



## **PagSeguro Reports Fourth Quarter and Full Year Results**

**4Q17 Net Income** reached **R\$188.9 million,** up **391%** yoy, and **Full year net income** reached **R\$478.8** million, up **276%** yoy

**São Paulo, March 08, 2018** – PagSeguro Digital Ltd. (the "Company") announced today its fourth quarter and full year results for the period ended December 31, 2017. The Company's consolidated financial statements are presented in Reais (R\$), unless otherwise indicated, in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

## Fourth Quarter 2017 Financial & Operational Highlights:

- R\$13.6 billion in total payment volume (TPV), up 183.4% year-on-year
- Active merchants in the last 12 months of **2.8 million**, up **97.8%** year-on-year, with growth of **1.4 million** net new merchants
- R\$831.0 million in total net revenue\*, up 118.1% year-on-year
- R\$188.9 million in net income, up 390.6% year-on-year
- Net Margin of 22.7%, up 12.6 percentage points year-on-year

#### Full Year 2017 Financial & Operational Highlights:

- R\$38.5 billion in total payment volume (TPV), up 173.2% year-on-year
- R\$2.5 billion in total net revenue\*, up 121.7% year-on-year
- R\$478.8 million in net income, up 276.4% year-on-year
- Net Margin of 19.0%, up 7.8 percentage points year-on-year

| Main Operational and Financial Indicators (R\$ millions) | 4Q17     | 4Q16    | Var.%   | 2017     | 2016     | Var.%  |
|--|----------|---------|---------|----------|----------|--------|
| TPV  | 13,641.1 | 4,813.2 | 183.4%  | 38,476.8 | 14,085.1 | 173.2% |
| Active Merchants (LTM)                                   | 2,791.2  | 1,410.8 | 97.8%   | 2,791.2  | 1,410.8  | 97.8%  |
| Total Net Revenue*                                       | 831.0    | 381.0   | 118.1%  | 2,523.4  | 1,138.4  | 121.7% |
| Net Income   | 188.9    | 38.5    | 390.6%  | 478.8    | 127.2    | 276.4% |
| Net Margin (%)   | 22.7%    | 10.1%   | 12.6 pp | 19.0%    | 11.2%    | 7.8 pp |

<sup>\*</sup>Total revenue and income



### **Financial Discussion:**

#### Total Net revenue\*

Total net revenue\*, which includes revenue from transaction activities and other services, revenue from sales and financial income amounted to R\$2,523.4 million in 2017, an increase of 121.7 % from R\$1,138.4 million in 2016.

#### Revenue from transaction activities and other services

Net revenue from transaction activities and other services in 2017 amounted to R\$1,224.3 million, an increase of R\$744.2 million, or 155.0%, from R\$480.0 million in 2016.

The year-on-year increase was mainly due to a continued increase in our customer base and TPV.

Net revenue from transaction activities and other services during 2017 increased by a lesser percentage than our TPV, which increased to R\$38.5 billion from R\$14.1 billion in 2016 or 173.2%. This fact was mainly due to the higher proportion of debit card transactions in our TPV in 2017 as compared to 2016.

#### Revenue from sales

Net revenue from sales in 2017 amounted to R\$471.9 million, an increase of R\$211.3 million, or 81.1%, from R\$260.6 million in 2016. However, in relative terms, the share from POS sales has decreased from 23% in 2016 to 19% in 2017. In addition, in 4Q17 the share of POS device sales has decreased to 13% from 25% in 4Q16.

#### Financial income

Financial income, which represents the finance discount we withhold from the early payment of receivables on the 2<sup>nd</sup> through the 12<sup>th</sup> installment, amounted to R\$**818.6** million in 2017, an increase of R\$**426.2** million, or **108.6**% from R\$392.4 million in 2016.

The year-on-year growth in this activity was due to growth in our TPV.

#### Other financial income

Other financial income amounted to R\$8.6 million in 2017, an increase of R\$3.2 million, or 60.7% from R\$5.3 million in 2016.

#### Expenses

Total expenses amounted to R\$1,839.9 million in 2017, an increase of R\$856.9 million, or 87.2% from R\$983.0 million in 2016. As a percentage of our Total revenue and income, our total expenses in 2017 decreased by 13.4 percentage points, to 72.9% in 2017 from 86.3% in 2016.

<sup>\*</sup>Total revenue and income



#### Cost of sales and services

Cost of sales and services amounted to R\$1,324.4 million in 2017, an increase of R\$700.7 million, or 112.4% from R\$623.7 million in 2016. As a percentage of the total of our Net revenue from transaction activities and other services and our Net revenue from sales, our Cost of sales and services posted a decrease of 6.1 percentage points, to 78.1% from 84.2% in 2016.

