International Conference Call

PagSeguro

3Q18 Earnings Results

November 29, 2018

Operator: Hello everyone and thank you for waiting. Welcome to PagSeguro's 3Q18 results conference call. This event is being recorded and all participants will be in listen-only mode during the company's presentation. After PagSeguro's remarks there will be a question-and-answer session. At that time further instructions will be given. Should any participant need assistance during the call please press star zero to reach the operator. This event is also being broadcast live via webcast and may be accessed through PagSeguro's website at investors.pagseguro.com, 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. Those following the presentation via webcast may pose their questions on PagSeguro's website.

Before proceeding, let me mention that any forward statements included in this presentation or mentioned on this conference call are based on currently available information and PagSeguro's current assumptions, expectations and projections about future events. While PagSeguro believes that their assumptions, expectations and projections are reasonable in view of currently available information, you are cautioned not to place undue reliance on these forward-looking statements.

Actual results may differ materially from those included in PagSeguro's presentation or discussed on this conference call for a variety of reasons, including those described in the forward-looking statements and risk factor sections of PagSeguro's Registration Statement on Form F-1 and other filings with the Securities and Exchange Commission, which are available on PagSeguro's investor relations website.

Finally I would like to remind you that during the course of this conference call the company may discuss some non-Gaap measures. For more details the foregoing non-Gaap measures and the reconciliation of these non-Gaap financial measures to the most directly comparable Gaap measures are presented in the last page of this webcast presentation.

Now, I will turn the conference over to Mr. Ricardo Dutra CEO of PagSeguro. Mr. Dutra, you may begin your presentation.

Mr. Ricardo Dutra: Hello everyone and welcome to our 3Q results conference call. Today I have here with me Eduardo Alcaro, our CFO and Andre Cazotto, our Head of investor Relations.

Before we go through the operational and financial metrics, we want to reiterate our confidence in our strategy. Being an independent company allows us to think exclusively on our clients' financial needs, delivering growth and profitability simultaneously by offering a unique ecosystem through our digital account. We expect to deliver in 2019 some critical new enhancements to take our ecosystem to the next level. Before you ask we cannot disclose details at this point due to competition that is systematically trying to copy us. However, we will provide you more color in the 2019 quarterly calls.

Being the first mover and mobile first with an unreplicable online distribution through UOL, brings a natural advantage to PagSeguro. We operate in a new and massive market with the ability to launch and cross sell additional services through our digital account, which is a key piece of our long-term strategy.

PagSeguro proved that operating and winning in the long tail requires an online and mobile approach that is totally different from the traditional acquiring business model and the other new competitors that we attracted to the market.

We operate in a brand new market and we still have a long way to go, constantly putting into practice our vision, to disrupt and democratize financial services through technology and innovation.

On slide 03, we start with our total payment volume, that reached 20.3 billion BRL in the third quarter, an increase of 9.6 billion BRL, up 90% YoY, and 3.4 billion BRL or 20% QoQ, accelerating when compared to the 2.5 billion BRL or 17% growth observed in 2Q.

This growth is the result of a greater penetration of our ecosystem in the long tail combined with the trend of "cash to plastic" switch that is still at the beginning in our merchant base and with lots of room to grow in Brazil, and also new innovative products and solutions offered to our clients.

The Gross Take Rate, excluding sales of devices, ended 3Q in 4.9%, representing a small contraction QoQ mainly related to a higher penetration of debit transactions that went up 110bps and a slightly lower penetration of credit card transactions installments in the quarter. It is important to highlight that although gross take rate went down a few bps QoQ, the Net take rate, which is the take rate net from transactions costs, mainly interchange and cards scheme fees, reached 3.3% in 3Q 18, stable throughout the year. The maintenance of our net take rate enabled our net income margin expansion, reaching 26% in 3Q, and Eduardo Alcaro our CFO, will give more details later.

On the charts below, we see the number of Active Merchants.

Just to explain the criteria we use internally; the active merchants are those who made at least one single transaction in the last twelve months.

We ended the third quarter with 3.8 million active merchants, adding almost 1.4 million new merchants in one year, representing an increase of 56% YoY.

Quarter on quarter we added 323 thousand new merchants, within the range that we provided in the last conference call.

Compared to 2Q 18, we had a decrease, mainly because 2Q was a very strong quarter where we had the launch of Minizinha Chip and Zero MDR campaign. In addition, the third quarter usually has a worse seasonality than the second quarter given the winter vacations in July. We are confident our growth will keep the same pace of more than 300 thousand net adds in the following quarters. For instance, in terms of sales of devices, November will be the best month of the year.

