



2Q19 RESULTS TRANSCRIPT



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RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

Hello everyone and welcome to our second quarter results conference call. Tonight, I have here with me **Eduardo Alcaro**, our Chief Financial Officer, and **André Cazotto**, our Head of Investor Relations.

Before we get started, I would like to say a few words about **competition**. Although we have been watching aggressive competition constantly and poorly trying to replicate our business model, we continue to deliver strong results.

We would like to reiterate that **we continue to focus on the longtail market taking advantage of being the first mover with the best and most complete digital banking ecosystem and by having unreplicable strengths, such as UOL online distribution.**

We continue to operate in an untouched market. **Still today, 80% of the new devices are sold for merchants that do not accept cards.** We do not play the “zero-sum game”. Competition does every day in their useless struggle. Our price **fits all** and **is in the platform**. And there is **no** negotiation at the platform.

Therefore, **we have delivered in this quarter the same consistent performance** we have been delivering since our IPO: **healthy net adds growth and stable take rates**. In addition, we are now seeing **higher adoption of new banking products and services** generating more engagement and a **double-digit growth** in average spending per merchant year over year.

And before we go through the operational and financial metrics, I would like to play a 2-minute audio with **Luiz Frias**, our **founder** and **chairman**.

LUIZ FRIAS | FOUNDER AND CHAIRMAN

Hello everyone!

I would like to say a few words about **how we see the banking industry evolving in the next years** and **how our company is uniquely prepared to surf this incredible wave that is transforming Banking as never seen before.**

Amazingly we saw the Internet transforming several industries in the last 25 years. One of the first industries was music, followed by newspapers and magazines. Then the whole media reaching video entertainment. Today, almost all our economic activity has been impacted by the Internet. One of the last industries to resist was Banking. **But now Banking is changing. The Internet is finally transforming Banking.**

To be competitive in this new Banking Era, companies must have a tech DNA, understand local needs and deal with local governments and local regulators. But most important, probably the unbeatable advantage, **they must be the first mover**. They must have the first mover scale advantage.

Scale is not only a fancy word in the Internet. It is also fundamental in Banking. Scale defines retail banking and retail has always been the core of Banking.

But while in the world of “search and social networks” scale is global, in retail Banking scale is local. This is why after so many decades of globalization, **retail Banking is still local** in developed markets like America, Europe, and Japan as well as in emerging markets like Brazil. Global retail Banking is a tough business. **Global scale does not apply to retail Banking.** The scale that counts for retail is **local**. As an example, in Brazil, a global bank like HSBC didn't have a **local scale** to compete against Itaú and Bradesco, the local banks.

We see digital retail banking through mobile and we believe to be likely to see some similarities between major Internet stories (like search and social networks) and the Banking Industry transformation to come.

Remember **Google+**? The dispute in the early social network market between the mighty “Goliath” Google trying to compete against the first mover “David” Facebook? Bingo, David beat Goliath! First mover wins.

PAGS is tech, PAGS is the first mover, and PAGS is local.

With that in mind we are pleased to share with you the beginning of a new banking strategy with **PagBank**, officially launched last May. We are also pleased to say that **PAGS** has reached a spectacular figure of **9.4 million** unique active users. These **9.4 million** unique active accounts are **4.7 million** unique active merchants plus **4.7 million** unique active accounts consisting of online buyers - using **PAGS** digital wallet – and **PagBank** consumers. Out of the **9.4 million** unique active accounts we have **1.4 million PagBank** unique active users. All of them have at least one single transaction in the last 12 months in order to be considered active.

PagBank was launched through a massive national online and offline marketing campaign to promote the new brand and its new products.

With **PagBank**, **our market is expanded by 14 times! It is 14 times larger than the payments market.** **PagBank**'s offering represents a real opportunity to cross sell additional products and to expand our relationship not only with the **4.7 million** merchants, but also with our **4.7 million** unique online buyers and **PagBank** consumers.



The **9.4 million** unique active users reinforce that **PAGS** is today much more than a **Payments Company**. Most importantly, it shows our leading position in digital Banking. We are the largest digital bank according to Google Trends and the largest prepaid card issuer.

We continue to believe that the digital banking revolution is disrupting the way Banking is offered. **Digital, self-service, simple, price-transparent and affordable** financial products are changing lives around the world. Including Brazil!

Brazil is a country with a reasonable telecom infrastructure (98% 3G coverage), a huge smartphone penetration and a massive internet usage (5th largest internet audience in the world). In addition, **PagBank** is leveraged by **UOL** online distribution. **UOL** covers 87% of the Brazilian Internet Audience. **UOL** is a relevant and exclusive ally to democratize and lead the digital revolution in financial services. Just like **UOL** did for **PagSeguro** in payments.

There is a blue ocean of opportunities in financial services and a huge number of unbanked people willing to adopt digital solutions and new disruptive finance products.

We believe **PagBank** can capture part of the total revenue pool that is **14x** bigger than the payments market. And we believe we will continue to lead digital banking transformation in Brazil in years to come.

This strong momentum reflects our strong fundamentals.

PAGS is uniquely positioned because it was the **first mover to create a business model and solution for the “long tail market”** by offering a **digital, simple, self-service, price-transparent, complete and affordable finance ecosystem** and by having **UOL** as an **exclusive** online distributor among other things.

Being the first mover, investing in people, R&D, products, distribution and branding in the last 13 years brings to **PAGS** a natural advantage.

Thank you for your time and now, I will turn the conference over to Ricardo.



RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

Now, we start our presentation highlighting the great achievements of the quarter.

SLIDE 03

Starting with our solid results: **Non-GAAP Net income** to reach **343 million reais**, up **42% year over year**, and **5% quarter over quarter**, with a **Net margin** at **25%**. Our **Adjusted Net Revenue** reached **1.3 billion reais**, up **53% year over year** and our **net take rate** ended at **3.23%**, up 11 basis points quarter over quarter.

