you can provide that will be great.

As well as on net MDRs, the deceleration -- we've seen a slowdown in the pressure on MDRs to the point that MDRs are actually going up now. Where do you think MDRs will be at the end of 2012 relative to where they finished in 2011?

Do they need to be -- can they be flat? Do you know -- have to see some decline? Any color that you can provide will be great. Thank you.

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

Thank you, Jorge for your questions. About the visibility and considering the new environment that probably you face after three months and four months, Redecard not being public, we need to take care about the information that could be used for our main competitors against us.

Even though -- that I wouldn't -- I would -- I'd say to you that you shouldn't expect a big change in the level of information that you provide. It will depend -- it depends only on Cielo, be sure, you're going to have 100% of the information that you can provide.

But the kind of information that could be used for our main competitors to take advantage and to try to differentiate and to distract and so on and so forth, this is the thing that we are concerned. About the other one, the level of information as much as we can we're going to provide you with the best level of information that I can.

About the second question, guidance for 2012, we should expect (banks) to say something about transaction volumes. This is something -- it comes to the first question that you just -- that you just gave to me. It's something that today is really important this kind of information, and unfortunately, I cannot provide you what you're expecting for the transaction volume for 2012.

About the MDR and depression that should occur or not, with the level of information that you have today, we don't know if the strategy of our main competitor will change or not. I think as I said it's too early to say even though that we are not expecting a big change in this strategy.

I would say that something around 5 basis points, okay, as a whole. But it's too early. Don't get me wrong. Don't expect that this is going to be the number that we'll deliver or not. I need to set up our own policies, but on the other hand to see what's going on in the market.

Q - Jorge Kuri {BIO 3937764 <GO>}

So is -- thanks for that, Romulo. Is it possible that because volumes and prices are critical strategic part of your business, is it possible that going forward you're going to provide only a revenue number without telling us the volume and price composition?

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

Jorge, today it's too early to say. Next quarter at least, we won't change our policy. It will depend -- I do not expect to change our policy in terms of the level of information, about MDR, and so on and so forth.

But I need to see what's going to be the market reaction so on and so forth. I cannot promise to you that I will not change. What I can promise to you is if it's possible we will provide the number with the level of information that we are providing today.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right, great. Thank you.

Operator

Paulo Ribeiro, HSBC.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

I want to follow up on the question I had earlier in the call in Portuguese and it's in line with what Macedo asked which is the impact of those marketing expenses, if you were to net it against MDR, did you, Romulo, say it would be 4 basis points this quarter? Did I understand it correctly when you answered to Macedo's?

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

No, no. Market expenses I said 4% of the --

Q - Paulo Ribeiro {BIO 1929952 <GO>}

4%.

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

-- net operating revenues.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Okay.

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

4% of the net operating revenues. We reached in 2011 3.9%.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Right.

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

We're saying that we expect to have the same percentage of the net operating revenues that we reached in 2011.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Okay. So let me try to assess here on the impact of the partnerships with banks on the net MDR. This, you said, you don't break because you have several banks. But can you give an idea on an average basis like your competition does what is that impact and that obviously would not include these marketing expenses?

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

Unfortunately, Paulo, I cannot say anything.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Okay. So I'll try a different question here, totally different topic. Affiliation from the banking channel, can you give us an idea how has that been evolved into you, if you are more reliant on banks or less given that you seem to be investing in sales force and everything? Is that a part of your strategy to be less reliant on banks?

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

It's a good question, Paulo. We are, as a matter of fact, we are developing many channels to which more -- to have more merchants working, require them to have more sales volume working with Cielo.

So just to give you an idea, our own sales force was -- last year was on average we were having around 50,000 new merchants per month last year, on our own sales force which comes -- it's a number in terms of the break-down, it's around 30% -- correct, (Nilsson) -- 30% through our own sales force and 70% through our banks.

So if you ask me what you're going to -- what you prefer, both, not only both banks and our own service force, as well (ISOs), dealers, banks, and directed sales such as (call center) so on and so forth. Both -- all the channels are really increasing, are responsible at the end of the day for the new level of merchant affiliation as well for the total sales volumes that Cielo reached in 2011.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Okay. I think that you're going to get more banks working with you because Redecard not going to be able to get it, look at what happened at Orbital. No one worked at Orbital and was -- it's at Itau. But anyway, Caixa, does these expenses have to do with Elo, this increase in marketing expenses Caixa, how is Elo going?