In the next chart, we have the evolution of our average spending per merchant, that reached 5.5 thousand BRL in 3Q, a growth of 17% YoY and 8% QoQ, also accelerating when compared to the growth observed in 2Q. This is explained by the higher adoption curve of electronic payments in our merchant base, which is an expected trend; a higher engagement in our ecosystem being converted in more transactions and TPV. Remember that the majority of our merchants have never accepted cards before joining PagSeguro.

Now I would like to pass the word to our CFO, Eduardo Alcaro.

Mr. Eduardo Alcaro: Thanks Ricardo and hello everyone. Before I start, I would like to mention that in 3Q 18 we had a total of 58.9 million BRL of non-Gaap items mainly related to our stock-based long-term incentive plan. Let me remind you these items:

First, stock-based compensation expense and related employer payroll taxes in the amount of 115.5 million BRL. From the 115.5 million BRL, 33.7 million BRL is the recurrent quarterly provision and 81.8 million BRL is non-recurrent. 59.4 million BRL of the non-recurrent amount of 81.8 million BRL is related to the vesting of a relevant share grant in August 2018 and the recognition of the shares at market price versus the original grant price at the IPO in accordance with IFRS 2.

At the IPO day the share price was 21.50 USD and the exchange rate of the USD against the BRL ended at 3.14. On the other hand, when the shares were delivered in August 2018 to PagSeguro employees the share price was close to 30 USD and the exchange rate of the USD against the BRL was above 4.10. The same adjustment can be expected for August 2019 with a similar exchange rate and stock price.

The remaining non-recurrent amount of 22.4 million BRL is related to new hires and additions to the share-based program. No material non-recurrent adjustments related to the stock-based compensation are expected for 4Q 18. We exclude stock-based compensation expenses from our non-GAAP measures because they are non-cash expenses and they depend on our stock price and the exchange rate from USD into Brazilian BRL at the time of the vesting of the equity awards.

The related employer payroll taxes depend on our stock price and the exchange rate from USD into BRL at the time of the exercises and the vesting date of the equity awards, over which management has no control and does not believe these expenses correlate to the operation of our business.

Second, Financial income in the amount of 14.3 million BRL related to the impact of exchange rate variation on the conversion from USD into BRL of the proceeds from our sale of new shares in our June 2018 follow-on offering. We exclude this foreign exchange variation from our non-GAAP measures primarily because it is a non-recurring income.

Third, tax related to the remittance of follow-on primary proceeds, IOF tax, to Brazil in the amount of 4.1 million BRL. We exclude this IOF tax from our non-GAAP measures because it is a one time and non-recurring expense.

And the last one, income tax on the non-GAAP adjustments in the amount of 46.5 million BRL.

For more details, the foregoing non-GAAP measures and the reconciliation of these non-Gaap financial measures to the most directly comparable GAAP measures are presented in the last page of this webcast presentation.

Now moving to slide 4, our non-Gaap total net revenue reached 1.12 billion BRL in 3Q, up 64% YoY.

Moving to the top right we have our main revenue streams, composed by transaction services or mainly MDR collected from merchants, financial income from the prepayment and hardware sales.

In 3Q 18 transaction and services represented 55%, financial income 36% and hardware sales only 9% over total net revenues that continue to trend down, and in relative terms going forward should reach low single digit. On the other hand, you can note that our revenues from transaction activities and other services grew 5 p.p. compared to 3Q 2017. This demonstrates the strength of our 3.8 million active merchants base delivering high double digit net revenue growth rate.

On the two charts below, we present our total expenses figures and the beauty of our lean cost structure allowing us to have a volume-scalable business model.

Our non-GAAP total costs and expenses decreased 1.0 p.p. ending 3Q at 3.4% over total TPV. Related to non-Gaap Admin Expenses/total TPV, which excludes stock-based compensation expenses, reached 0.3%, a decrease of 0.1 p.p. YoY.

Regarding our cash flow, you will note in the line "changes in receivables subject to early payment" that we repaid with our IPO primary share proceeds in the first 09 months of 2018 approximately 1.7 billion BRL in receivables which we obtained early payment with the issuing banks as of December 31st, 2017. We only have 4.0 million BRL left to repay in Q418 and beginning in 2019 this line item will no longer impact our cash flow. Adding back the impact of the repayment of the note receivables for which we received early payment from issuing banks as of December 31, 2017, PAGS had 472 million BRL in negative operating cash flow driven by the working capital growth partially offset by PAGS cash generation.