Within our Cost of sales and services line item, our Cost of services, expressed as a percentage of our Net revenue from transaction activities and other services, decreased to **67.8**% from 74.5% in 2016. This decrease reflected ongoing economies of scale due to growth in our TPV.

Our Cost of sales, expressed as a percentage of our Net revenue from sales, posted a slight increase to **104.8**% in 2017 from 102.0% in 2016.

#### Selling expenses

Our Selling expenses amounted to R\$245.8 million in 2017, an increase of R\$45.8 million, or 22.9% from R\$199.9 million in 2016. As a percentage of our Total revenue and income, our Selling expenses decreased by 7.9 percentage points, to 9.7% in 2017 from 17.6% in 2016. Our Marketing and advertising costs, while increased in absolute terms, decreased significantly as a percentage of Total revenue and income due to TPV growth.

#### Administrative expenses

Our Administrative expenses amounted to R\$153.2 million in 2017, an increase of R\$68.7 million, or 81.4%, from R\$84.5 million in 2016. This increase was mainly due to an increase in personnel costs, bank and consulting fees. As a percentage of our Total revenue and income, our Administrative expenses decreased by 1.3 percentage points, to 6.1% in 2017 from 7.4% in 2016.

The reduction in the level of our Administrative expenses as a percentage of our Total revenue and income over the last three years reflects the scalable nature of our business.

#### Financial expenses

Our Financial expenses amounted to R\$104.5 million in 2017, an increase of R\$36.2 million, or 53.1%, from expenses of R\$68.3 million in 2016.

Expressed as a percentage of our Financial income, our Financial expenses represented **12.8**% in 2017 and 17.4% in 2016.

#### Other (expenses) income, net

Our Other (expenses) income, net, recorded expenses of R\$12.0 million in 2017. This net amount principally reflected expenses related to contingency proceedings during the year.



### Profit before income taxes

Profit before income taxes amounted to R\$**683.5** million in 2017, an increase of R\$**528.1** million, or **340.0**%, from R\$155.4 million in 2016. The increase was due to growth in our Total revenue and income.

#### Income tax and social contribution

Income and social contributions tax amounted to expenses of R\$204.7 million in 2017, an increase of R\$177.1 million from expenses of R\$27.6 million in 2016.

This total item consists of Current income tax and social contribution and deferred income tax and social contribution, which relates principally to the tax benefit under the *Lei do Bem*, which applies to investments made in innovation and technology by PagSeguro Brazil.

Total effective tax rate was 30.0% in 2017, compared with 17.8% in 2016.

The increase in 2017 was due to the increase in our Profit before income taxes while the amount of our *Lei do Bem* tax benefits remained stable.

#### Net income

Net income for the year in 2017 amounted to R\$478.8 million, an increase of R\$351.6 million, or 276.4%, from R\$127.8 million in 2016.

This increase was principally driven by the volume growth in both our net revenue items as well growth in income from our early payment of receivables and operating leverage.

## **New Products**

In February, PagSeguro launched a new functionality for its Moderninha Pro and Moderninha Wifi devices, enabling multiple merchants to share a single point-of-sale device. With this new functionality, each terminal can serve up to six digital accounts, handling sales transactions for each account separately and allowing entrepreneurs and merchants to manage multiple businesses using a single POS device.





In March, PagSeguro launched the Minizinha Chip, its pocket point-of-sale device, an innovative new concept for POS terminals, that combines all of the high-end functionalities such as Wifi and GPRS connection within compact hardware that can literally fit in the merchants' pocket.

Ideal for small merchants and micro entrepreneurs seeking mobility and convenience, this pocket point-of-sale device no longer requires smartphone pairing like other traditional mobile POSs, since it comes with a SIM card and free data plan, thus improving the merchant experience.





## **Earnings webcast**

PagSeguro (NYSE: PAGS) will host a conference call and earnings webcast on March  $09^{th}$ , at 09:00 am EST. The conference dial in in the US and International is 1-800-492-3904 or +1 646 828-8246. Connection in Brazil 55 11 3193-1001 or 55 11 2820-4001. Conference ID is PagSeguro.

To listen to a live webcast, please visit PagSeguro's IR website at <u>investors.pagseguro.com</u>. A replay will be available on the same website following the call.

## **About PagSeguro:**

PagSeguro Digital is a disruptive provider of financial technology solutions focused primarily on micro-merchants, small companies and medium-sized companies in Brazil. PagSeguro Digital's business model covers all of the following five pillars:

- Multiple digital payment solutions;
- In-person payments via point of sale (POS) devices that PagSeguro Digital sell to merchants;
- Free digital accounts;
- Issuer of prepaid cards to clients for spending or withdrawing account balances; and
- Operating as an acquirer.

PagSeguro Digital is an UOL Group Company that provides an easy, safe and hassle-free way of accepting payments, where its clients can transact and manage their cash, without the need to open a bank account. PagSeguro Digital's end-to-end digital ecosystem enables its customers to accept a wide range of online and in-person payment methods, including credit cards, debit cards, meal voucher cards, boletos, bank transfers, bank debits and cash deposits.

