

International Conference Call

PagSeguro

1Q18 Earnings Results

May 30, 2018

Operator: Good morning everyone and thank you for waiting. Welcome to PagSeguro's 1Q17 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 reconstitution 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. Mr. Dutra, you may begin your presentation.

Mr. Ricardo Dutra: Hello everyone and welcome to our 1Q 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 main operational and financial highlights I would like to comment about our recent pricing strategy. Last April we decided to adopt a pricing strategy to respond to competition. We have decided to reduce the price of our POS terminals and promote a seasonal campaign by offering zero credit and debit MDRs limited to new merchants and only valid during the first three months or up to 1500 of total payment volume per new merchant. We are confident about our strategy to continue to deliver growth with profitability while creating a higher stickiness with our clients by offering a unique ecosystem through our digital account in a scenario where competition is getting more intense.

Being the first mover online and mobile first brings a natural advantage to PagSeguro that is difficult to replicate. We already have more than 3 million active merchants in our base. Our strengths include a strong brand; non-replicable online reach through UOL simple, affordable and transparent pricing; the low cost of merchant acquisition being 100% online and not relying on banking channels or proprietary sales force to distribute our products.

We operate in a massive addressable market with the ability to launch and cross sell additional services to our digital account. It is a key piece of our long-term strategy.

PagSeguro proved that operating in winning in the long tail requires an online and mobile first approach that is totally different from the traditional acquired business model. We are convinced that following this strategy we will deliver long-term shareholders value through an increasingly attractive and growing ecosystem. We believe our market is just being created and we still have a long way to go, constantly put into practice our vision to disrupt and democratize financial services through technology and innovation.

Once again thank you all for joining us today and let us go to the main operational metrics.

On slide three we start with our total payment volume that reached 14.4 billion BRL in 1Q, an increase of 8.4 billion BRL up 139% YoY. This growth is the result of a greater penetration of our ecosystem in the long tail combine with new innovative products and solutions offered to our clients.

The non-GAAP net take rate excluding sales of devices and at 1Q in 5.1%, a decline of 41 bps YoY mainly due to the mix of debit and credit. As we anticipated to investors during our IPO roadshow we expect this ratio to stabilize. In 4Q 17 I would take rate was 5.1% and in 1Q 18 it remained at 5.1%.

On the chart below we see the number of active merchants. Just to explain the criteria used internally active merchants are those who make it least one single transaction in the last twelve months. We ended 1Q with 3.1 million active merchants adding 1.4 million the new merchants in one year. It means that we almost doubled the number of net additions in the period compared to the same metric in 1Q 17. QoQ we added 296,000 new merchants or 8% higher comparing to the 274,000 new additions in 1Q 17.

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

Mr. Eduardo Alcaro: thanks Ricardo and good morning everyone. Before I start I would like to mention that in 1Q 18 we had a total of 75.5 million BRL of extraordinary events mainly related to the IPO. Let me explain these items one by one. First stock-based compensation expense and related employers payroll taxes in the total amount of 210.6 million BRL.

These are expenses for equity awards in our long-term incentive plan. We exclude stock-based compensation expenses from our non-GAAP measures because they are non-cash expenses. The related employer payroll taxes depend on our stock price, timing and size of exercises and vesting of equity awards over which management has limited control. I would like to point out that the largest portion of these expenses was recognize that the IPO with the issuance of 1.8 million shares.

Second financial income related to foreign exchange variation gain in the amount of 89.8 million BRL from the conversion and remittance of USDs to Brazil from January 26, the date of the IPO financial settlement, until February 7 when we did the last remittance. We are excluding this financial income from our non-GAAP measures because it is a one-time and nonrecurring income.

Third tax related to the remittance of IPO primary proceeds, IOF tax to Brazil in the amount of 13.1 million BRL. We exclude this IOF tax from our non-GAAP measures because it is a one-time and nonrecurring expense.

And fourth the present value adjustment of notes receivables in installments in the amount of 16.8 million BRL. As we discussed during the roadshow prior to the IPO one of the sources of cash to fund the prepayment with merchants was the discount of notes receivables with issuing banks. After the IPO the company stopped the discounting of notes receivables with issuing banks and repaid 1.1 billion already discounted as of December 31, 2017 as you can see in our cash flow statement.