I just wanted to remind you that this is not a cash burn but an investment in working capital. PAGS ended the quarter with receivables from credit card issuers that are very liquid and with no credit risk in the amount of 7.5 billion BRL and Payables to merchants of 3.7 billion BRL, a net working capital of 3.8 billion BRL plus 2.5 billion in cash.

On the next slide, we show our Non Gaap net income growth. In 3Q we reached 290 million BRL, an increase of 143 million BRL and up 97% YoY. The non-Gaap net margin reached 26%, an increase of 4.4 p.p. YoY. This shows the unique profile of PAGS, delivering growth and profitability. In the QoQ comparison, our non-Gaap Net Income grew 20%, accelerating when compared to 14% growth in 2Q, while the non-Gaap net margin expanded 1 p.p.

Now I would like to hand over back to Ricardo, who will comment on new products recently launched.

Mr. Dutra: Thank you Eduardo. On the next slide, we introduce Moderninha Smart, our Smart POS. Moderninha Smart offers a full integration of hardware, PAGS' Apps and its fast and secure payments network. By combining the Android operational system with all the high-end functionalities such as Wi-Fi, Bluetooth and 4G connections, as well NFC and QR Code acceptance, Moderninha Smart offers a robust managed payment experience to any kind of business.

This product was built for simplicity and ease of use. It requires no setup and it comes with features like product catalog, inventory management, installment calculator, bank slips issuance and payment links. The integration of software and hardware helps merchants to be more productive, serve clients better and manage their businesses.

PAGS point-of-sale software also gives merchants the ability to run their business efficiently by managing their PAGS' account, including bill payment, mobile top-up, balance transfer among other functionalities available in our ecosystem. It costs 12 installments of 69.90 BRL, around 19 USD per installment (or 839 BRL) and it has five-year warranty.

On the slide 7, we have mapped our portfolio of functionalities already available to our merchants. PagSeguro has been building a unique and world-class payment ecosystem focusing to deliver a frictionless online and physical payments' experience. Recently we launched our lending product, PAGS Capital. We just started and are still testing our model with a very small pool of clients, eligible according to some characteristics such as account history, TPV, payment frequency.

On average PAGS charges rates almost 3x lower than banks. We are still in baby steps, and for now this product is marginal to our financial results and we expect it will increase stickiness and the loyalty of our merchants. In November we also complemented our cash in and cash out process through the digital account, allowing instant transfers from and for any bank.

On slide 8, we show you the evolution of our bill payments transactions, which grew 288% QoQ. We believe engagement is key to the success of our ecosystem. As we promote a higher stickiness through the adoption of additional products and features, more transactions and growth are expected.

On the next slide, we can see the strength of our brand. PAGS is the first mover in this market and the fact it can access UOL audience, the third largest online audience in Brazil, only behind Google and Facebook, with more than 75% internet reach, to promote our products and solutions in the long tail market, helped PAGS to reach a unique brand recognition. In 2018, according to Google Trends we have 4 times more searches than the second player. PAGS reached a level of branding awareness where the business has a "word of mouth" effect, and consequently, we have lower acquisition costs than our competitors.

Finally, on the last slide, it is important to highlight the size of our total addressable market and the huge opportunity that PAGS has ahead. Considering our last twelve months TPV, which is 65 billion BRL, we have only 4% of our addressable market and we still have a long way to go. We have been facing a sustainable TPV growth in our platform. For instance, we have our historical TPV peak last August, one day before father's day in Brazil. On September we surpassed this record, then had a new TPV record in October, and again a historical new record in November.

Also, worth to say that from Q1 to 3Q 2017, our TPV was 24.8 Billion BRL and until 3Q 18, our TPV was 51.5 billion BRL. We more than doubled our TPV YoY, which means we added 26.6 billion BRL this year.

Being the first mover, having a fully verticalized and low-cost ecosystem, with 3.8 million active merchants, mobile first, strong brand, focus in user experience, the best rated financial services app on Google and Apple stores, and unreplicable on line distribution through UOL brings a natural advantage and leadership in the long tail market.

In Q4 we continue to see a higher adoption of our ecosystem translating in a healthy TPV growth. Net additions are growing at the same pace as observed in the average of the past quarters, while take rates despite possible mix effects remains at the same previous levels as well. We are confident our business will continue to deliver long term shareholder value.

Now we finish our presentation and we will start the Q&A session. Operator please.