PagSeguro Digital's mission is to disrupt and democratize financial services in Brazil, a concentrated, underpenetrated and high interest rate market, by providing an end-to-end digital ecosystem that is safe, affordable, simple and mobile-first for both merchants and consumers. For more information visit http://investors.pagseguro.com

#### **Contacts:**

#### **Investor Relations:**

PagSeguro Digital Ltd.
André Cazotto, +55 (11) 3914-9403
ir@pagseguro.com
investors.pagseguro.com



# **FULL YEAR INCOME STATEMENT - AUDITED (R\$ Thousand) – IFRS**

|  | 2017        | 2016      | %       |
|--|-------------|-----------|---------|
|  | R\$         | R\$       |         |
| Net revenue from transaction activities and other services | 1,224,261   | 480,025   | 155.0%  |
| Net revenue from sales                                     | 471,924     | 260,594   | 81.1%   |
| Financial income   | 818,624     | 392,429   | 108.6%  |
| Other financial income                                     | 8,576       | 5,337     | 60.7%   |
| Total revenue and income                                   | 2,523,385   | 1,138,385 | 121.7%  |
| Cost of sales and services                                 | (1,324,380) | (623,667) | 112.4%  |
| Selling expenses   | (245,759)   | (199,937) | 22.9%   |
| Administrative expenses                                    | (153,177)   | (84,461)  | 81.4%   |
| Financial expenses   | (104,544)   | (68,301)  | 53.1%   |
| Other (expenses) income, net                               | (12,021)    | (6,660)   | 80.5%   |
| PROFIT BEFORE INCOME TAXES                                 | 683,504     | 155,359   | 340.0%  |
| Current income tax and social contribution                 | (214,988)   | (7,431)   | 2793.1% |
| Deferred income tax and social contribution                | 10,278      | (20,149)  | -151.0% |
| INCOME TAX AND SOCIAL CONTRIBUTION                         | (204,710)   | (27,580)  | 642.2%  |
| NET INCOME FOR THE YEAR                                    | 478,794     | 127,779   | 274.7%  |
| Attributable to:   |             |           |         |
| Owners of the Company                                      | 478,781     | 127,186   | 276.4%  |
| Non-controlling interests                                  | 13          | 593       | -97.8%  |



## **QUARTERLY INCOME STATEMENT - UNAUDITED (R\$ Thousand) - IFRS**

|  | 4Q17      | 4Q16      | %        |
|--|-----------|-----------|----------|
|  | R\$       | R\$       |          |
| Net revenue from transaction activities and other services | 433,046   | 160,235   | 170.3%   |
| Net revenue from sales                                     | 110,406   | 96,371    | 14.6%    |
| Financial income   | 282,957   | 121,905   | 132.1%   |
| Other financial income                                     | 4,639     | 2,486     | 86.6%    |
| Total revenue and income                                   | 831,048   | 380,997   | 118.1%   |
| Cost of sales and services                                 | (405,965) | (188,533) | 115.3%   |
| Selling expenses   | (61,653)  | (100,124) | -38.4%   |
| Administrative expenses                                    | (45,446)  | (23,773)  | 91.2%    |
| Financial expenses   | (40,752)  | (28,761)  | 41.7%    |
| Other (expenses) income, net                               | (6,986)   | (613)     | 1039.6%  |
| PROFIT BEFORE INCOME TAXES                                 | 270,247   | 39,193    | 589.5%   |
| Current income tax and social contribution                 | (90,870)  | 8,366     | -1186.2% |
| Deferred income tax and social contribution                | 9,174     | (9,106)   | -200.7%  |
| INCOME TAX AND SOCIAL CONTRIBUTION                         | (81,696)  | (740)     | 10940.0% |
| NET INCOME FOR THE PERIOD                                  | 188,551   | 38,453    | 390.3%   |
| Attributable to:   |           |           |          |
| Owners of the Company                                      | 188,941   | 38,453    | 391.4%   |
| Non-controlling interests                                  | (392)     | -         |          |