Moving to our Operating figures, we ended the quarter with **9.4 million active unique users**, which means active merchants, active **PagBank** consumers and online buyers using our wallets that did at least one single transaction in the past 12 months. Our **TPV** reached **26.8 billion reais**, up **59%** year over year, closing the quarter with **4.7 million active merchants**, adding **1.2 million** when compared to the second quarter 2018.

Our **average spending per merchant** in Q2 2019 reached **5.9 thousand reais**, up **15%** year over year. We believe the adoption of additional features through the digital account will be translated into higher stickiness and more transactions. **Our goal is to be the merchants' final money destination.**

These figures reinforce not only that we are in the right path with a broad ecosystem, but also our execution capability.

Now moving to **PagBank**, we had **2.5 million downloads** in the quarter. Our **customer average balance** grew **58%** year over year, pointing that over time our active users see **PAGS** as their final money destination. We also ended the quarter with **1.4 million PagBank active users**, which means **merchants, online buyers and consumers** adopting, at least, one additional product or feature beyond acquiring services, considering at least one transaction in the last twelve months.

Finally, **PagSeguro** has proven 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 new competitors that were attracted to the market after our IPO.

We operate in a brand-new market that we created, 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.



SLIDE 04

Moving to the next slide. We believe PAGS is well positioned and with a robust ecosystem that combines payments, lending, banking and software products to serve our more than **9.4 million active unique users and new customers we will acquire in the future**. By upselling new products like credit, banking and software and expanding our approach to consumers, **we will multiply our market**. Considering the new initiatives already available for merchants and consumers, **we estimate the revenue pool is almost 14x larger than payments market**.

Being the first mover, having a robust and low-cost ecosystem, with 9.4 million unique active digital accounts, mobile first, strong brand, focus in user experience, the best rated financial services app on Google and Apple stores, and unreplicable online distribution through UOL, brings to PAGS a natural advantage to lead the market.

SLIDE 05

On slide 05, we start presenting some figures about the **potential market**. According to IBGE and Brazilian Central Bank, **there are 68 million unbanked people in Brazil**. Additionally, **28 million of the low-income population do not have a bank** and **57% of the population are interested in adopting digital banks**.

Still, **40% of the paychecks are paid in cash**, **65% of the bill payments are also made in cash** and, finally, **51% of the new bank accounts are opened just to receive payroll checks**.

SLIDE 06

On slide 06, **PAGS is leading the digital transformation and democratizing financial services**.

Brazil already has a solid infrastructure, with **3G network covering 98%** of the Brazilian population, while **96%** already count with **4G coverage**. And the **smartphone penetration in the country reached 71% of the Brazilian population**.

When it comes to global internet figures, **Brazil is one the most relevant countries**, being the **fifth largest country in number of internet users**, **fourth in time spent on internet** and the **second one in time spent in social media**.

And when it comes to our relevant and unique positioning to capture this digital transformation, it is worth to remind that **UOL has 87% internet audience coverage in the country**, with **105 million unique monthly users as of June 2019**.



SLIDE 07

On the next slide, we present our outstanding and encouraging results. We ended the quarter with **1.4 million active users**. It means merchants, online buyers using PAGES digital wallet and consumers that use at least on additional product or feature beyond acquiring.

Our **PagBank** app was rated at **4.8 stars in Android and iOS**, being the best rated app among payments and digital banks peers according to more than 600 thousand reviews and **PagSeguro** is also the largest digital bank searched by Google.

We had **58%** increase in the **digital accounts average balance year over year**, reflecting the higher adoption and usage of the new products; and according to internal survey with our clients, **94% of the users would hire products and services** offered by **PagBank**.

Additionally, we ended the quarter with over **2.5 million downloads**, growing almost 200% year over year and **75 million logins on PagBank** app during the quarter, **a record in our history**.

Those initial figures indicate we are in the right path and we will keep enhancing our ecosystem in order to increase **PagBank** usage.

SLIDE 08

Moving to slide 08, we provide some additional color about our lending product, **PAGS Capital**.

We are gradually scaling the product to our best merchants, eligible according to their account history, TPV behavior and payment frequency. Since the beginning of the operations in May 2018, **we reached 26 thousand lending contracts**. In Q2 2019 we had **14 times** more contracts than what we had in Q4 2018 and ended with a **total credit portfolio** net of losses of **132 million reais**. So far, we are being careful with credit, however these initial results are encouraging, as we had **very low level of delinquency**. Credit is an important tool to create higher engagement with our merchant base and may generate additional revenues for the company in the future.

Now I would like to turn the conference over Eduardo.

EDUARDO ALCARO | CHIEF FINANCIAL OFFICER

Thanks Ricardo, and hello everyone!

SLIDE 09

On the next slide, before I start, I would like to mention that in the second quarter of 2019 we had a total of **20.1 million reais** of non-GAAP items related to our **stock-based long-term incentive plan**. In addition, I would like to remind you that in the next quarter we will have the vesting of the 4th grant of the initial stock-based plan like we had in the third quarter of 2018. Based on the current stock price, **we estimate a one-time net income market to market adjustment of approximately 50 million reais on the top of the quarterly recurrent provision**. For more details, the reconciliation of these non-GAAP financial measures is presented in the last page of this webcast presentation.

On the top left of slide 9, our **Adjusted Net Revenue**, the sum of net revenues from transactions and financial income from installments reached **1,296 million reais** in this quarter, up **53%** year over year and **13%** quarter over quarter. We believe that these two operational revenue and income lines best represent our core business which grows at healthy high double-digit rates.

On the other hand, despite any mix effect, our MDR prices are public in our website and remained the same quarter over quarter having the benefit from additional products and services of our Digital accounts.

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

In the second quarter of 2019, **transaction and services** represented **59%**, **financial income** **37%**, and **hardware sales** only **5%** over total net revenues that continue to trend down as expected.

On the chart below, we present our non-GAAP **total costs and expenses** that decreased **0.4 percentage points** year over year, ending the second quarter at **3.4%** over total TPV. Related to non-GAAP **Administrative Expenses**, over total TPV, reached **0.3%**, flat when compared to one year ago.