Q&A Session

Operator: ladies and gentlemen we will now begin the question-and-answer session. If you have a question please press the star key followed by the one key on your touchtone phone now. If at any time you would like to remove yourself from the questioning queue press star two.

Our first question comes from Brian Keane, Deutsche Bank.

Mr. Brian Keane: hi guys. Two questions, I guess on the net new merchant adds it was towards a little bit the lower end of your guidance that you gave. Anything material you are seeing at competition (inaudible 22:10) record sales in the month of November, so I am just trying to reconcile that.

And then my second question is on the Government push for instant payments and QR codes. What would be an impact to your model if you saw more adoption towards instant payments in Brazil? Thanks.

Mr. Dutra: hi Brian this is Ricardo thank you very much for the question. As we said during the call 3Q has worst net adds compared with 2Q. 2Q was a very strong quarter; we are not seeing huge deceleration in our business, the opposite; we are seeing business growing. So it is within the range that we gave before, the 323.

Regarding the government and the pushback… And the push regarding QR code instant payments it is too early to forecast any potential impact. The discussion is still in the early stages with market participants and from our side regardless of regulation we are developing our own QR code solution. We are in favor of new paying methods believing that we will complement our portfolio.

So at the end of the day it is still at the very beginning the discussion and there is nothing defined; but we are developing our own QR code solution during… Meanwhile.

Mr. Andre Cazotto: Brian this is Andre speaking. If you just allow me one specific comment here it is very important to mention that we are in favor about new paying methods. We do believe that this could help in terms of migrating more cash transactions to electronic payments in the Brazilian system. That is exactly what PagSeguro is intending to do: to be more disruptive and help to bring more cash transactions to electronic payments and the QR code is a good way to do it.

Mr. Kean: okay thank you.

Operator: the next question comes from Carlos Macedo, Goldman Sachs.

Mr. Carlos Macedo: hey Dutra, Alcaro good evening. A couple of questions here, first I want to talk a little about the equipment sales that you guys have, the model and the prices there has been a lot of competition and Minizinha now is going for 5 BRL/month as competition has pushed it down and Cielo with Stelo now is that 2 BRL/month.

I am not sure if you are going to match or not; but looking at the numbers that you reported on the gross margin basis it was already -53 million in 3Q for equipment sales, and I know equipment sales are not the core business, it is just the way you get there; but that number is up from 32… From 37 in 2Q. I am just wondering if you believe that with competition growing strongly still on that level that number can increase as you sell more terminals at a bigger loss going forward.

The second question on the marketing side. Marketing expenses came down; what is the thinking here? Obviously competition is not… Is very strong as you mentioned before and you count on word to mouth and advertising to get your brand out there. It is just a quarter thing or should we be factoring probably weaker or lower advertising going forward? Thanks.

Mr. Dutra: hi Carlos this is Ricardo thank you for the question. Let us go to the first part regarding the sales of equipment. We are the leader in this longtail market and we are not leading prices down; we are evaluating competition pretty close. As we have the largest base we have today the lowest acquisition costs and so it is important for us to win the merchants, because when you win the merchants you are going to bring the base to offer additional services and so on. So we are looking for the lifetime value.

If we need to subsidize part of the equipment we will do it. We know that competition is doing as you said driving installments to almost 2 BRL and I do not know if they are going to keep it; but we will try to keep making our calculations not to make anything very aggressive to hurt our P&L. In 4Q I would say that you will not see a higher number in terms of subsidizing although we are selling a lot; and at the end of the day when trying to say is we will keep evaluating competition pretty close. For us the acquisition cost is much cheaper than to them - but we are not leading prices down in terms of equipment; we are just looking at the competition and if they go down we can evaluate if we are going to match it or not.

Mr. Alcaro: Carlos this is Alcaro speaking. I think one point you need to factor in is the fact that our net income margin had an expansion in 3Q compared to 2Q. So even with this higher investment in the subsidies to devices we were able to expand our margins and grow our net income margin by a little bit more than 1% QoQ. So or lean structure, our lean structure model in terms of expenses allows us to take those prices subsidies and not hit our margins as you can see in our numbers in 3Q.

Mr. Cazotto: just one additional comment here Carlos, Andre speaking. It is very important to mention that in the longtail market our merchant is more sensitive to fixed costs. So the price of hard work matters more. As you can see the company has been able to keep take rates stable despite any kind of mix effect like we had in the quarter with more debit card transactions, and we know that combined with all these trends that we have in the business like the strong brand and UOL distribution the POS is a good way to capture these client to bring to our… Thinking about the longer value of our merchants going forward.