# **CASH FLOW - AUDITED (R\$ Thousand) - IFRS**

|  | 2017             | 2016      |
|--|------------------|-----------|
| •  | R\$              | R\$       |
| CASH FLOWS FROM OPERATING ACTIVITIES   |                  |           |
| Profit before income taxes   | 683,504          | 155,359   |
| Expenses (revenues) not affecting cash:  |                  |           |
| Depreciation and amortization  | 51,571           | 31,246    |
| Loss of fixed assets sold  | 49               | -         |
| Chargebacks  | 47,854           | 31,557    |
| Accrual/(reversal) of provision for contingencies  | 3,538            | 603       |
| Unrealized loss on derivative instruments  | -                | 6,613     |
| Other financial cost, net  | 660              | 5,549     |
| Changes in operating assets and liabilities  |                  |           |
| Note receiv ables  | (2,060,875)      | (783,954) |
| Inventories  | (40,586)         | 20,181    |
| Taxes recoverable  | 8,055            | 8,579     |
| Other receivables  | (23,495)         | 17,214    |
| Other payables   | (2,046)          | 13,491    |
| Pay ables to third parties   | 1,776,538        | 620,940   |
| Trade pay ables  | 29,531           | 25,430    |
| Receivables from (payables to) related parties   | (64,400)         | (214,549) |
| Salaries and social charges  | 13,341           | 6,618     |
| Taxes and contributions  | (3,109)          | 3,867     |
| Provision for contingencies  | 486              | (42)      |
| <u>-</u>   | 420,616          | (51,298)  |
| Income tax and social contribution paid  | (166,389)        | (18,059)  |
| Interest income received   | 208,563          | 146,346   |
| Interest paid  | (9,175)          | -         |
| NET CASH PROVIDED BY OPERATING ACTIVITIES  | 453,615          | 76,989    |
| CASH FLOWS FROM INVESTING ACTIVITIES   |                  |           |
| Amount paid on acquisitions  | (22,225)         | _         |
| Purchases of property and equipment  | (7,873)          | (1,996)   |
| Purchases and development of intangible assets   | (99,673)         | (70,394)  |
| Acquisition of financial investments   | (209,569)        | (337,098) |
| Redemption of financial investments  | 132,107          | 206,190   |
| NET CASH USED IN INVESTING ACTIVITIES  | (207,233)        | (203,298) |
| CASH FLOWS FROM FINANCING ACTIVITIES   | (==7,1=33)       | (=03,=90) |
|  |                  |           |
| Proceeds from borrowings   | -                | 199,390   |
| Payment of borrowings  | (199,480)        | -         |
| Payment of derivative financial instruments  | (5,831)          | -         |
| Distribution of dividends  | (54,273)         | -         |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES  | (259,584)        | 199,390   |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS   | (13,202)         | 73,081    |
|  |                  |           |
| Cash and cash equivalents at the beginning of the year   | 79,969           | 6,888     |
| Cash and cash equivalents at the beginning of the year  Cash and cash equivalents at the end of the year | 79,969<br>66,767 | 6,888     |



# **BALANCE SHEET - AUDITED (R\$ Thousand) – IFRS**

|   | 2017      | 2016      |
|---|-----------|-----------|
|   | R\$       | R\$       |
| Cash and cash equivalents                     | 66,767    | 79,969    |
| Financial investments                         | 210,103   | 131,239   |
| Note receivables                              | 3,522,349 | 1,715,514 |
| Receivables from related parties              | 124,723   | 300,809   |
| Inventories                                   | 61,609    | 21,023    |
| Taxes recoverable                             | 14,446    | 17,703    |
| Other receivables                             | 27,956    | 4,495     |
| Total current assets                          | 4,027,953 | 2,270,752 |
|   |           |           |
| Judicial deposits                             | 872       | 534       |
| Prepaid expenses                              | 160       | 146       |
| Deferred income tax and social contribution   | 37,015    | 8,305     |
| Property and equipment                        | 10,889    | 4,558     |
| Intangible assets                             | 158,868   | 86,108    |
| Total non-current assets                      | 207,804   | 99,651    |
| Total assets                                  | 4,235,757 | 2,370,403 |
|   |           |           |
| Payables to third parties                     | 3,080,569 | 1,304,031 |
| Trade payables                                | 92,444    | 61,719    |
| Payables to related parties                   | 39,101    | 76,249    |
| Derivative financial instruments              | -         | 6,613     |
| Borrowings                                    | -         | 205,204   |
| Salaries and social charges                   | 34,269    | 20,269    |
| Taxes and contributions                       | 52,064    | 6,911     |
| Provision for contingencies                   | 4,648     | 680       |
| Dividends payable and interest on own capital | -         | 22,243    |
| Other payables                                | 15,872    | 15,244    |
| Total current liabilities                     | 3,318,967 | 1,719,163 |
| Deferred income tax and social contribution   | 42,809    | 24,378    |
| Other payables                                | 3,590     | -         |
| Total non-current liabilities                 | 46,399    | 24,378    |
| Share capital                                 | 524,577   | 524,577   |
| Legal reserve                                 | 30,216    | 6,277     |
| Equity valuation adjustments                  | 55        | -         |
| Profit retention reserve                      | 312,048   | 96,008    |
| Equity  | 866,895   | 626,862   |
| Non-controlling interests                     | 3,496     | -         |
| TOTAL EQUITY                                  | 870,391   | 626,862   |
| Total liability and equity                    | 4,235,757 | 2,370,403 |