

International Conference Call

PagSeguro

1Q19 Earnings Results

May 14, 2018

Operator: Hello everyone and thank you for waiting. Welcome to PagSeguro's 1Q19 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 this conference call the company may discuss some non-GAAP measures. For more details on the foregoing non-GAAP measures and the reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures are presented in the last page of this webcast presentation.

Now, I will turn the conference over to Mr. Ricardo Dutra CEO. 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 operational and financial metrics, I would like to say a few words about Pags' vision for the near future in this competitive market. Our primary focus is the payment business and we will keep investing to maintain our fast growth combined with profitability.

We will now enter a new phase that we believe will be a landmark in Pags history. Starting tonight the company will offer additional payments and banking services in a massive way through the app to any Brazilian consumer in an on boarding process that takes less than 3 min.

We are now launching a national advertising campaign to promote the services under the brand PagBank. Pags already has a complete payment ecosystem which is the core for digital accounts cash in. We built our digital banking ecosystem with features such as wire transfers, P2P transfers, prepaid card, bill payments, mobile top up among others, in order to become the clients' final money destination and to further increase our closer look at transactions.

Pags has already 4.4 million active merchants' digital accounts in the long tail market. Although they are cash in us merchants they operate as a consumer when the cash out. With the launch of cash card and payroll portability we are ready to fully serve Brazilian consumers building the path to deploy our super app.

In the same way we disrupted the payment business and promoted the inclusion of millions of Brazilians before underserved. We believe now we will read the inclusion into the banking system. There are lots of customers unsatisfied with their banks; but our focus will be the millions of under banked Brazilians. It is the same scenario we had in the payment this is six years ago. Millions of Brazilians underserved by incumbent banks, most of them with smart phones and 3G connections, eager to be included into the financial system.

We will focus on them. As a reference, in 2017 according to IBGE government source classes C, D and E, which are the low income classes in Brazil, spent 1.7 trillion BRL being 60% of that in cash. Banking is shifting towards a technology-oriented business and Pags is a digital board and a tech DNA company.

Pags continues to be uniquely positioned. Our top-notch ecosystem now has scale, know-how and processes in place to serve the long tail market, including banking services. Stealing market share in the banking business for incumbents will not be our focus; like Pags' payment business, where 80% of new merchants did not accept cards before joining us, our focus will be on the

underserved population. We will go for the blue ocean again. We are now entering a market that is 14x bigger than the company's current market. It is an immense opportunity and we are uniquely well-positioned to reach this market.

Now let us shift to our presentation. We start our presentation highlighting the great achievements of the quarter. Our adjusted net revenue reached 1.14 billion BRL, up 59% YoY; our non-Net income reached 325 million BRL, up 50% YoY and 1% QoQ; additional revenues from services like digital account, lending, prepaid card and reconciliation growing 125% YoY.

Engagement is a key metric for the company given that almost 80% of our merchants never accepted cards before joining us. We continue to observe a higher adoption of our ecosystem being translated into more transactions. We ended 1Q with more than 25% of our active merchants using services of our digital accounts, such as Bill payment, P2P transfers, cards, mobile top up among others. We launched for additional products including instant payments, payroll portability, cash and credit cards that will have Pags to expand its addressable market and start climbing the consumer vertical.

Our average spending per merchant in 1Q 19 reached 5.7 thousand BRL, up 17% YoY. We believe the adoption of additional functionalities through the digital account will be translated into higher stickiness and more transactions. Our goal is to be the merchants' final money destination.

Our TPV reached 24.4 billion BRL growing 11 billion or 70% YoY and we also ended 1Q 19 with 4.4 million active merchants adding 1.3 million new clients YoY. These figures reinforce we are on the right path with a broad ecosystem and also our execution capability.

Our 2015 and 2016 annual cohorts exceeded in average 115% TPB retention rate YoY after achieving a normalized run rate, showing that our merchants' base is growing at a very solid pace and with potential to improve given the continual adoption curve and future cross-selling opportunities.