Mr. XXX: and the second part of your question regarding marketing we are evaluating marketing every month. What happened in 3Q this small decrease does not mean that it is going to decrease forever; but we are just evaluating to have the best mix in terms of marketing online, off-line and equipment subsidies. At the end of the day we are looking for the acquisition cost and if we see there is opportunity to increase the market we will if we think we should keep at the same level we will do the same. So it is a part of… It is very dynamic; but there is no plan for the future to go down with market investments.

Mr. Macedo: okay so just a follow-up then. I am not asking for guidance, just a rule of thumb or some kind of direction: it is likely that marketing expenses will move together with TPV to some degree? Is that a good way to look at it?

Mr. XXX: I do not think so Carlos. I guess the marketing if you compare TPV marketing is going down. On the top of my head it is like 0.46%. So TPV is going faster than marketing investment and I guess that is the answer for your question.

Mr. Macedo: okay thank you.

Mr. XXX: thank you.

Operator: the next question comes from Alexandre Spada, Itaú BBA.

Mr. Alexandre Spada: hi gentlemen good evening, thanks for the opportunity to make questions. I have one actually: can you comment on the implications that the reduction in debit interchange will have in PagSeguro from 4Q onward? Are you passing through the benefit to the merchants or will the prices be kept unchanged starting October or… changes starting October?

Mr. Dutra: Alexandre this is Ricardo thank you for the question. As you know the cap for interchange in debit transactions started in October 1. We started a promotion in September on for new merchants for the… for debit and for these merchants we are passing through; but for all the base that we have we are keeping the same level. So we are going to have positive impact in our P&L in 4Q… The largest part of our base is still paying the same rate, same MDR that we charged before; for the new merchants we made this promotion. So part of that, answering your question a small part of that we are passing through; but the largest part we kept the same level. So we are going to have a positive impact in P&L.

Mr. Spada: okay and the quick follow-up; is that promotion temporary or is that… Actually not a promotion; adjust the new pricing scheme?

Mr. XXX: we are having this promotion. It is temporary because it is for the first year right? So one year from now they are going to start paying the full MDR.

Mr. Spada: okay. So if that is the case there will be no pass through at the end of the day?

Mr. XXX: that is what we expect; but let us see. What happened overseas is that in the medium term this gap between the MDRs before any MDRs after the cap were passed through to the merchants. We do not know how fast it is going to happen in Brazil; but in the medium term it is going to happen at some point.

Mr. Spada: understood thank you very much.

Mr. XXX: thank you.

Operator: our next question comes from Josh Beck, Key Bank.

Mr. Josh Beck: hi there thank you. I wanted to ask about the other side of acquisition costs. Is there any color if you can provide on how long it takes you to recover those costs from acquisition costs? The economics you have are quite favorable; is there any color you could provide in that area?

Mr. XXX: Josh thank you for the question. It is hard to make this calculation because it the pens on the device he acquires. Depending on the device we have better paybacks; depending on the device we have worse paybacks; depending on the subsidy that we do; depending on many factors - but the payback if you do the average is not that long. I guess you can make the math using our P&L

numbers and you can have a better proxy but is our payback, because we have our TPV promotion, the take rate and the net MDR and so you can make this math - but overall. The average you can do it through the P&L.

But it depends on the device we are selling for the merchant. I can assure you that we are doing these calculations very often and we are looking for less than value. As I said before we have in mind to win the merchant because once you have the base there are many other services that we can offer to them and then we can monetize in the future.

Mr. Beck: okay very helpful and also I wanted to ask have you seen any changes in the churn of your installed base? That is one part; and then secondarily you have the margin expansion when you look at the pretax merchants quite positive. Is that something that you expect to continue?

In fact our churn is going down. I know the base… Once the base, the number of merchants goes up you have a larger base to dilute the churn; but when you compare the churn that we had this year with previous years it is coming down. So we are having a very healthy base of merchants, very healthy TPV. There are some merchants that decided not to use our services and they came back; but that the end of the day if you look at the churn this year it is smaller than last year for instance.

And in terms of margins it is hard to predict every quarter we are going to have this kind of margin expansion; but what you need to factor in is we operate in the volume driven business and as we bring more TPV obviously we dilute admin costs, fixed costs and things like that. But you can see for example this quarter we had to invest more for example in the price of the device and even investing more we had margin expansion. So it is hard, it is something that is very hard to predict going forward; but we do not see margin contraction for example.