SLIDE 10

On the next slide, we show our non-GAAP **Net Income** growth. In the second quarter we reached **343 million reais**, an increase of **101 million reais** and up **42%** year over year. The non-GAAP **Net Margin** reached **25%**, remaining stable even with higher hardware subsidies and new Marketing expenses related to the PagBank campaign in the quarter.



SLIDE 11

On slide 11, we have mapped the **current functionalities of our unique ecosystem broken by Payments, Software and Banking features**. You can see that **there are four new features we launched after our first quarter earnings call** and I will give more details about them in the next slides. On the superior block, there are features oriented to merchants. Instant payments and Sales app in the software column are the new ones.

Below, you can see our robust banking ecosystem. Credit and cash cards, as well as Payroll portability are the new launched features. We believe these banking features will enable us to attract, engage and monetize both merchants and consumers, helping us to improve our merchants' loyalty and stickiness creating more and more engagement.

The total market of banking and credit is 14 times larger than the payments market, and PAGS is well positioned to reach this new market.

SLIDE 12

Moving forward to the next slide, we have our number of **Total Unique Active Accounts**.

Let me first remind you our criteria again, since this is the first time we are sharing this metric. These **9.4 million unique active accounts** are **4.7 million unique active merchants**, plus **4.7 million unique active accounts** consisting primarily of **online buyers** - using PAGS digital wallet – and new **PagBank consumers**. All of them have at least one single transaction in the last 12 months in order to be considered active.

It is important to remember that **PAGS** started its business as an online digital wallet provider before entering in the POS market back in 2013, so we have a large number of unique active online buyers holding our e-wallet for ecommerce purchases in our online check-outs, just like Paypal, generating TPV but not monetized as consumers, and now through **PAGBANK** we will offer products and services for them, with the advantage of already having their purchase profile and this is the reason why we began to share this additional metric **since our value proposition goes beyond merchants and acquiring services, and we are expanding our capabilities to a new pool of services and consequently users**. As we mentioned earlier, from the 9.4 million total **unique active accounts**, **1.4 million are PagBank active users**.



SLIDE 13

On slide 13, we have the evolution of our **average spending per merchant** that reached **5.9 thousand reais** in Q2, a growth of **15%** year over year. This strong and continued growth is explained by the higher adoption curve of our solution in our merchant base, which is an expected trend, higher engagement in our ecosystem being converted in more transactions and TPV. Just reminding what we said in the initial remarks, most of our merchants did not accept cards before joining **PagSeguro**. This is a blue ocean and a new market created by **PagSeguro** as we are not stealing clients from competition.

In the next chart, we have our number of **Active merchants**.

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

We ended the second quarter reaching **4.7 million** active merchants, adding more than **1.2 million new merchants in one year**, representing an increase of **35%** year over year. Quarter over quarter, we added **296 thousand new merchants**.

On the charts below, we see our **TPV**.

Our total payment volume reached **26.8 billion reais** in the second quarter, an increase of almost **10 billion reais**, up **59%** year over year, and growing almost **10%** quarter over quarter.

This growth is the result of a higher penetration of our ecosystem in the long tail combined with the trend of “cash to plastic” conversion that is still at the beginning in our merchant base with lots of room to grow in Brazil and having the upside of cross selling additional products and services to our clients with our PagBank initiative.

The **Net take rate**, which is the blended take rate net from transactions costs such as interchange, processing and cards scheme fees, reached **3.23%** in Q2 2019, or **11 basis points** up when compared to previous quarter.

Now I would like to turn the conference over to **Ricardo** who will talk about engagement metrics and new products.



RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

Thanks Eduardo!

SLIDE 14

On slide 14, we show some of the **most relevant engagement trends in our ecosystem**. We believe engagement is one of the most relevant metrics to follow, once it will help the company to increase the switching cost, add more transactions and TPV and will enable future monetization and revenue diversification.

On the top of the chart, we have the number of **active prepaid cards** that increased **78%** in 2Q19 when compared to 2Q18. According to Card Monitor, **PAGS is the largest prepaid card issuer in Brazil**. Additionally, we also have the **volume of prepaid cards top-ups**, that increased **75%** when compared to the same period in 2018.

In the chart below, we see the number of **bill payment transactions** rose **719%** since its launching back in the second quarter of 2018, reaching **1 million transactions in the quarter**. Our **mobile top up** feature is also ramping up, growing almost **400%** percent when compared to 4Q18, when we launched it, and **84%** growth quarter over quarter.

SLIDE 15

In the next slide, we have the evolution of our **additional revenues growth**, or revenues generated by new products in our ecosystem such as lending, cards, software and others, that grew **131%** year over year.

Additionally, we have the evolution of our **P2P transfers**, that started to get traction and already grew **474%** when compared to 4Q18 and **39%** quarter over quarter.

On the chart below, we have also the **customer average balance** that increased **58%** year over year, showing that through new products and features more and more our merchants are seeing our digital account as their final money destination.

Finally, we see the evolution of new transaction methods like NFC. Our **TPV through near field communication** or contactless increased **92%** quarter over quarter. We believe that offering NFC and QR code acceptance in our terminals and in our wallet increases the value proposition to our customers.



SLIDE 16

On slide 16, we highlight our **roadmap of products** already delivered in the year. Being an independent company allows us to **think exclusively on our clients' financial needs, by delivering growth and profitability simultaneously and offering a unique ecosystem through our digital account**. With cash and credit cards and payroll portability, we expect to diversify our addressable market and start gaining penetration with the consumer vertical, besides our higher engagement on the merchant segment. Worth to say we will be very cautious in the credit offer as we know it is important to understand credit behavior so that we can manage delinquency accordingly.

SLIDE 17

On slide 17, we can see the **strength of our brand. PAGES 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 87% internet reach as of June 2019, to promote our products and solutions in the long tail market, helped **PAGES** to reach a unique brand recognition. In the past twelve months, according to Google Trends, filtering by the Financials Category, **we have on average approximately 6 times more searches than the second player**. PAGES 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.