We also ended the quarter with the best rated App, 4.8 stars on Google and Apple stores according to more than 300,000 reviews, reinforcing our commitment in delivering top class user experience.

Talking about our brand recognition Pags has the strongest brand in the Brazilian payment industry with 7.7x more searches than the second player according to Google Trends, financials category.

Being the first mover and mobile first with in nonreplicable online distribution through UOL that holds 84% of the Brazilian Internet audience brings a natural advantage to PagSeguro.

We also acquired a minority stake with path to control at NetPOS, in ERP software provider that will enhance our value proposition to merchants by combining payments and software integration in our smart POS. NetPOS already has 30,000 active clients.

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 any new competitors that we 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 and banking services through technology and innovation. Now I would like to pass the word to our CFO Eduardo Alcaro.

Mr. Eduardo Alcaro: thanks Ricardo and hello everyone. Now before I discuss the net income slide I would like to mention that in 1Q 19 we had a total of 15.7 million BRL of non-GAAP items related to our stock-based long-term incentive plan. For more details the foregoing non-GAAP measures and the recounts variation of these non-GAAP measures are presented in the last page of this webcast presentation.

On the top left of slide four our adjusted net revenue, the sum of net revenues from transactions and financial income from installments, reached 1.143 billion BRL in 1Q, up 59% YoY and 1% up QoQ, even considering the worst seasonality in 1Q and 4Q given the holiday season in black Friday in 4Q. We believe that these two operational revenue and income lines best represent our core business, which grows that healthy and high double digit rates.

Important to highlight that we continue to promote discounts on hardware, promoting the increase of our base of active merchants. On the other hand, despite any mix effect our MDR prices our public, remained stable and have the benefit from additional services of our digital accounts such as lending, prepaid cards, bill payments and recounts variation that like Ricardo said earlier grew 125% YoY.

Moving to the top right we have our main revenue streams composed by transaction services or mainly now MDR collected from merchants, financial income from the installment prepayment and hardware sales. In 1Q 19 transaction services represented 59%; financial income 36% and hardware sales only 6% over total net revenues that continued to trend down as we expected.

On the chart below we present our non-GAAP total costs and expenses that decreased 0.6 p.p. YoY and in 4Q at 3.2% over total TPV. Related to non-GAAP administrative expenses our total TPV reached 0.3%, flat when compared to one year ago.

On the next slide we show our non-GAAP net income growth. In 1Q we reached 325 million BRL, an increase of 112 million BRL and up 53% YoY and non-GAAP net margin reached 26%, an increase of 0.6 p.p. YoY. The non-GAAP net income also increased 2% QoQ and margin increased 0.5 p.p.

Now moving to slide six we have our number of active merchants. Just explaining the criteria we use internally, active merchants are those who made at least one single transaction in the last 12 months. We ended 1Q with 4.4 million active merchants, adding more 1.3 million new merchants in one year representing an increase of 43% YoY; QoQ we added 383,000 new merchants.

In the next chart we have the evolution of our average spending per merchant that reached 5.7 thousand BRL in 1Q, a growth of 17% YoY. This is stronger in continuous growth is explained by the higher adoption curve of our solution in our merchant basis, which is an expected trend, higher engagement in our ecosystem being converted into 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.

On the charts below we see our TPV. Our total payment volume reached 24.4 billion BRL in 1Q, an increase of almost 11 billion BRL and up 70% YoY and almost flat QoQ due to seasonality when compared to 4Q, which is the strongest quarter from the payment is this in Brazil given the holiday season in the black Friday.

This growth is the result of a greater 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 with the upside of cross-selling additional products and services to these clients.

The net take rate, which is the brand take rate net from transaction costs such as interchange, processing and cards key fees, reached 3.12% in 1Q 19 or 12 bps up when compared to the previous quarter. This is exactly what we expected and shared with you during the 4Q 18 call, a higher net take rate compared to 4Q 18 but slightly down compared to 3Q 18.