Mr. Beck: okay thank you very helpful.

Operator: the next question comes from Rafael Frade, Bradesco.

Mr. Rafael Frade: hi good afternoon everyone. I have two questions, the first one is related to the POS price, a follow-up from Macedo's question. A few weeks ago you are making some promotions related to Black Friday, but you are keeping those promotions and so I would like to understand if it is something that we should see the previous prices in coming weeks or it is something that probably will be more permanent, those the levels of price in POS?

The second question is related to your financial expenses. I am getting some hard time to reconcile here. You have the strong growth in TPV and consequently on the receivables; but I would expect your financial expenses to increase to funding those prepayment of receivables but it does not seem to be the case. So if you could help me understand how should we expect this line to evolve, thank you.

Mr. XXX: Frade just to understand here you are talking about financial income or financial expenses?

Mr. Frade: financial expenses.

Mr. XXX: financial expenses should trend to zero because we are using the IPO proceeds to fund the prepayment business. So if you look at the financial expenses line it is trending to zero compared to last year. I will that Ricardo answer the first question.

Mr. Dutra: yes regarding POS prices as I said we are looking at the market pretty close. We started this promotion in November, we are looking for the demand, we are evaluating investment in marketing and all these variables to see what is the acquisition cost per merchant. If we keep thinking that it is reasonable to keep this price we will do it. Our plan was to come back for the original price and that is what we are evaluating; but it is hard to give you a final answer like we will increase the price for keep the same because we are evaluating and as you know it is very dynamic this price for POSs in Brazil at this point.

Mr. Frade: right perfect. Just a follow-up on the financial expenses just to understand, maybe I am doing something wrong here; but so there is a gap between the receivables and payables of more or less 4 billion; you have around 2.5 billion in cash and they understand you fund part of this with this; but still you would have a little more than 1 billion mismatch between receivables and payables and my understanding is that this would be prepaid with banks - but maybe you have another working capital here that I am not seeing, just understand.

Mr. XXX: we are doing now all the prepayment with own cash. So if you look at the growth in our receivables in 2Q compared to 3Q we have a little bit over… In the first nine months of the year we have like 2.4 billion BRL in receivables and repaid about 1.7 billion from receivables that we have discounted last year. So at the end of the day it is a combination of both. We are not discounting receivables with issuing banks anymore and so that is why you do not see the financial expenses line hitting our P&L anymore.

Mr. Frade: okay that is perfect thank you.

Mr. XXX: thank you.

Operator: the next question comes from James Friedman, SIG.

Mr. Jamie XXX: hi good evening it is Jamie asking. A couple of questions. I want to ask about your 4Q expectations. I realize you do not give guidance; but you had the 13th month phenomenon in 4Q, my understanding is that that came after Black Friday on Monday. Is there any reason to think that the sequential growth in 4Q relative to 3Q would be different in 2018 than it was in 2017?

Mr. XXX: thank you for the question. We are going to talk about guidance later on in this call. Regarding 4Q and 3Q I do not have here on the top of my mind what would be this change. I know 2017 we had a very strong 4Q compared with 3Q; but as I said before in the call we are having these total payment volume records month after month. We grew 20% in 3Q when compared with 2Q, we see a very strong 4Q; but I do not have here on the top of my mind to say to you if it is going to be stronger or at the same level of 2017. I would say to you it is a very healthy TPV and we are not seeing changes in the variables that could hurt our P&L.

Mr. Jamie XXX: okay thank you. I also want to ask you about slide seven, it is the one about digital ecosystem. Over time do you have any objective or any commentary about how many products per merchant you may anticipate, or even if you have something now like how many products, like if you look at slide seven on digital ecosystem… with the prepayment, e-commerce, how many typically of these are your merchants purchasing?

Mr. XXX: Jamie we do not disclose the exact number; but I would say there are some products that are having more good engagement as we showed you in the presentation like bill payments. That is one thing that we knew that our merchants were waiting for, because we have a lot of people in Brazil that are underserved in terms of financial services and so thousands of our merchants did not have bank accounts and they need to pay bills, the need to top-up mobile phones. So those are the services that I have more engagement; but we are trying and we are testing all these products. I would say lending as I said before, we are in the early steps; but there is also a lot of demand because people are underserved in Brazil and the banks charge very high rates - but unfortunately we do not disclose the exact number because of competition and all the dynamics we have in this market right now.