SLIDE 18

On the slide 18, we show our new device, **Minizinha Chip 2**. An upgraded version of our entry level device, with a promotional price of 12 installments of 9.90 reais or 118.80 reais. This device is **NFC enabled and comes with the usual sim card and larger screen, combined with a thinner hardware. It will offer a better user experience for self-employed segment**.

SLIDE 19

Moving to the next slide, we present our **software solutions**.

Through M&A transactions, we now have **TILIX**, an automated application that innovates the customer experience in paying bills. From Utilities to Tax bills, Tilix offers a simple and user-friendly interface to manage bill payments and will be fully integrated in our digital account app in the following months. We also have **R2tech**, a company acquired in 2017, that offers a streamline process of credit card transactions reconciliation. And finally, **NetPOS** that provides ERP software to retail and foodservice segment.



Built for front and back office, with sales and management tools like inventory control, detailed reports, cash management and invoicing, NetPOS will be fully integrated with PAGES's mPOS, POS and SmartPOS devices as well in our PAGES's sales app. We had 84 thousand clients using our software products by the end of June 2019.

PAGES will continue to monitor possible M&A activities that can speed up the building of a more complete ecosystem.

SLIDE 20

Finally, on the next slide we show our **new acquisition**. After Tilix and NetPOS, **Yamí is the third software acquisition in the year**.

Yamí is a back-office platform for ecommerce and marketplace, helping online merchant to run their businesses and is compatible with the major e-commerce SaaS platforms, such as VTEX and Oracle

Yamí provides a relevant product in Brazil for ecommerce exchanges and returns and it is the first PCI gateway specialized in payment splits.

Additionally, Yamí works with more than 100 fashion online stores, a segment where exchanges and returns are recurrent, which adds some complexity to transactions, requires split payments and so on.

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



Q&A SESSION

CRAIG MAURER | AUTONOMOUS

Hi! Thanks for taking my questions, a couple of things.

The take rate on transactions improved substantially and I was wondering if this was a mix shift back to credit as if I remember correctly debit was suppressing that take rate.

Secondly can you talk about the revenue potential of PagBank as we think ahead for 2020 and if you will be breaking that out separately? Thanks.

RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

Hi Greg! This is Ricardo thank you for the question. First regarding take rate, you are right. The increase in net take rate is mainly due to mix shift. In the past quarter we had the more debit transactions and now in 2Q we had more credit transactions and more credit through installments as well. So that helps to increase net take rate.

Regarding the potential that you asked about revenues all our business plan is to have at least 30% for revenues coming from additional services in three to five years. So that is what we have in mind and that is what we have in our business plan. If something changes, we will let you know the following quarters; but so far that is what we had in our plan.

RAYNA KUMAR | EVERCORE ISI

Good evening and thanks for taking my question!

Could you quantify some the investment spending you are making on PagBank and just help us understand the operating leverage in the business for the remainder of the year and then also for the next 2 to 3 years please?

RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

Hi Rayna! Thank you for your question. Last call when we talked about PagBank on May 15 we give more information about the ecosystem we were building for PagBank consumers so to say; and



we added two features into the ecosystem, which was salary portability and cash card. So, the investment in terms of the ecosystem was not that big; what we did since then was a little bit of investment in marketing and that is what we had so far.

So we tried to have the same ecosystem that we already have for the margins and added these two features so that we can serve the consumer as well - and remember our merchant is so small that at some point he behaves like a merchant and sometimes he behaves like a consumer. So, we did not have to change the ecosystem too much in order to serve consumers. So, going back to your question most of the investment so far was in marketing.

OTAVIO TANGANELLI | CREDIT SUISSE

Hi! Thanks for taking my question and congratulations on the results. I have a question on PagBank. Actually I know it is a little bit early; but if you could share with us some of the statistics on either delinquency or the rates that you are charging on the credit data it would be great for us to have an idea of how we should think about this line going forward, thank you.

EDUARDO ALCARO | CHIEF FINANCIAL OFFICER

Hi! This is Eduardo speaking. First, we are not doing lending for consumers on our credit product what I can tell you that we continue to learn and decrease the number of origin nations here. Right now, we are cherry picking our clients eligible to this product, merchants that have an account history, solid TPV, growth in payment frequency. Our focus is having the lowest delinquency in the market. That is our focus right now. So, we are finding, we believe we are finding the right model and that is what we are doing right now, and we do not have any rush to accelerate it. We just want to make the product right.

We continue to see electronic transactions the main driver of growth in PagBank. The additional product is a tool to engage people in our ecosystem. Score capital is one of our benchmarks and at least for now we are funding all the transactions on our balance sheet.

BRYAN KEANE | DEUTSCHE BANK

Hi guys! Congrats on the quarter. I want to ask about the net merchant adds. It is running ahead of our expectations and running ahead of your guidance as projection for the year, I think of 1 million;



can you talk a little bit about the target? Do you guys expect similar numbers for the year or now that you are up to a good first half of the year, we should see something north to the million?

And then secondly our net income guidance for the year, for fiscal year 19 would you reiterate that, or would you think about maybe investing further in some of these additional services to generate faster revenue? Just thinking about the balance of investments like PagBank versus dropping it to the bottom line, thanks.

RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

Hi Bryan! This is Ricardo thank you for your question. You are right, we had better net adds this quarter than we had in our original plan. We do not see deceleration so far; but we prefer to keep the guidance that we had last year, which was 1 million net adds the same - but you are right, we already had half of the year and we are almost 600,000 and it seems that we are going to be better than what we had in mind back in December; but we prefer to keep the guidance in terms of net adds the same 1 million.

In terms of guidance on net income would like to answer that Eduardo.

EDUARDO ALCARO | CHIEF FINANCIAL OFFICER

Hi Bryan! In terms of the guidance we are keeping the same guidance, the non-GAAP guidance of 1.322 billion to 1.500 billion. What we are seeing right now is a number close to the top of the guidance. That is our estimate right now.

DOMINGOS FALAVINA | J.P. MORGAN

Hi! Good evening everyone and thank you for taking the question.