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

About if we're going to have more banks or not, as I said in the conference call in Portuguese, I cannot say because it would depend on then. What I can tell you that Caixa Economica Federal is working with both banks -- with both acquirers, Cielo and Itau.

So I don't know what's going to happen. It's too early to say anything about that. And about the campaigns, Caixa Economica Federal and Elo and the orders is that it's not only one specific line that was responsible for this increase in the marketing plus commercial expenses that you reach in Q4. It's a bunch of things. It was Cielo Fidelidade. It was some campaigns, but just repeating myself, it's not -- the 5.9% that we reached in Q4 we will not repeat in 2012.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Alexandre Spada, Itau BBA.

Q - Alexandre Spada {BIO 16687974 <GO>}

My question is regarding leverage. You have been saying throughout 2011 that you would not be leveraged as your main competitor is. Then you took this money from BNDES. Of course you still kept a good amount of cash.

My question is do you intend to get more money from BNDES to continue investing on POS terminals? Yes. That's it. Thank you.

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

Sure, this is the kind of line -- this is the kind of debt that we want to have as much as possible.

Q - Alexandre Spada {BIO 16687974 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Paulo Ribeiro, HSBC.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

As you have time, we'll use it wisely. Elo, can we talk a little bit more? How is that going from your side? How many cards are out there and what you've been doing, how successful is that for you in approaching merchant and in increasing market share and how do you see that business going?

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

Elo just made a small announcement saying that they reached more than 1.5 million customers. Their business is really going well. I will ask Chedid to provide more color on this venture.

A - Eduardo Chedid Simoes {BIO 16447904 <GO>}

Hi, Paulo.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Hi.

A - Eduardo Chedid Simoes {BIO 16447904 <GO>}

Basically, as Romulo said, they've reached 1.5 million cards issued. Volumes are picking up. The speed of issuance is also picking up. All three banks are very much engaged. In terms of merchant affiliation we have around 100% of all standalone pure assets now accepting Elo transactions.

Of the (ETR) bonds we are well above 80% of all our volume already accepting Elo. So I think it's -- we've done our homework I'd say pretty well, and now it's a matter of picking up speed of issuance from issuers. So we're pretty confident. We have a very good and solid base for growth now.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

And your merchants, is that a differentiating factor they are happy to capture -- I mean, imagine one more card, they would be happy, but it's a situation where you tell them Elo, and they're excited about it, they see the value of that brand?

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

Well sure Paulo, they see value in the offer Elo, even though that will not -- we work with Elo on a preferred base. So they see value. It's a matter of time, as Chedid said, to gain more momentum. So we -- first we develop a very good reach, a very good (inaudible) in terms of merchant acceptance. And now as Chedid mentioned, we are -- the banks are working to provide more -- to issue more Elo cards.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Just quickly, sorry, about the Elo, do you think the Central Bank could come in and you said preferred but it's actually exclusive acquirer for Elo, right? Do you think the Central Bank is -- is that something that they could be looking at or -- what have you been hearing about from regulators in general?

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

It's a preferred agreement that you have with Elo, it's not exclusive agreement. I'd like to mention the fact that we are always investing in some -- we're developing the network, we develop to create together with the banks the brand and if you are not investing, because we do see value for us as an acquired, we wouldn't do this.

About the savings that you mention, I would say that we -- when the Central Bank together with the other two entities, they provide the research, they said about concentration involved some specific brands. And there was also a requirement to create a national brand.

So we are trying to create a brand from the scratch. Let's not forget that this brand is being created from the scratch. So you have some investments to reach a certain level. And if you don't have the return of the investment that you're doing, we wouldn't to do this. So this is how we see the evolution of the market.

Q - Paulo Ribeiro {BIO 1929952 <GO>}

Great. Thank you very much.

Operator

This concludes the question-and-answer session. At this time, I would like to turn the floor back to Mr. Dias for any closing remarks.

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

So I want to reiterate that we are confident that our fundamentals are strong. Now more than ever we'd like to use our expertise and leverage our competitive advantage seeking differentiation.

We articulate value for our clients by maximizing their sales with the market's most comprehensive value proposition, covering capturing, processing added-value products, service, unflawed and productive solutions.

In Cielo's long-term strategic, we continue to pursue efficiency with better use of our resource, be they related to costs or expenses, always with a view to business sustainability. Thank you for joining us. Have a nice day.

Operator

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