In addition in 1Q 18 we started to use the IPO proceeds to fund the prepayment feature with merchants. Since notes receivables are no longer discounted with issuing banks the notes receivables balance increased in 1Q by 1.4 billion BRL

and consequently the amount of present value adjustment also increased substantially as a deduction of financial income.

The present value adjustment depends on the Selic rate, which is Brazil's treasury rate and is not a cash outflow. The adjustment at present value was not material for the full year in 2017 with a negative net income impact of 1.8 million BRL. In 2018 we expect a negative net income impact of 30 million BRL for the full year.

And the last one income tax and the non-GAAP adjustment is in the amount of 75.2 million BRL. The most relevant non-GAAP adjustment is our stock-based long-term incentive plan recognized as non-cash expenses in the amount of 130.3 million BRL and related employer payroll taxes in the amount of 80.3 million BRL.

Our share based long-term incentive plan was granted to our executives in July 2015 and triggered by our IPO in the end of January. The long term plan vests in five equal annual installments starting effectively one year after our IPO anniversary. 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 in this webcast presentation.

Now on the top left of the page our non-GAAP net revenue reached 855 million BRL in 1Q, up 89% in 1Q 18 compared to 1Q 17.

Moving to the top right that we talk about our main revenue streams composed by transaction services or mainly MDR collected from merchants, financial income from prepayment and hardware sales. In 1Q 18 transaction and services represented 54%; financial income 35%; and hardware sales 11% over total net revenues. You can see that the terminal sales is becoming less representative in the mix when compared to the previous year and is expected to continue to decrease in relative terms going forward. On the other hand you can note that our revenues from transaction activities and other services grew 12 p.p. compared to 1Q 17.

Of the two charts below we present our total expense figures. I would like to point out here our lean cost structure that allow us to have a volume scalable business model. Our non-GAAP total costs and expenses decreased 2.3 p.p. and in 1Q at 3.8% over total TPV. Related to non-GAAP admin expenses over total TPV it reached 0.3%, improvement of 0.2 p.p. Since we are no longer discounted receivables with issuing banks our financial expense should trend to zero. You will note in our cash flow that we settled in this quarter 1.1 billion BRL in receivables discounted with the issuing banks as of December 31, 2017. We still have 600 million BRL in receivables discounted with issuing banks that we will repay until the end of October with the IPO primary proceeds.

On the next slide we show our non-GAAP net income growth. In 1Q we reach 224 million BRL, decrease of 161 million BRL and up to 256% in 1Q 18 compared to 1Q 17. The non-GAAP net margin reached 26%, an increase of 12 p.p. YoY.

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

Mr. Dutra: on the next slide we have an important recognition especially in relation to our relentless focus on user experience. Our “My Account” app rate has reached 4.8 stars on Google Play and Apple Store, which is the highest rate for digital account and payment apps in Brazil. This rating puts us as the best in class in our segment in the Brazilian industry.

On the next slide we show you the launch of our Bill Payment solution. With this feature our merchants will no longer need to cash out to pay bills. Our bill payment feature is free of charge and includes payment of the bank slips utilities, consumer and tax bills. The launch of this feature corroborates our cross selling strategy through the digital accounts and increases the stickiness of our merchants.

On the last slide we have our new POS terminal ‘moderninha plus’. It comes to replace our moderninha Wi-Fi device and has the same price of 12 installments of 28.90 BRL. Besides the new design moderninha plus comes with improvements. The battery lasts up to twice as long as the previous version, a more resistant keyboard and a much faster processor. Moderninha plus also has NFC, which enables contactless transactions.

I would finish our presentation and the 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 Domingos Falavina, J.P. Morgan.

Mr. Domingos Falavina: thank you for taking the question. My question regards your adjustments to earnings. Thanks for that, it made the results more clear; but one of the things that surprised us here was the stock in the long-term incentives plan. Basically I noticed you adjusted 210 million of pre-tax and I would like to know how much of that is recurring or not. So we basically looked at your longer filing and we noticed... 1.8 million shares were exercised out of a total already

granted of 5.3 million and since the... in 2020. If I am assuming a similar cost per share I would get to additional 200 million of expenses in 2019 and additional 200 million expenses in 2020, which would drive this do not be a one-off IPO related.