My question is on the Opex side. We noticed substantial investment on the PagBank launch and I would have expected you to disclose how much of that was one-off so that we could clean the income statement to see what the earnings power is. So, my question is how much you spending in the launch in marketing, how much was like an unusual launch expenses so that we can adjust marketing going forward.



My second question is congrats on the results. We were surprised with the figures on the side of PagBank; it came even more the size of the online digital accounts. So my question is how should we think about that, meaning the 4.7 million clients that you have on digital, which are not your merchants, should we think of that as a more easily reachable, addressable market for PagBank and so you intend on growing on this base with cross selling banking products or do you see that as already non-addressable market and you will monetize that in some other way and you will expand your net additions elsewhere? Just trying to understand exactly how to correlate the online digital account with the PagBank offer.

EDUARDO ALCARO | CHIEF FINANCIAL OFFICER

Hi Domingos! This is Alcaro speaking.

I think first PagBank is designed for both consumers and merchants and we will monitor the progress on a consolidated basis. I think Ricardo mentioned earlier we are already doing have the investments in the whole platform. You can look at our R&D expenditure. We spent in 1H TY we can see in our cash flow about 150 million BRL in R&D.

And when you look at our client base our client base is really mixed. We have clients using sometimes the merchants' hat, sometimes the consumers' hat. So, to start to split our breakdown how much of investments go to one or another we just have one consolidated platform that serves both merchants and consumers.

RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

Hi Domingos! This is Ricardo and thank you for your question.

Regarding the 4.7 million online buyers we plan to approach these guys to offer PagBank. Remember that until May we did not have a good offer for the consumers so far and so we had all this base of online buyers that used our wallet; but we did not have the right product for them.

Now we have some product we can approach them. We have been having some mixed results; some of them stick with the product and some do not. Part of that is also worth to remember that most of them they have a wallet with us, they already have credit card and PagBank is very oriented to on bank people as we said in the presentation.



So our focus is not to get people from other banks - if they want to, they will be welcome for sure - although our focus is to get people un-banked and these guys, these 4.7 million, part of them they already have banks and not all of them are going to stick with our offer. But we are working to bring them to PagBank.

ANDRE CAZOTTO | HEAD OF INVESTOR RELATIONS

Domingos! Andre speaking!

Just one additional commentary. We also have the advantage of knowing this consumer profile because we know how much these guys are spending in online transactions once they are using our wallet; and for sure that the CAC to acquire these guys is lower once he is already in the ecosystem. So, we benefit from that, too.

DOMINGOS FALAVINA | J.P. MORGAN

Yes! Super clear!

Just one follow-up on the answer from Alcaro: I understand that investments were 150 million, super clear; but my question is just like more on the marketing, like you launched if you look at the run rate for marketing expenses and selling it was like 80, 90 million and it came maybe 30, 40 million above in this quarter. It seems like a one-off expense linked with the launch of PagBank; thus, this number makes sense? Like should we see maybe a one-off of 30 million in expenses or 40 or 20 in this quarter not?

EDUARDO ALCARO | CHIEF FINANCIAL OFFICER

Domingos! Your comparison is right. We spent in marketing 80 million BRL in 1Q and 116 in 2Q, 36 million BRL more. At this point we are not providing specific disclosure on marketing efforts how much went through PagBank. I also believe that you should not consider the investment in PagSeguro as a one-off, as we will continue with the marketing investments going forward as well.



MARIO PIERRY | BANK OF AMERICA

Hi everybody! Good afternoon. May I ask two questions as well?

First one starting on PagBank. If I look here the data that you disclosed you said you disbursed 132 million BRL to about 26,000 contracts and so we get an average ticket size of 500 BRL roughly; but when we look at your average client there transacting roughly 2000 BRL/month. So, I wanted to understand are you been too conservative right now? Could you be increasing our ticket size to at least the value of one month of transactions? If you could also talk a little bit about the interest rates you are charging on this loan so we can have idea and if you could give any color in service fees. Are you charging monthly fees to your clients? Do you plan on charging fees? Also last quarter you said that you are going to start issuing cards to your clients; I do not know if I missed it but I did not see any figures on the number of cards issued, if you could discuss that a little bit as well. So basically, these questions are related to PagBank just trying to quantify what could be the potential revenues for you.

And then my second question is related to one of your peers, it allows the strategy to get into the micro merchant's segment that pretty much replicates what you are doing. I just wanted to hear your views about this potential new entrant, how do you think you are prepared to face this competition and if we see your competitors coming to your market that it could pressure and you to eventually move up into the SME segment and become more aggressive there? Thank you.

RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

Hi Mario! This is Ricardo and thank you for your question.

I will start for the last one regarding the micro merchant competition that you asked. We have been facing competition from the big banks, the big guys and also from other companies since the end of 2017, right before the IPO when F1 became public we started having more competition in the market. So, nothing has changed that much.

Being sincere with you we do not fear competition that is coming at this point and from the latest mover. If we think about some announcements that he had in the last weeks buying broadcast media with equity in our view is not a strategic move. Also, there is some potential of conflict who is going to be the owner of the customer, if it is going to be the JV or the other company. So, we do not think that that is going to change the dynamics of the market that much.

The longtail market, also worth to remember, is huge and still underpenetrated. We sell 80% of our devices for people that did not accept cards before joining us. There are millions of SMBs and entrepreneurs in Brazil and so we see still a lot of potential in this market, and remember that we have

The image shows several smartphones displaying mobile payment applications. One phone shows the 'pagseguro' app interface with a yellow background and the word 'pagseguro' in white. Another phone shows a green screen with the word 'Transfer' in white. A third phone shows a yellow screen with the word 'input' in white. The phones are arranged in a cluster, with some overlapping.

Going back to PagBank and the lending, Pags Capital, I know we just disclosed the numbers 30 min. ago; but the right ticket is not 500, it is 5000. It is 130 million divided by 26,000 contracts and so it is around 5000. We are offering this for the best merchants that we have, for the merchants that have account history, TPV behavior, a lot of information on the accounts and we are not disclosing the exact percentage of lending we are offering and mainly because we have a variety of prices depending on the risk that we see in each of these merchants - but I can tell you that interests are very low and that is what we believe that we need to include people, bring people to our ecosystem and so they are going to increase stickiness and use our products more. Regarding cards I will let Alcaro answer that for you.