Mr. Jamie XXX: okay and could I just ask one more about your previous answer on interchange because I want to make sure we get the facts right. So I apologize if this is wrong; but my understanding is interchange was reduced by a policy by the central bank in October; is that right? Debit interchange and then the follow-up to that is how much, remind us how much of your TPV is debit. I think you disclosed that in S1; but if you have that it would be helpful, thank you.

Mr. XXX: well I will give you what we had in debit interchange on average before October 1 was around 8 bps, 8.0 right? The central bank decided to make this new regulation where goal is to bring this average down to 50 bps and so there is a 30 bps gap between the debit interchange before October 1 when compared to what the central bank is trying to achieve.

Our TPV although we have only 5% of the market share in Brazil, our TPV reflects the industry as a whole. The industry as a whole has around 40% of TPV debit and we have the same level. So you can use 40%.

Mr. Jamie XXX: got it thank you very much.

Mr. XXX: thank you.

Operator: our next question comes from Jason Kupferberg, Bank of America Merrill Lynch.

Mr. Frank XXX: hi this is actually Frank for Jason, thanks for taking the question. It was encouraging to hear you guys say that you think you could add at least 300,000 new merchants in 4Q; but as we sort of look ahead the environment is getting more competitive but you guys suggest you have the first movers' advantage and still underpenetrated market. So I mean is there any reason why we could not see that pace of merchant addition continue beyond just 4Q and 2019?

Mr. XXX: Jason our plan and our expectation and according to our business plan is to keep the same pace. 4Q is going to be strong. You are right when you say there is more competition; but we have the first movers' advantage; we are focused on the longtail market and although some of the incumbents say they are competing with us they are serving merchants that have higher TPV or larger than our longtail merchants. So our merchants are very concerned about fixed costs. We know how to do with them, we know how to deal with them; we know what works, what does not work; so we do not see any reason for deceleration in the short term.

Mr. Frank XXX: that is really helpful and just shifting over into capital allocation you guys discussed a lot of these new products going out which are really interesting and helpful and you talked about earlier here about why to ramp up investment spending; but you have also recently announced a share repurchase authorization and I am just curious on where we are today, where your priorities are from a capital allocation standpoint, thanks.

Mr. XXX: talking about share repurchase you may remember that we announced just a few days that we were blacked out. So we did not have time to do large share repurchases. So we did some but still very small.

In terms of capital allocation our capital allocation continues to have the trend of growth. So when you look at the raise we did in our follow one it was to further develop our digital ecosystem and that is how we are focused. We are putting growth is our first priority here.

Mr. Frank XXX: great thank you.

Operator: our next question comes from Domingos Falavina, J.P. Morgan.

Mr. Domingos Falavina: thank you, good night gentlemen and thanks for taking the question. As we progress we would expect some slowdown on the net additions and I am just thinking that… came in very strong and in spite of, I should even say, of the slower net additions, which is indicative of good trends in same-store sales.

So I think it might be helpful to us to understand like when we look at your volume growth of 20% QoQ or however you want to put it, or 90% YoY, could you provide a certain idea on like half of it or more than half this coming from the existing clients - 70% like a ballpark number - and how much is coming from net additions? Because as those net additions they shrink I just wanted to be comfortable that the existing base will continue to grow. And then I will ask my second question.

Mr. XXX: hi Domingos. I would say it is hard to make this calculation because what we see with our merchants' base is that they usually start small and they keep growing. So as we are adding new merchants to the base it is hard to stop the base and take this.... That you are sensing the new merchants are having this behavior and the past base are having a different behavior, because what I am trying to say here is that as we are growing pretty fast and the merchants grow as well because we have this trend of cash to plastic in Brazil I do not have this picture to give you right now; but I would say churn is very under control.

When you look at the (incomprehensible 49:31) they are growing, although there are some churn of course because of the mortality of the merchants or whatever is the reason; when you look at the... when we compare the same TPV or the… TPV one year after the start we see very healthy growth. So I guess this is the indicative I can give you.

Mr. Falavina: super clear. The second question long-term incentive plan you explain your share prices were super high at 30 and FX also did not help and a sort of put some pressure on that; but then you broke down 33 million as well you consider recurring and basically the remaining portion, 80 something million, as being in nonrecurring. I am just curious to understand what criterion was used to consider to break this down, recurring and nonrecurring. So the point I am trying to get is and next quarter should we expect something around 30 something or why exactly this factoring goes?

Mr. XXX: the nonrecurring there are two different types of nonrecurring. In this quarter we classified nonrecurring the new adds for the program and new hires that we did and that was about 20 million BRL; and the largest portion was this IFRS-2 effect that we had to recognize the market value of the shares.