So I would like a better explanation out of 210, how much is IPO related and how much we should continue to see in 2019 and in 2020.

Mr. XXX: okay. Good morning Domingos and thanks for your question. I think first the reason why we excluded the long-term incentive plan is for us to be comparable to our comparables, for example squaring people that use the same metrics they were using; so our results are 100% comparable to their results.

And second to a question in terms of recurrence. When you look at the expenses by quarter you should expect 20 million BRL net of taxes by every quarter. From the 20 million around 60% is non-cash and 40% is related to the taxes we need to collect and share grants.

Mr. Falavina: super clear that is very, very helpful. That was my only question thank you.

Mr. XXX: so your question for the recurrence you should assume going forward 20 million BRL net of taxes expenses in 2Q, 3Q and 4Q and going forward.

Mr. Falavina: super clear and your total maximum shares you can issue is... Percent out of the 250 million shares that you have right? So basically 3% of your total shares outstanding including your own share options right?

Mr. XXX: right, you are correct.

Mr. Falavina: okay thank you.

Operator: the next question comes from Gabriel da Nobrega, UBS.

Mr. Gabriel da Nobrega: hi everyone thank you for the opportunity. Since the start of the year we have been saying a faster emergence on the smaller players offering the same business model as you guys and as a result we have also seen more aggressiveness on the pricing of the POS and also on MDRs. Could you maybe elaborate if you have calculated in the impacts from offering MDRs at 0% for the new merchants and also other strategies you are planning, some rollouts in order to face this competitive market? And I will make a second question after that thank you.

Mr. XXX: okay thank you Gabriel for the question. As we said we adopted a new price last April. The impact of zero MDR is limited to new customers, it is valid only during the first three months or up to 1500 BRL for new merchants. So it is a very limited impact.

Regarding the competition yes it is true, the market is becoming more competitive. The fact that PagSeguro has IPOed last January brought attention from our competitors, that is true; but the market is still very big. We estimate that the total addressable market is around 1.8 trillion and we have only 2% of this market. So there is still a lot of room to grow and we will respond to competition if necessary - but we are well-positioned; we have a very unique and rich ecosystem; we have a strong brand; we have all the processes in place and we know how to do that, you can see our numbers. So we are confident that by following our strategy we will persevere in the future.

Mr. da Nobrega: all right and as for my second question we have seen in recent news articles stating that you are planning on an opening in bank operation and I just wanted to understand what is your end goal with this strategy and moreover as well when could we begin to see banking products in your digital wallets?

Mr. XXX: this is a very common discussion in almost every sim tech around the world. Yes it is true; we discussed about that but there is nothing defined. What we launched last two weeks is the bill payment and it is unavoidable that at some point we will need to have additional financial services; but we do not know which financial services will be and when it will be and if we need to have a banking line and things like that. So we are not still pretty mature to have this kind of conversation and to give you any disclosure about that.

Mr. da Nobrega: all right that is very clear thank you.

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

Mr. Carlos Macedo: hi good morning gentlemen. A couple of questions, the first question obviously with the competition intensifying with Cielo coming out with merchant promotions and being on the media a lot marketing expenses should go, continue to go up; could you give us your thinking not only about the promotional side but also the market inside of the business given that you have spent a lot in creating the PagSeguro brand and how you plan to defend it in the media and what that implies for marketing spend going forward?

Second the promotions that you are putting out I know it is still very recent and you do not have a very long track record; but given promotions you have put out in the past what kind of churn do you have on these promotions? I mean once the three months are done do you still keep the client or is the churn high or does the fact that the client is actually buying the POS terminal reduce the churn? Help us think about that a bit thank you.

Mr. XXX: okay thank you Carlos for the questions. I will start with the first one regarding Cielo. We do not believe that we compete against Cielo or any other of the other two incumbents in the market, although we believe the three of them compete one against the other. We operate in the different markets. It is true in it

is natural that Cielo tries to enter in this market; but as I said before we have this unique ecosystem and we have the business model that is different than theirs. We are 100% online; 100% self-service; we have a simple pricing model that one price fits all.