EDUARDO ALCARO | CHIEF FINANCIAL OFFICER

Hi Mario!

About cards we provided some specific metrics on prepaid cards, as well in our 20 F. We are by far the largest prepaid card issuer in the country. In terms of number of prepaid cards, we grew 78%, you could see in our presentation; and the volume the prepaid card top ups increased 75%. If your question is about the pure credit card and not the prepaid credit card this operation is, we in the beginning.

We are expanding credit cards also to our very best merchants at this point. I think as a mentioned earlier our focus here is to have a very, very low delinquency. Credit I always say that is very easy to provide and very hard to collect. So, we need to be careful with the product; but we are making very good progress so far.

MARIO PIERRY | BANK OF AMERICA

What about service fees? Are there any service fees for the accounts? Are you charging like a monthly fee?



EDUARDO ALCARO | CHIEF FINANCIAL OFFICER

No! Our accounts are free of charge. We do not charge any maintenance fees, although we have some revenue streamlines. So, for example we do not charge wire transfers; but beginning of the sixth wire transfer we do charge and it is extremely lower than what is offered in the market, it is 1.99 versus the prices that you can see in the market.

We also receive interchange or prepaid cards; we also get rebates from utilities and the telecom companies on the bill payments; we get float from the check in accounts and, we have the lending that have just mentioned. So those are the main revenue streamlines.

JOSEPH FORESI | CANTOR FITZGERALD

Hi! I wanted to ask a couple of questions, first just on PagBank.

Maybe you could talk about how you view risk in the business and the see your balance sheet to take on that risk and what the reward is there?

And then maybe is a second question you could talk a little bit more about how you think about the penetration rates in the market right now and some of your thoughts around what the long-term targets are from a growth rate margin and net income perspective.

Thanks!

EDUARDO ALCARO | CHIEF FINANCIAL OFFICER

Talking about the risk just to be clear we do not have any consumer lending in our balance sheet. All that we have is what we disclosed, 130 million BRL so far with our balance sheet. This represents about 1% of our total receivables. So, the credit risk there is really limited.

RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

Regarding the potential of the market, James, we have our own almost 70 million people unbanked in Brazil; 28 million of low-income people that do not have a bank account and so all these stats



that are out of the system. So, it is a similar situation what we had back five years ago when we launched the POS devices that we brought millions of people to the financial system. We had the same plan for the consumer: bring these people into the system. Our plan is to have at least 30% of revenues in three to five years coming from these PagBank revenues.

JOSEPH FORESI | CANTOR FITZGERALD

Got it!

Just to go back to what amount of risk are you comfortable you realize it is very low now. I assume you are going to continue to use the balance sheet. Do you have a target of maybe 5%, 10% of total revenues or is that not; or maybe a partnership that you might develop down the line? I am just trying to get a sense of how you are thinking about the risk associated over the long-term.

EDUARDO ALCARO | CHIEF FINANCIAL OFFICER

Well, what we are really thinking about now is engagement; it is offering a product that creates more stickiness. For most of our clients it is the first time that they are receiving a credit offer.

In terms of what is the level of risk or size I think it is too early to say. As I said before we are doing very nice progress, we are really pleased with the product; but the set targets right now are not really our main concern here. As I said before it is a product that we continue to learn, and we are making very good progress here.

RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

And also James just complementing what Eduardo said we will see what is going on with these products in the next quarters and if necessary or if we think it is feasible we can make partnerships based on commission fees or commission plus profit fees for part of our consumers or merchants that we think too risky for instance. So, as Eduardo said it is still too early to give one overview about that - but we will keep posting you in the quarter results.



JAMES FRIEDMAN | SUSQUEHANNA

Hi! Thank you for taking my question. I want to ask to out of the... Front.

One, you mentioned on your remarks you showed the math that is 30% growth in the revenue per merchant YoY. I know you said that that is a blue ocean; but there was acceleration from 1Q. I was wondering how we should think about modeling that going forward, that is the first question.

And then with regards to the take rate 11 bps increase usually those two do not go together like you had more revenue per merchant but you also had higher take rate. I realize you said earlier there is a credit or debit mix; but should we be thinking about that trend to continue or should we stay here? How should we be thinking about the take rate? Thank you very much.

ANDRE CAZOTTO | HEAD OF INVESTOR RELATIONS

hi Jamie! thanks for your question. Andre speaking.

About this average spending per merchant it should continue to trend just like the past quarters. I think the main reason why you are still observing this strong double-digit growth YoY is because we are still receiving more merchants migrating cash to electronic payments, this is still an ongoing trajectory for the company and so you should keep this growth stable in the near-term.

When it comes to the take rate, we explained it. I think this is also a very similar trajectory as we observed in this quarter. We are not seeing pressure coming from competitors in our take rates, we are diversifying the business. We had a very mix in 2Q and so what we have control in terms of pricing there is no change. We are not observing any type of pressure.

TITO LABARTA | GOLDMAN SACHS

Hi! Good afternoon and thanks for the call and the information you provided. A couple of questions also, I just following up on the revenue potential of the businesses from PagBank you mentioned about 30%; any color in terms of how much of that comes from lending versus fees? Do you see a preference for how are you would like to generate that revenue? I am just trying to get a sense; there is a kind of target to the risk just being able to generate the income would it be less risk; but am just trying to get a sense of how you might think of that split over the next few years.



And then the second question in terms of competition just following up a bit more there. Given all the information you provided the banks have not been successful in going after these unbacked merchants in the past and maybe just the kind of wrong way; but with this additional information you are providing you think this could present bigger risk for the banks to maybe see another way to attack this market and try to go after it in a different way given what you are providing?

And I guess thinking about the margins they have been holding up well beyond return. Do you think there is room for margin expansion, or will competition bring that down? If you could give some color on that it would be great thank you.

ANDRE CAZOTTO | HEAD OF INVESTOR RELATIONS

Hi Tito and thanks for the question.