This is explained by two reasons: first higher share of debit in our payment mix in 4Q due to seasonality, as in 4Q debit is stronger in Brazil with the 13th salary payment; and second compared to 3Q 18 a trend of higher penetration in debit transactions. Important to highlight that this take rate is the result of all payment methods and may change according to payment mix. As we discussed in previous quarters we are not facing any type of MDR pricing pressure in the long tail market, where our merchants are little sensitive to MDR prices.

With our prices being public and transparent you can easily check online and verified that we are not taking MDR prices down; the reason behind this slight decrease in the net take rate compared to 2018 is due to a higher mix of debit versus credit, which is not a concern for us. Now I would like to handle to Ricardo that will talk about engagement metrics and new products.

Mr. Dutra: thanks Eduardo. On slide seven we show some of the most relevant engagement trend in our ecosystem. We believe engagement is a relevant metric to follow once it will have the company to increase the switching cost, add more transactions and TPV and will enable future monetization revenue diversification.

On the top of the chart we have the number of active prepaid cards that increased 208% in 1Q 19 when compared with 1Q 17. According to card monitor Pags is the largest prepaid card issuer Brazil; additionally we also have the volume of prepaid cards reload that increased 362% when compared with 1Q 17.

On the chart below we see the number of bill payments transactions that increased 335% since its launch back in 2Q 18; our mobile top up feature is also ramping up growing more than 1200% when compared to 3Q 18 when we were launched; and 162% growth QoQ, becoming one of the most used features in the digital account.

The next slide we have the evolution of our P2P transfer that starts to get traction and already grew 315% QoQ; and also the customer average balance that increased 52% YoY, showing that through new products and features more and more our merchants are perceiving our digital account as their final money destination.

On the chart below we can see the evolution of our new transaction methods like NFC and QR code. Our TPV through NPC or contactless increased more than 1000% YoY and more than 50% QoQ; additionally our TPV from QR code transactions increased almost 3000% YoY and 75% QoQ. We believe that offering NFC and QR code access in our terminals and in our wallet increased the value proposition to our customers.

On slide nine we present our cohort metrics. Our TPV retention rate from our 2015 and 2016 vintages on average exceeded 115% YoY. TPV retention rate is provided one year after the cohort has achieved a normalized run rate. This consistent cohort leads us to strong revenue visibility and shows that our merchants' basis is growing at a very solid pace and with potential to improve given the continual adoption curve and future cross-selling opportunities.

On the next slide we can see the strength of our brand. Pags is the first mover in this market and the fact it accessed via wireless is third-largest online orders

in Brazil only behind Google and Facebook with more than 85% Internet reach as of October 2018 to promote our products and solutions in the long tail market helped Pags to reach a unique brand recognition.

In the past 12 months according to Google Trends featuring by financials category we have an average approximately 7.7x more searches than the second player. Pags reached a level of brand awareness where the business has a word-of-mouth effect and consequently we have lower acquisition cost than our competitors.

On slide 11 we highlight our roadmap of products already delivered this year. Being an independent company allows us to think exclusively in 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 started gaining penetration with the consumer vertical, besides our high engagement on the merchant segment.

Worth to say, we will be very cautious in the credit offer as you know it is important to understand credit behavior so that we can manage delinquency accordingly.

On the next slide we have mapped the current functionalities of our unique and world-class ecosystem broken by payments, software and banking features. We can see there are for new features been launched after our 4Q call and I will give you more details about them in the next slides. On the superior block there are all features oriented to merchants available to our 4.4 million merchants. Instant payments and sales App in software column are the new ones.

In the block below we can see our robust banking ecosystem. Credit cash cards, as well payroll portability are the new features launched. As I said at the beginning of this call, we believe these banking features we will enable us to attract and monetize consumers helping to improve our merchants' loyalty and stickiness, creating more and more engagement. It will be crucial for closer look transactions where you can have better profitability and at the same time offer benefits for both parties, consumer and merchants. We believe the addressable market of banking credit is 14x larger than the merchant acquiring business and Pags is well-positioned to reach this market.