We do not believe that by having different pricing schemes depending on the type of cards or volumes or things like that this is not the type of product that the small merchants are looking for. Yes it is true we have some competition from them; they are trying to make some competition in this market; but we do not believe that we are competing against them in our long tail market that we are creating actually. We still have a lot of new merchants that did not access cards before joining us. So it is a new market, that is regarding Cielo.

Regarding promotions as you said it is still too early to have any analysis about that; but I would say that the churn and things like that they are similar to what we had in the past when we launched the products last year. So we do not see any transformation or difference or the consumer changing the way they work with us because of the promotion. So it is still too early; but no news about that so far.

Mr. Macedo: okay great. So just going back to the first question so give in your views on the potential competitors does that change anything in your outlook for marketing expenses? Is it still something that you plan to follow the plan you had before the competitor pressure started or have you changed anything in that sense?

Mr. XXX: so far we did not change anything. As you can see in our 1Q we had higher marketing expenses but that is something that we had planned. Still even with this competition from Cielo and even from other companies we had 296,000 new ads. So it is a very great result; but going back to your question we do not see any big changes in our marketing expenses so far.

Mr. Macedo: great thank you.

Mr. XXX: thank you.

Operator: the next question comes from Brian Keane, Deutsche Bank.

Mr. Brian Keane: hi guys. I just wanted to ask going back to the pricing change for new merchants I am just trying to quantify the impact may be thinking about the loss revenue opportunity on a quarterly basis from the new pricing change, what typically was done for example this quarter with the revenue was and then now for new merchants how much of an impact? It does not sound like it is going to be that big of an impact; but I am just trying to quantify the impact of the different pricing and the change.

Mr. XXX: hi Brian thank you for the question. As we said it is still too early to give a number; but just to give you a sense we are linking the impact up to 1500 BRL. So if you consider the net take rate that we have you can have idea how much we are investing to bring this new customer, and that is a kind of implying in our cost structure position. So it is not a big number because we limited only to new customers and up to 1500 BRL. So if you get the net take rate you are going to see that impact is pretty small when we make this calculation considering the monthly spending per merchant versus the net take rate that we are not charging at the beginning of the relationship with them.

Mr. Keane: and you guys do not believe that you will have to move this pricing over to the existing merchant base?

Mr. XXX: so far we did not have any data that shows that we need to give that because again, it is a very limited value. The customers that already work with us they see other advantages by using the ecosystem just like the prepaid cards, now they have the bill payments with no charge. So it is more like a tactic to get a new customer and we do not see this conflict with the customer base that we already have.

Mr. Keane: okay very helpful and my last question just thinking about the Brazilian economy and the trucking strike. Can you talk about any impact you guys have seen in the kind of going forward what do you think that might have on you guys results in the quarter? Thanks.

Mr. XXX: it is true that we had some impact, we had a few days of impact. We started to observe real impact last Thursday; but now we see that the strike is a kind of getting diminishing or even getting over. So there will be a leak or a little bit more few days with this impact; but it is going to be limited to this point as far as we look forward. We do not see that as a big change. It is going to be linked to this period of time that we had the truck drivers' strike.

Mr. Keane: okay great thanks for taking my questions.

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

Mr. Jason Kupserberg: guys good morning thanks for taking the question. So you just grew revenue 89% here in 1Q. I know you are not in the habit of providing formal guidance; but is there anything you are seeing in the business that would cause that kind of growth rate to significantly slow over the next couple of quarters? I mean may be you will see a little bit of headwind in 2Q from the trucking strike; but putting that on the side is there anything that would cause a huge deceleration in your term growth rates?

Mr. Alcaro: good morning Jason. We are not seeing any big moves or big changes in our plan. As far as additions and regardless the truck drivers' strike

that will have some impact; but we are not seeing any major changes to our current business plan in terms of growth. So we continue with our plans.

Mr. Dutra: and just to complement what Eduardo said you said looking into the future we do not see any big makes changes. As we anticipated during the roadshow if you look at the net take rate it is a kind of flat, stable when you look at 4Q and 1Q. So we do not see the pressure or big mix shift change that is going to in such a way change our net take rate or affect our net take rate. So it is a kind of stable so far and being flat.