I think that for these 30% I just mentioned it is too early to say. I think it is going to be a mix of all the products that we are developing, the ones we are starting to scale right now. Like Eduardo explained earlier we are very worried about right now in creating the ecosystem, engage the people. We have this aspiration of 30%; but it is too early to comment from where it is going to come; probably overall products that we have like the interchange that we capture in our cards, lending among others that we have in our ecosystem and others that could come in the near-term.

RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

Tito this is Ricardo thank you for the question. Regarding competition even with all this competition that we had in the past one year and a half we did not change or price. So, we have the same price we had one year and a half ago. So, our customers, our merchants are not price sensitive. Again, they are coming into the system, they did not accept cards, they have a very low average spending per month. So, it is not 10 bps or 15 bps that are going to make them change from one company to another and we have this complete ecosystem that we keep repeating at every call and every meeting that we have with you guys.

So, I do not see in the short-term pressures in the margins because we did not see it in the last year and a half. Maybe there is going to be more attempts from other competitors and that is part of the game; but we are working to build this ecosystem and make PagSeguro Company different than other companies in the market. That is why we keep investing in launching products, launching features, increasing engagement, giving lending for the best margins and so on. So, I do not see in the short-



term pressures in prices or and margins. It is hard to say if there is going to be margin expansion at this point; but I do not see price pressures at this point.

TITO LABARTA | GOLDMAN SACHS

Great! Very helpful. I guess maybe a follow-up just in terms of thinking about in the long-term potential of the business. Clearly you started as a payment company and becoming more of a bank. Is that the kind of the way to think about it? The large banks are banks and you got into payments or did payments and profited from that; but this is a sort of you have, you were able to start in payments but you are really developing that for ecosystem that you are not just a payment company for competing with banks and other providers? Is that the way to think about the profit potential?

EDUARDO ALCARO | CHIEF FINANCIAL OFFICER

Hi Tito! This is Alcaro speaking.

The right way to think is I think Luiz in the beginning of his speech he laid out really, really well. Pags is a tech company; it is a tech company that operates in payments and now we are expanding through PagBank. So, any comparison with traditional banks I think is not a fair comparison just because we have a different cost structure, the way that we attract clients, that we acquired clients is totally different from traditional banks. So again, PAGES is tech, PAGES is local and we have all the advantages of being the first mover.

JOSH BECK | KEYBANC

Thank you for taking the question. I wanted to ask about PagBank. You had some pretty good stats on engagement, and I am just wondering for the most engaged users that are staying on the platform are there certain features that you are adopting whether it is cards or payroll portability that is driving that engagement?



RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

Hi Josh!

The most common used features are built payments and wired transfers and in third they use the cards if they need to buy something or to withdraw the money; but first bill payments and then wired transfers. Those are the most used features.

EDUARDO ALCARO | CHIEF FINANCIAL OFFICER

Hi Tito! This is Alcaro speaking.

The right way to think is I think Luiz in the beginning of his speech he laid out really, really well. Pags is a tech company; it is a tech company that operates in payments and now we are expanding through PagBank. So, any comparison with traditional banks I think is not a fair comparison just because we have a different cost structure, the way that we attract clients, that we acquired clients is totally different from traditional banks. So again, Pags is tech, Pags is local and we have all the advantages of being the first mover.

JOSH BECK | KEYBANC

Okay very helpful and I wanted to ask about margins. You have obviously had some very good early success with PagBank and I noticed the pretax profit margin looks like it was down a little bit YoY; so when we think about 2020 and the size of the opportunity should we be thinking about continued reinvestment so that margins are flat or any way just to help us think about and margin trajectory given the early success you had with PagBank.

EDUARDO ALCARO | CHIEF FINANCIAL OFFICER

Hi! This is Alcaro speaking. In terms of margin I have a different view. Margins are stable, they are pretty much the same percentage and when you compare to one year ago we did not have the subsidies or subsidies were materially lower than what we have right now; and even with higher subsidies than one year ago plus all the marketing investments we were able to maintain our margins.



OLAVO ARTHUZO | SANTANDER

Hi everybody and thank you for taking my question and I have two.

The first one I totally understand that you do not have a straightforward answer for this; but which credit lines could we expect by the bank to start offering to its customer base in the future? You mentioned the potential market is way larger than the acquirer, so credit card loan is one very clear for us; but how about personal loans, consumer finance or working capital? Which ones of these are more plausible for us to see excluding credit cards?

And if I may my second question, we have seen in the newspaper that MasterCard recently increased the interchange fees for credit transactions. So, could we expect PagSeguro to pass this increase in the cost to final customers or it should be absorbed by the company and we may see a slight margin increase in the acquired business for the following quarters? Thank you.

ANDRE CAZOTTO | HEAD OF INVESTOR RELATIONS

Olavo, Andre speaking.

About your first question I think we are starting with personal loans for our merchants, according to TPV, according to payment frequency, according to account history. Just like we explained earlier the best clients, top-notch and that is what we are doing right now and that is what we can see at this point.

RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

And regarding MasterCard that you asked of course we are totally against this move by principal because it means we are changing the rules in the middle of the game and it is going to be an increase in our costs, so we are fully against the move; but having said that the impact for us is minor, it is marginal.



NEHA AGARWALA | HSBC

Hi! Thank you for taking my question. I have a few questions, the first one on credit.

You are not giving information in this regard and I understand; but which you eventually like to give credit to your consumers or you have almost an accrued base of consumers that are individuals now as you have for merchants and we see Mercado Livre doing that to merchants consumers. Could we expect PagSeguro to at least... On that front?

My second question is you talked about payroll portability; how many users are kind to stress-free that payroll to PagSeguro's digital account?

And my third question is area providing any incentive to your consumers to have them on board on your digital account and use your wallet?

Also, could you think about creating a marketplace of thoughts and collaborating with third parties to increase the usage of your wallet? Thank you so much.