On slide 13 we see our instant payment feature for debit and credit card transactions, regular and installments for all merchants. PagSeguro announced in April the launch of its new settlement period feature. This feature is available for transactions beginning on May 1 and allows all of the merchants and individuals to receive payments from their regular credit card, credit installments and debit card transactions at about the same time of the sale, even during weekends and holidays at the same cost of the one-day settlement.

Although the change for D1 to instant payment seems to be minor, for a small entrepreneur who does not have access to working capital it can make a big difference.

On the next slide, slide 14, we introduce NetPOS. PagSeguro acquired a minority stake with path to control at this company that provides ERP software to retail and food service segments, built for front and back office, with sales and management tools like inventory control, detailed reports, cash management and invoicing. It will be fully integrated with Pags mPOS, POS and SmartPOS devices, as well in our PagSeguro sales App. NetPOS has more than 30,000 clients.

On slide 15 we show our software solutions through M&A transactions. We now have Tilix, an automated application that innovates the customer experience and paying bills. For in the utility to tax bills Tilix offers a simple and user-friendly interface to manage bill payments and it 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 streamlined process of credit card transactions reconciliation, and finally NetPOS that I have just described in the previous slide. Pags will continue to monitor possible M&A dignities that can speed up the building of a more complete ecosystem.

Now I will give more details about our banking features. On the next slide we give more details about digital account App Onboarding. Now anyone, merchants and consumers, can sign up for a digital account directly through the App for free and is less than 3 min and manage all the products and services.

Additionally, tonight we will start our massive national advertising campaign to promote PagBank, the digital account and banking service to consumers. The campaign will be running on UOL broadcast TV, pay-TV, online, radio, newspapers, magazines and out of home.

On the next slide we show our payroll portability feature, which allows anyone to receive their salary on Pags' digital account without any cost. With this new and efficient cash-in method our customers can pay bills, make purchases, mobile top up, transfers, P2P, use of cash and reload prepaid cards. This new product will help our access to consumers willing to have Pags as their banking services provider.

On slide 18 we present our cash card launched in March, PagSeguro and Visa are promoting financial inclusion and offering the account card to all our merchants and all our consumers. The cash card is linked directly with the balance of the digital account bringing more convenience and a better experience to our merchants and consumers. The cash card is also NFC enabled.

On the next slide we introduce our new credit card product. Launched in early May stealing pilot mode, initially it will be targeted to our merchants' base with no annual or membership fees. Our Visa credit card is accepted in all merchants all over Brazil and abroad and can be stored in Pags digital account to enable contactless and QR code transactions.

Finally, on slide 20 we believe Pags is well-positioned and with a robust ecosystem that combines payment, lending, banking and software products to serve our more than 4.4 million active merchants and to reach consumers market. By of selling your products like credit, banking and software and expand our approach to consumers will multiply our addressable market. Considering the new initiatives already available for merchants and consumers we estimate the revenue pool almost 14x bigger than the merchant acquiring services.

Being the first mover, having a robust and low-cost ecosystem with 4.4 million active digital accounts, mobile first, strong brand, focus on user experience, the best rated financial services App on Google and Apple stores and other applicable online distribution through UOL brings a natural advantage and leadership in the long tail market. Now we finish our presentation and will start the Q&A session. Operator please.

Q&A Session

Operator: Thank you. We will now begin the question-and-answer session for investors and analysts. If you have a question please press star one.

Our first question comes from Craig Moore, Autonomous Research.

Mr. Craig Moore: hi thanks for taking the questions. Two questions for me, first on the new credit card launch. Are you taking the credit risk on that credit card for consumers? And secondly a related question thinking about the market that you guys address in acquiring when we look at Cielo's performance with Stelo it was extremely disappointing. They restated their prior numbers, the current quarter numbers were unimpressive. So are you just finding that the competition is just not finding traction in the market regardless of what they do, hardware promotions and so on and so forth? Thanks.