Mr. Kupserberg: can you just give us your latest perspective on the regulatory environment? Obviously there has been some head winds here and there about possible changes in parts of the prepayment business; but if you can just give us a sense of your latest expectations there that would be helpful.

Mr. XXX: well first just to point out regulation is fostering competition in Brazil. When you look at the last years you see that since 2010 new players are getting to the market and the regulation is trying to foster competition.

Regarding the prepayment you were talking about payment with interests I guess, the installment with interests I guess.

Mr. Kupserberg: yes.

Mr. XXX: this is a product that already exists, consumers can use it; but it does not get any traction because at the end of the day first the seller, the merchant is to offer and then the consumer needs to accept to pay interest in a purchase and we know that in the Brazilian culture for the last 24 years or more people get used to buy with installments and no interest. So we do not think there is going to be big changes regarding this topic and we do not see any other sign from the regulator that there is going to be a big change in the installments with interests.

Mr. Kupserberg: okay thank you for the commentary.

Mr. XXX: thank you.

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

Mr. XXX: hi it is XXX. Ricardo with regards to your comments about trajectory of the take rate and the slides that you have, slide three, I was just wondering what do you contemplate for the debit/credit mix over time and the impact of that on the take rate?

Mr. XXX: although we have only 2%, 3% of the market the pending the way you look we already have a mix that is similar to the industry: around 60% credit, 40% debit; and that is the mix that we had 2H LY and the same mix we had 1Q TY. So that is why our net take rate has been flat because the mix between debit and credit was stable and reflects the industry.

Mr. XXX: okay and then with your prepared remarks you mentioned about the free cash flow impact from replacing the issuer receivables. You are going quick there but I think you had suggested that there is still more to do and so if you can give us an update on that or revisit what you had said replacing the... The bank, the issuing bank receivables.

Mr. XXX: sure. When you look in our cash flow you will see a line there showing the 1.1 billion BRL. So if you go to the changes in receivables subject to early payment that means that is the activity that we do with the issuing banks and you will see that we rebate 1,137,000,000 BRL in 1Q.

At the end of the year, the end of December we had about 1.7 billion BRL anticipated and discounted with the issuing banks. So that means that in 2Q and 3Q we still have 600 million BRL more to settle with the issuing banks.

Mr. XXX: got it thank you very much.

Operator: the next question comes from Lucas Lopes, Credit Suisse.

Mr. Lucas Lopes: good morning Ricardo, Eduardo, Andre. I have two questions, the first one in regards to moderninha plus. Is the supplier PAX... and do you have any exclusivity agreement with the supplier? And also in this regard would you consider to work with other hardware suppliers such as Ingenico or Verifone or should... remain your sole provider?

And if you allow me to ask a second question with regards to accounting, the company books as revenues the gross MDR instead of the net MDR. I understand the rationale of having a similar accounting than your peers such as PayPal; but I mean that generates tax inefficiency as you end up paying more tax on sales comparing to the option of reporting the net MDR as your top line.

Do you consider to change that to have a more optimal tax base for VAT taxes?

Mr. Dutra: hi Lucas this is Ricardo thank you for the question. I am going to take the first one and regarding the tax question Alcaro is going to answer later on. Yes, moderninha plus is manufactured by PAX. We do not have an exclusivity agreement with them in the same way that they do not have with us. So we are very often looking for new hardware manufacturers such as Ingenico and Verifone that you mentioned; but at the point we decided to keep working with PAX; but we are evaluating new models from other suppliers. It depends on the features and the prices and it is not an easy decision - but we are always evaluating new hardware suppliers.

Mr. Alcaro: on the question about the sales taxes based on the PIS and COFINS what happens is at the same time that we have a debit on the sales we also have a credit on the interchange and all the expenses that we have for PIS and COFINS. So the end of the day the impact is basically the same if we were

recognizing the net revenues as net because again, we use the expenses as a tax credit as well.

Mr. Lopes: thanks very interesting.

Operator: the next question comes from Craig Maurer, Autonomous Research.