So for example when we did our IPO our IPO was at 21.5 and FX rate was roughly at 3.14; when we delivered the shares of the employees right now the stock price was close to 30 and FX was above 4.1. So we had to recognize these 59 million BRL of nonrecurring. For 4Q we should expect pretax recurrent of 35 and we are not seeing any item in terms of nonrecurring items.

Mr. Falavina: okay. Just to be clear here is it accurate if I say basically your share price has not moved nor FX and you did not hire anyone we would have been seeing something around 30, 35 million this quarter?

Mr. XXX: 35 million every quarter.

Mr. Falavina: perfect thank you so much.

Operator: the next question comes from Felipe Salomao, Citibank.

Mr. Felipe Salomao: hi everyone good night, thanks for the opportunity to ask questions. I have two questions actually, the first one is about competition. We continue to see little correlation between discounts rates and net adds. Are you noticing that has a kind of become more sensitive to prices? And the reason I am asking this is because two of your competitors have had prices significantly down, Credicard POP and SumUp, so I am just wondering what you guys think about it, and then I will ask my second question thank you.

Mr. XXX: hi Felipe. As I said before our merchants, the longtail merchants are more concerned about fixed costs and that is why we follow competition pretty closely in terms of devices prices. In terms of take rates we do not see that pressure and that is why I say that the fact that we were born online we built this ecosystem thinking about longtail. We are creating these new features like bill payments; mobile top up; prepaid cards; lending now; just launched these stand payments this week. So we have a more complete ecosystem for these small merchants; we have a strong brand, as we showed in the presentation 4x more Google searches than the second player. So we do not think that if we keep decreasing the price we are going to sell that much more so to say. So we are following the competition pretty close; we are trying to find the optimal price in terms of devices, in terms of take rates. The fact that as I said before we were born online, we distribute online, easy on board and so on that is what makes us different and that is why we can monetize - and again just remember in terms of acquisition cost as we have a strong brand we have a lower acquisition cost when compared to our other players in the market. So summarizing we are finding this optimal price between devices prices and MDRs.

Mr. Salomao: okay that was clear thank you. So my second question actually is a follow-up on Domingos' question about stock option expenses. I understand the accounting bet of the mark to market of FX and the stock price and they understand that 4Q 18 should not bring any nonrecurring, not expected stock option expense; but I am just curious about what should we expect in terms of nonrecurring stock option expenses for let us say next year, when probably on the other tranche of stock options are going to be exercised and probably you guys really to do the same mark to market on those stock option expenses right? So I just want to confirm if you continue to see the guidance of roughly 30 million BRL on stock option expenses per quarter is a good one or if we should also consider that some quarters are going to bring these nonrecurring stock option expenses. That is my second question.

Mr. XXX: you should consider 35 million BRL pretax per quarter without any nonrecurring items. If next year for example, if in August next year FX for example is again at 4.1 and the stock price is close to 30, you should expect an additional 59, 60 million BRL that we posted this quarter.

Mr. Salomao: okay thank you.

Operator: This concludes today's question-and-answer session. I would like to invite Mr. Ricardo Dutra to proceed with his closing statements. Please go ahead sir.

Mr. Dutra: Before closing this call I will provide net income guidance for 2018 and 2019. For 2018 we expect Gaap net income in 4Q in the range of 280 to 290 million BRL and in the fiscal year in the range of 888 to 898 million BRL. Estimated non-Gaap net income in 4Q 18 in the range of 305 to 315 million BRL and in the fiscal year 2018 in the range of 1.05 to 1.06 billion BRL.

For 2019 we expect Gaap net income in the fiscal year in the range of 1.182 to 1.36 billion BRL; estimated non-Gaap net income in the fiscal year 2019 in the range of 1.32 to 1.5 billion BRL. Important to say the bottom of the guidance number, 1.322 billion for our non-Gaap net income for 2019 is exactly the same number that was shared with research analysts before the IPO. We see a possible 13% upside in this figure reaching 1.5 billion BRL.

In our view delivering a 2019 full year net income higher than the number presented at the IPO not only shows our confidence in PagSeguro business model, but also the company's ability to operate in a competitive market. We would like to thank you all for the time spent with our management team. We would like to reinforce our commitment and focus on delivering solid results. See you all in the next conference call, thank you very much.

Operator: That does conclude the PagSeguro audio conference for today. Thank you very much for your participation, have a good afternoon and thank you for using Chorus Call.