Mr. Dutra: hi Craig this is Ricardo thank you for the question. First regarding credit cards as I said in the speech we are in pilot mode and we will offer credit cards only for merchants that we are ready have some relationship, we know the behavior, we have the TPV and so on. So it is going to be...

Mr. Moore: it is a little hard to hear you...

Mr. Dutra: I am sorry Craig is it better or still...

Mr. Moore: if you... My phone...

Mr. Dutra: can you hear me?

Mr. Moore: yes.

Mr. Dutra: so Craig thank you for the question. Regarding credit cards as I said in the speech we will offer credit cards only for merchants at this point, very cautious and why only for merchants? Because we already have some relationship with them, we know the TPV, we know the behavior. So when we pilot this credit card offer for merchants we are very cautious not to take the credit risk.

Regarding Stelo as we said in the previous calls the... Of our business is not only to decrease the price of the devices, is the whole ecosystem, is the way you distribute (inaudible 30:56) and so on. So some companies think that just decreasing the price... But we are, it is much more than that. That is why we keep investing in our ecosystem because that is what makes the difference.

Mr. Moore: thank you.

Mr. Dutra: thank you.

Operator: next question from Mario Pierry, Bank of America.

Mr. Mario Pierry: thank you for taking my questions. I have two questions and congratulations on the results. First one is the outlook for your take rate, as you showed your take rate was depending very much on your mix and you mentioned that your MDR for the long tail segment has been unchanged. I was wondering what has been your strategy to get into the SMB market? Are you having also to reduce prices there like we have some some of the incumbents doing? So if you could discuss a little bit the outlook for the take rate outside of the micro merchant segment.

The second question is related also to, you provided your addressable revenue market credit 282 billion BRL. Here is not clear how you plan on approaching this. Are you going to be opening up your platform for third parties? Are you going to be taking the credit risk? Are you doing the lending? How do you plan on funding this segment? Thank you.

Mr. Alcaro: hi Mario this is Eduardo Alcaro speaking, let me take the first question. About the take rate when we see the recovery in 1Q versus 4Q most of the recovery is related to product mix as we anticipated in the last call. In 4Q due to seasonality, with the 13th salary and consumer behavior you know that there is an increase in debit card transaction volume and last transactions installments in relative terms.

The take rate is not a concern for us and we expect a slight decrease in 2019 compared to 2018 as a result of more debit transactions; but when you look the outlook for take rate from what we are seeing now comparing 2Q compared to 1Q we see that take rates stable.

Mr. Dutra: regarding - this is Ricardo Mario thank you for your question - regarding the credit first we do not intend at this point to open the platform for third parties to offer lending or something like that. The number... The reference... In this market, because as I said in the speech our main focus after payment is going to be to reach the under banked in Brazil. So this is the reference, how big is this market. We will pilot... To see how we are going to perform; but we are very cautious; we have had some experience by offering cards to merchants, it is doing well, low delinquency. So we already know how to do... the pilot to consumers.

Mr. Andre Cazotto: just an additional commentary here Mario, Andre speaking. In the end of the day our main focus remains engagement in our ecosystem okay? I think that cross-selling additional financial products for sure just like Ricardo mentioned, we are going to be able to create more stickiness in our ecosystem and for sure capture more TPV, more transactions. That is the main focus.

Mr. XXX: just as a last comment Mario on the lending product we are actually speaking now... Clients eligible to this product. So clients that have an account history with us we are trying to meet the product, we are getting the right model to make the difference and before we accelerate what we are doing here, we are learning, learning, learning and we do not have any rush to do it, because we will not take the credit risk.

So we really want to play it safe and the transfer is one of the benchmarks for us. So for now we are funding all transactions with our own balance sheet.

Mr. XXX: the next question please?

Operator: the next question comes from Bryan Keany, Deutsche Bank.