EDUARDO ALCARO | CHIEF FINANCIAL OFFICER

Okay the first question about credit the disclosure is we provided in the presentation, a credit portfolio of 132 million BRL, 26,000 originations and at this point we are providing credit only to our very best margins and that is all we can say right now.

RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

Regarding the other questions' portability, we started on May 15, so it is still getting traction. We already have some of the consumers that made this operation with us but still at the very beginning.

Regarding incentives for consumers to use our digital accounts we do that, and we do it very often; but it also depends on... We have some promotions like if you open the account you can receive some incentive, if you pay using QR code you are going to receive another incentive, if you pay using our card you are going to have lunch or receive another gift or things like that; but that is not something transformational for us. We do not believe that by giving all the time offers and promotions for the consumers is the best way to bring people to the ecosystem. I guess it is part of the acquisition cost for



sure; but we are not the type of company that keeps doing these gifts for ever. The product is good for itself.

NEHA AGARWALA | HSBC

So, you think such a strong base of customers given your volume post-bank what is think has driven that having a 4.6 million customers?

RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

This 4.7 is part of our legacy business, the online payment where PagSeguro was launched in 2006. So, like what you guys have in the US with PayPal that you can use PayPal wallets to pay stuff online so 4.7 is part of the legacy that we have brought since our foundation back in 2006. We did not have the right products for this type of consumers in addition to the wallet, so now we have PagBank and we will approach them so that we can bring them to use PagBank and all these features were launched on May 15.

NEHA AGARWALA | HSBC

And lastly how can we think about growth for this customer base? Thank you so much.

EDUARDO ALCARO | CHIEF FINANCIAL OFFICER

As far as growth of the customer base we are not setting targets at this point.

JEFF CANTWELL | GUGGENHEIM

Hi! Thanks for taking my question, thanks for squeezing me in. I may have missed this earlier; but can I just ask about PagBank data points this quarter, 2. down versus 1.4 million active users is really quite a significant amount. So, would you mind talking more about how sustainable do you think that is? We have noticed that PagBank in Brazil, which is well above what it was in the previous quarter and that seems like a life leading indicator the us. So am just curious if you could talk about sustainability and help us out that would be great, thanks.



ANDRE CAZOTTO | HEAD OF INVESTOR RELATIONS

Hi Jeff. It has scaled very fast since we started the campaign. Just to give an idea PagBank users grew 40% since early this year. I think that like Eduardo said we do not have targets at this point. We are still investing a lot in marketing campaigns, we are developing the products, we are sending notification to our merchants and now online buyers. So, we are in a phase of building up this process, building up the branding. As you can see in Google Trends, we are the largest digital bank in Brazil. So, we are not setting targets; we are seeing a very decent growth, very healthy growth from our entry point when we started and for sure we are still expecting strong growth going forward - but we are not sharing expectations at this point.

JULIE CHARIELL | BLOOMBERG

Good evening and thanks for taking my question. I wanted to ask you about Mercado Livre. They seem to be the only competitor who really seems to be doing well and gaining some traction in the longtail along with you guys and they seem to be offering a lot of similar products, creating accounts and asset management and landing on the one to merchants. Recently in the last quarters they added a more complex POS that they saw at least as becoming in par with yours. I want to see how you perceive them in the market, if you tend to come up head-to-head with them and what you think you are advantages are, thanks.

RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

Hi Julie and thank you for your questions. For sure they are one of the main competitors that we have; but I also would like to remember that in terms of products I would say we are at least 2 to 3 years ahead of them. They are launching the first device that prints receipts right now, we launched our device three years ago; we have this reclassification company; we have a portfolio of six devices; we have a strong brand. So yes, they are building... We have the online distribution through UOL.

So they are building an ecosystem the same way that we did a few years ago; but we will keep investing, we will keep adding some features of our ecosystem and we will keep investing on our brand and that is what makes us different than them, and remember that even with the competition the longtail market is huge and it is still underpenetrated. 8% of the devices that we sell every month we sell for



merchants that did not accept cards before joining us. So, there is food for everyone, and we are here working hard to build this ecosystem and make it better every day.

JULIE CHARIELL | BLOOMBERG

Understood and if I could just get one more on the software revenue model. You are adding a nice suite of software as we go here, and I am wondering what the revenue plan is through that. Will you, do you expect to be charging separately for the software at some point or will it be something that you are bundling with your transactions and it can help to keep the take rate at a healthy level or...

RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

Julie there as part of the customers that pay for the software; but it is a small revenue when compared with the rest of the company. Even if there is any revenue, we do not think this is going to be transformational at this point. We are going to use it as an additional product for our acquiring business and for other businesses that we may have in the future and even if it makes sense. For instance, Tilix is focused on consumers, so we can offer this type of software to bring consumers to our digital account and make them use more and increase engagement, things like that. So, I do not think that is going to be a strong business unit in the future; but there are some additional revenues there and it helps increase engagement.

CITIBANK | FELIPE SALOMÃO

Hi Alcaro, Dutra, Andre! Thanks for the opportunity and congrats on the results. I have a question about the international expansion. Latin America is a poor continent; there are those of millions of micro merchants and hundreds of millions of... Population outside Brazil in Peru, Colombia, Argentina, Venezuela and so on and so forth. You can build a very robust business model over time and you are now entering into the banking business. Mr. Frias mentioned on his initial remarks about the importance of being the first mover in the market and he made the analogy of Facebook versus Google for social media.

All that said how can we think about the international expansion for PagSeguro? Do not you think it would be a good move to try to be the first mover, player in the rest of the continent?



EDUARDO ALCARO | CHIEF FINANCIAL OFFICER

Hi Felipe! This is Alcaro speaking thanks for the question.

What we can say is that we are actively evaluating other market opportunities; however, at this stage there is nothing decided about international expansion. Brazil at the end of the day is a huge market, still underpenetrated in terms of payments. In the micro merchants landscape and in financial services for under banked people and underserved population there is lots of room to grow and as Ricardo said before we have about 60 million people in Brazil aiming to have a bank account that are underserved in terms of financial products.

So, there is a blue ocean here in front of us; but we are not disregarding other market opportunities; but that is all I can tell you right now.