Mr. Craig Maurer: hi good morning, thanks for taking my question. In the release you disclosed that the ISS tax rate came up because of some changes in the rules. If you take that out and you are looking at net take rate it actually look like now to take rate was almost flat. Could you comment there if I am thinking about this correctly?

Mr. XXX: just talking about ISS with the repeal of the law we are currently judicially depositing the full ISS tax and it were due to the São Paulo municipality. It is about 2%. And provisioning the difference according to the average tax rate charged by other municipalities, which is around 4%. Our preliminary calculations indicate an impact of less than 1% of the total 2018 net income.

Mr. Maurer: right but there was a YoY change that will carry forward and so there was a one-time suppression of what you can call the net take rate if you are just looking at net transaction and services revenue over PPV.

Mr. XXX: going forward we look at that rate has been stable throughout the year.

Mr. Maurer: okay thank you. Just with all the discussion about competition it is just fair pointing out that that was stable when you backed that out. Okay thanks.

Mr. XXX: thank you.

Operator: the next question comes from Eduardo Rosman, Banco BTG Pactual.

Mr. Eduardo Rosman: hi guys good morning. My question is on new products to clients in the PagSeguro ecosystem. Interesting to see that you now offered a bill payment and so I was wondering what else you believe you need to start offering in the short term in terms of new products. Do you have anything in the pipeline?

And moving to... Still on products when the think you might start granting new loans, real loans and not just prepayment? Is this something you plan to do in the short term? How to do it? Do you plan to buy a bank, open a bank? So if you can give us a little bit more color on that I would appreciate thanks.

Mr. XXX: thank you Eduardo for the question. As I said for this is a discussion that we have very often here regarding new financial services, if these financial services will require that we had a banking license, how is going to be that in terms of structure, taxes and so on. At this point we do not have anything defined about that. We are evaluating very carefully. It is clear that we have this

ecosystem with 3 million merchants that we could offer more services to them in the first one is the bill payment.

We have some others in pipeline but they are not transformational, you are going to see in the next weeks; but it is not think transformational at this point. But regarding the financial services, the loan and so on, that is something that we are discussing. We do not have anything defined that I could tell you when we are going to launch and how it is going to be - but we are discussing that very often.

Mr. Rosman: okay thank you very much.

Mr. XXX: thank you.

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

Mr. Felipe Salomao: hi everyone thanks for taking my question. Just one question about top line and volume growth. TPV grew sequentially 10% but the operational top line, which includes POS sales revenues, transaction revenues and the prepayment of receivables contracted 2% sequentially.

So what explains the difference between TPV growth in the operational revenues growth?

Mr. XXX: hi Felipe. What we see is first we have obviously 1Q is the weakest quarter of the year, we have vacations in Brazil and we are also comparing against 4Q, which is the strongest year in terms of TPV, volumes and the revenues. About your question when you look at the combined, those three lines, one thing that you need to consider in our calculation is that hardware sales. Our hardware sales are down 20% when we compared to last year because of the change in the mix and we continue to add new merchants to the base.

So at the end of the day you need to consider in your analysis hardware sales **and also you need to consider that 4Q is the strongest quarter of the year.**

Mr. Salomao: okay thank you, thank you very much.

Operator: if you want to pose a question please press star one.

The last question comes from Domingos Falavina, J.P. Morgan.

Mr. Domingos Falavina: thank you for taking a second question. My question is just regarding when you guys put out the promotion like the one we are seeing now with the two months of zero MDR, which how much of the... Very small; but I am just curious if you get to share how much of your sales are to existing tax clients like people changing just the benefit from the lower MDR or if like it is 100% basically new net additions?

Mr. XXX: Domingos I guess to get the promotion or to get this offer you need to buy a new device. So if you make the calculation regarding the benefit that we

are going to have by not paying MDRs up to 1500 versus the price of the devices, almost the same price or even the devices a little bit expensive depending on the device that you get; so that is not something that they are kind of cannibalizing people by devices just to get the benefit of this promotion.

Mr. Falavina: makes sense, super clear thank you.

Mr. XXX: 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: We would like to thank you all for the time spent with our management team. We would like to reiterate our commitment and focus on delivering solid results, aligned governance and best market prices. 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 day and thank you for using Chorus Call.