Mr. Bryan Keany: hi guys. Two questions, first just on net new merchant adds. I know there is typically seasonally softness in 1Q and then seasonally strong in 2Q; the 1Q number is a little bit better, 283,000 was higher than we expected. I am just trying to figure out should we still expect to queue for new merchant adds to be seasonally strong and then does the 1 million for the full still hold?

And then the second question on net income guidance that you provided on the last call should we still expect you guys to be in that range? I think you guys felt comfortable more towards the high-end of the range, thanks.

Mr. Alcaro: hi Bryan this is Eduardo Alcaro speaking. So again we believe we will be able to reach 1 million net adds at the end of 2019 with 5.1 million active clients, and this is exactly the number that we shared with the sell-side analysts during the IPO for 2019.

As far as your second question about the guidance I think it is too early to make any updates on the guidance. What I can tell you is that management is committed with the top end of the guidance. Our annual bonus is tied to the top of the guidance and that is our commitment. The bottom of the guidance is really what we committed when we did the IPO and we thought it was an important number to draw a line in the tendency and that is the minimum number that we are going to achieve.

And the top of the guidance we are talking about a number that is 40% higher than what we delivered in 2018 and 13% higher than the low-end of the guidance, which is the number that we provided you when we did the IPO.

Mr. Keany: okay thanks so much.

Mr. XXX: thank you.

Operator: the next question comes from Thiago Kapulskis, BTG Pactual.

Mr. Thiago Kapulskis: hello everyone thanks for the opportunity to make questions. I also have two questions, the first one related to your PagBank initiative, which looks a pretty interesting one. We have seen actually Itau releasing it as well and a number of players, kind of moving this way of, towards digital banks.

I just want to get a sense of how you guys see this platform. Are you targeting the 4.4 million clients that you have on the long tail? Can you move into I would say, into the top of the pyramid with this? I mean how are your plans related to this initiative?

And my second question is related to costs, especially cost of sales. I mean even though you had a better trend in SG&A the Cogs actually came a little bit above what we were expecting. I just want to get a sense of your sales, if it is improving or not and how do you see that on the margins? Thank you.

Mr. Dutra: hi Thiago this is Ricardo speaking thank you for the question. Talking about PagBank as I said we have been building this ecosystem for a few years and we analyze that by launching some new products, some additional products we could also reach the consumer... With the main focus on the under banked right? Because we already have prepayment, mobile top up, wired transfers, P2P and so on.

So with the launch of the payroll portability and also the cash card that is directly linked with the digital account we believe we can reach the consumer market and bring people into the system. We are not trying to steal market share from traditional banks. We are here more for bringing people into the system. So the 4.4 million merchants that we have in our base have been approached in the past months and have been using our digital account.

If you look at the pyramid we do not see that issue, because this type of merchant requires different services from banks that we do not have (inaudible 40:58) so what we are looking for is to bring consumers to the system focusing on the under banked, people that do not have bank accounts and that is going to be the main focus for PagBank.

Talking about other players launching some initiatives I can tell you about ours. We have a big wallet that we are ready have P2P, QR code, NFC and now we are going to the consumers. We believe actually that by launching these new products where people can have P2P, QR code, credit cards in the wallet, they are all good initiatives for us because the more people need credit cards the better for us as a whole, as an acquirer or as a company that is approaching consumers. So the focus on the new consumers bringing people into the system just like we did six years ago with the POS devices.

Regarding the cost of sales I will ask Andre to help.

Mr. Cazotto: it is more the seasonality that we see in 1Q compared to 4Q. Basically we expected lower device sales and in terms of discounts we do the same pricing that we were practicing in December in 4Q and so there is there is no material difference there. And as I said before you can go online and check our prices, our prices are public, are transparent and they are very easy to track and it is very easy for you to verify that we have the same levels of pricing and discounting that we were doing in 4Q.

Mr. Kapulskis: perfect thank you for the answers.

Mr. Dutra: thank you.

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

Mr. Felipe Salomao: hi good night Dutra, Alcaro, Cazotto, thanks for the opportunity to ask questions. I have two questions, the first one very straightforward. I would like to know if all the new products and services related to PagBanco that you announce today were included in the guidance for 2019 net income, or if they were not.

And my second question is related to instant payments. So yesterday he told launched its instant payments product and the central bank expects the instant

payment infrastructure to go live in the next six months, which should allow payments between wallets of different providers.

Do you believe that this new payment to represents a threat for PagSeguro business model, especially because of the company's exposure to the unbankalized part of the population, and given that take rates for instant payments are lower? Or do you believe the instant payments infrastructure should be seen more as an opportunity driven that PagSeguro already has 4.5 million customers using this wallet? So these are my questions thank you very much.

Mr. Cazotto: thank you Felipe this is Andre speaking. About your first question know, the 1.5 billion BRL that the company committed to deliver in the year only consider payments okay? As we said earlier we are starting to enter the traditional financial products targeting consumers; but we are still very focused on engagement and increasing our addressable market. The 1.5, again, is just considering the payment business that we had and we are still not trying to put in metrics about additional revenue lines that we have for our products, but much more let us say concentrated in creating more engagement in our consumers and merchants okay?

Mr. Dutra: hi Felipe this is Ricardo Dutra. Regarding your question about instant payments we have seen from the central bank and from... In the past years they fostered competition. They tried to do the right environment for companies to approach the market and be competitive, so by saying that I am trying to say that by having the infrastructure for instantaneous we see that as opportunity because we have 4.4 million merchants, we have also millions of consumers. It is still too early to comment about the economics of that because some of the transactions might... Some of the transactions... So it is hard to say how it is going to work, how is going to be the economics and so on; but we see it as an opportunity. I would say that it is related to electronic payments, we see it as an opportunity. I do not think it is any different than cash business for us.

Mr. Salomao: okay thank you very much.

Mr. Dutra: thank you Felipe.

Operator: the next question from Josh Beek, KI Bank.

Mr. Josh Beek: thank you for taking the question. The push into consumer banking seems very interesting to me. I am just wondering how long still this could be a material contributor to revenue, save 5% of revenue? Is this five years down the road, a couple of years down the road? Any way that helps us think through that?

Mr. XXX: hi Josh. As it is right now what we are committed here is not with a revenue number; but with engagement with our client base. So what we want with this new product feature with our digital account? First reach the consumer market, but fortunately on the margin side some of our merchants are also individual entrepreneurs; but by launching this product what we really want to accomplish here is to increase the switching cost of our ecosystem and create higher engagement in our ecosystem and also attract the consumer side that we think do not have this.

So that is the main focus and we are not doing anything to commit to a specific number right now and for us what was the view here is to create a new product line that brings EPS accretion. I think that is the most important thing and even when we are talking about additional merchants, additional TPV, our main focus here is always EPS accretion.

Mr. Beek: that makes sense. The other thing I wanted to ask is as you do have a larger consumer offering this this mean you need to spend more on sales and marketing to reach more true consumers or does it not really change your plans much regarding sales and marketing spent?

Mr. Cazotto: Josh Andre speaking. Let us say that for sure we are investing more in marketing and sales in the coming quarters due to the campaigns that we are promoting tonight, starting tonight; but in line to our expectation, in line with our budget, in line with our commitment to deliver the top of the guidance okay?

Mr. Beek: okay thank you, thank you both.

Mr. Dutra: thank you.

Operator: the next question comes from Otavio Tanganelli, Credit Suisse.

Mr. Otavio Tanganelli: hi thanks for taking my question. I have only one question regarding the churn rate. We have seen the increasing subsidies on the sales of the POS terminals and so the gross margin is now lower than it was in 1Q. So do you see any impact on churn regarding that? Do you see merchants, since they have lower risk by buying the POS, do you see churn rates increasing because of that? Thank you.

Mr. XXX: hi Otavio. We are seeing churn really stable, no mature difference from what we had seen last year and just to mention here as we do not steal clients from large incumbents in the market and we created new market in Brazil with our features, with our ecosystem, we also do not move clients to competition. So our churn is really related to the business mortality and that has been pretty much stable from what we had seen last year.

Mr. XXX: one additional commentary year. Let us say that even promoting discounts we are still bringing the same type of Merchant. We have not seen any type of change in the profile of the merchants working with Pags okay? Still merchants... Very decent cohort, the same lifetime value. So we are still very confident about promoting or discounts continuing to bring very good quality of merchants.

Mr. Tanganelli: very clear thank you.

Operator: the next question comes from Ms. Meha Agerwala, HSBC.

Ms. Meha Agerwala: hi and thank you for taking my question and congratulations on the good results. I have two questions, first you have a very detailed slide on the products that you have to offer for both merchants and individual customers. How are you promoting your products for individual consumers to lure them to use your App? Would you be giving some kind of discount for them to have a PagBank account or is this any other offer that you have in mind which you would be advertising?

Second it appears like you gradually want to move up market, do you believe this affects them? Would your strategy be bringing somewhat different versus what you have currently for the micro merchants segment? How do you view this going slightly upmarket from where you are? Thank you.

Mr. Cazotto: Meha thanks for your question, Andre speaking again. We are still targeting the same products. We are offering our free digital account strategy. Remember that the profile of the consumer that we are targeting remains the under banked. In Brazil we have probably 30% of the society without a bank account and that is our focus, probably more than 60 million Brazilians in the country okay?

Offering the free digital account is the basic functionality like bill payment, mobile top up, prepaid card, cash card we just launched. Just like Ricardo said at least for now let us say that the credit card is still piloting, we want to target our own merchants where we have the transactions, where we have the track record, where we have the TPV history to be more comfortable to offer it okay?

So the strategy is going to be more targeted now with our campaigns. Let us say that at the end of the day many of our merchants are already consumers. Remember that we have the dog walker, personal trainer, the teacher. So it is a matter of targeting the new campaign with marketing and for sure improving the products and services that we offer.

The cash card is a new opportunity, is a new product that we are launching that could be easily adopted by the consumer, and also there is a new important cash method that is the portability of the summary. So I believe that we these two products we are ready to start capturing more consumers to our base; but

there is no additional cost, there is no different product. Let us say that we have a product ready for merchants and consumers and remembering that many of the merchants that we operate today they have been sided that save mix where they are both merchants and consumers. Hello?

Operator: the next question comes from James Fierdman, Susquehanna.

Mr. James Fierdman: hi thank you and congratulations on the strong results, it is Jamie of Susquehanna. I want to ask about pre-payment and settlement related fees, it has obviously been quite topical. Are you seeing any change in behavior and do you see the need to adjust your us or do you think you are just at a different end of the market?

Mr. XXX: no, we are not seeing anything different from what we had seen before. If you look the long tail market given us or the incumbents they were offering D+1, and just now we see advantage of offering the instant payment that is a great functionality to our customer base without charging anything in addition to what we charged for D+1, it is really pretty much, in our market it has been pretty much the same. You can see by our volumes, by our net take rate, by the average spending per merchant.

Mr. Fierdman: ok and then if I can just follow-up we are halfway through almost 2Q, or to moral we will be halfway through 2Q. Other payment companies have commented about 2Q, maybe not there but here and some of these had observations, MasterCard had observations - including some about Brazil actually - and I was just wondering do you have any callouts yet in 2Q, anything that we should be aware of, trends to date? That would be helpful and get oriented as to where we are now, thank you.

Mr. XXX: James there is nothing different one what is happening compared to what we have in our business plan, I mean really we continue to see our plan for the year being achieved, anything different from what we had seen in 1Q.

Mr. Fierdman: ok great thank you guys.

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

Mr. Dutra: Thank you all very much for your time, for investing your time and this call and I see you in the next quarter. Thank you very much and have a great night, take care.

Operator: That does conclude PagSeguro's audio conference for today. Thank you very much.