



3Q19 RESULTS WEBCAST SPEECH

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RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

Hello everyone and welcome to our **third 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, we would like to reiterate that **we continue to focus on the longtail market taking advantage of being the first mover, having a complete digital banking ecosystem, the most recognized brand and UOL online distribution, which in our view are unique and unreplicable strengths to operate in the longtail market.**

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 with EPS accretion**. In addition, we are now seeing **higher adoption of new banking products and services** generating more engagement as we continue to invest in new initiatives through marketing campaigns, product development and people.

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 **390 million reais**, up **34% year over year**, with a **Net margin** at **27%**. Our **Adjusted Net Revenue** reached **1.4 billion reais**, up **42% year over year** and our **net take rate** ended at **3.17%**.

Moving to our Operating figures, our **TPV** reached **29.4 billion reais**, up **45%** year over year, closing the quarter with **5 million active merchants**, adding **1.2 million** when compared to the third quarter 2018 and adding **305 thousand** quarter over quarter. 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 ended September with **1.9 million PagBank active users**, adopting, at least, one additional product or feature beyond acquiring services, considering at least one transaction in the last twelve months. In addition, we are seeing strong adoption of PagBank features such as mobile top-ups, an increase of 89% quarter over quarter and 72% quarter over quarter in bill payments. Pagbank also posted in the quarter a 53% increase in TPV from prepaid cards year over year, showing a higher adoption of our clients in the issuance strategy.

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 present our mission. 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 move scale advantage. **PAGS is the most well positioned player, once PAGS is local, PAGS is tech and PAGS is the first mover.**

SLIDE 05

On slide 05, **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 **97%** 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 88% internet audience** coverage in the country, with **108 million unique monthly users as of August 2019**. Additionally, PAGS continues to have the largest brand reputation in the market, having 6x more google searches than the second largest player.

SLIDE 06

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 **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.**

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 07

On slide 07, we show the leadership of Pagbank as a digital bank in Brazil, according to Google report. **We ended the quarter with 63% of the total shares over digital banks**, more than doubling our share when we started our campaigns back in May, showing the importance of our marketing efforts and the strong brand reputation already conquered in the market.

Additionally, **our app was rated at 4.8 stars in IOS and 4.6 stars in Android**, being the most reviewed and best rated app among digital banks and payment peers, also a consequence of our best in class product development and user experience-oriented strategy.

SLIDE 08

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

We continue to scale the product to our best merchants, eligible according to their account history. Since the beginning of the operations in May 2018, **we reached 60 thousand lending contracts**. In Q3 2019, **we had 6 times more contracts** than what we had in Q1 2019 ending with a **total credit portfolio net of losses of 196 million reais**, lowering our average ticket from **5.1 thousand reais in Q2 2019 to 3.3 thousand reais in Q3 2019**, which shows our focus on the longtail market. 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, as I anticipated in the Q2 2019 earnings call, I would like to mention that in the third quarter of 2019 we had a total of **47.6 million reais** of non-GAAP items related to our **stock-based long-term incentive plan**, given the vesting of the 4th grant of the initial stock-based plan and consequently the market to market adjustment of this 4th grant. 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, excluding 16.9 million reais related to membership fees, previously booked as sales revenues and now accounted as transaction activities revenues reached **1,400 million reais** in this quarter, up **42%** year over year and **8%** quarter over quarter.

Moving to the top right, we breakdown our revenue growth, with Transaction Activities and Other Services reaching **862 million reais** and growing **44%** year over year and our Financial Income revenue reaching **538 million reais** and up **39%** year over year.

On the chart below, we present our non-GAAP **total costs and expenses** that decreased **0.3 percentage points** year over year, ending the second quarter at **3.1%** 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 third quarter we reached **390 million reais**, an increase of **100 million reais** and up **34%** year over year. The non-GAAP **Net Margin** reached **27%**, up 0.8 percentage points, despite higher investments on PagBank.

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, Payroll portability and Savings Account 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 client's loyalty and stickiness.

SLIDE 12

On slide 12, we have the evolution of our average spending per merchant that reached **6.0 thousand reais** in Q3, a growth of **9%** year over year. Here it is important to recall that the nominal average spending per merchant continues to grow, and even accelerated sequentially reaching **179 reais per client** vs **151 reais in the second quarter**, and as time goes by, we start to face harder comps, since we already reached more than 5 million active merchants and more than R\$ 100 billion in TPV in the last twelve months, which makes us comfortable to keep growing TPV with EPS accretion.

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

We ended the third quarter reaching **5.0 million** active merchants, adding **1.2 million new merchants in one year**, representing an increase of more than **30%** year over year. Quarter over quarter, we added **305 thousand new merchants**. In Q4 we continue to see a similar pace of net adds growth, which makes us believe that we should be ahead of our 1mn net adds expectation that we provided in the beginning of the year.

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

Our total payment volume reached **29.4 billion reais** in the third quarter, an increase of **9 billion reais**, up **45%** year over year, and growing **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 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 **3.17%** which has been stable when compared to previous quarters.

SLIDE 13

On this slide, we present more color about our new POS membership fee model (in Brazil called "Comodato") that started in September and it is already becoming a standard model among Brazilian payment companies. **There is no change for our merchants on pricing**, but moving to the new membership model, **we improve our customer service, by reducing some bureaucracies in the process** such as issuing invoices and registration processes, helping us to deliver a better experience,

like reducing up to 20% the customer service time and allowing the company to deliver a faster POS activation for our new clients. **We are constantly looking for changes to improve our customer service.**

Additionally, this model brings a different accounting treatment in our P&L, from now on, POS sales will be booked as membership fee and it will be recognized as a transaction service revenue instead of revenue from sales. In this quarter and for the next two ones we should have an impact in the revenue from sales line due to ICMS and PIS/COFINS taxes on the transfer of inventory from Net + Phone (a Pagseguro fully subsidiary which buys and sells POS devices) to PagSeguro. The impact of ICMS, PIS and COFINS taxes in September 2019 was **R\$26.7 million**. Our cost of goods sold should also be reduced as we are now capitalizing our devices impacting depreciation over the next few years. The result of this change was a net income positive effect of **20 million reais** in our Q3 2019.

Despite this operational change that brought a recurring positive impact in our Q3 results, it is also very important to remember that we intensified short term investments in R&D, personnel and sales & marketing to scale new initiatives, spending an additional **110 million reais** pre-tax in the last six months year over year, aligned with our long term strategy to offer a unique financial ecosystem for both merchants and consumers in Brazil.

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 present our next step of evolution and value generation. Since the official launching of PagBank in the second quarter, we intensified our investments in product development, people and marketing campaigns to promote this new initiative through our merchant base and consumers. **We observed a huge engagement since the very beginning**, and we are in the way to build our network effect as time passes by. Currently on average, **39% of our clients use at least 3 products from our ecosystem**. Our **PagBank app is open 10x a week by our active clients**, which means higher engagement of our clients.

SLIDE 15

On slide 15, 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 and will enable future monetization and revenue diversification.

On the top of the chart, we have the **number of cards issued** (specially prepaid and cash cards) that increased **92% year over year**. Our **prepaid cards TPV** that increased **53%** year over year when compared to the same period in 2018. According to Card Monitor, **PAGS is the largest prepaid card issuer in Brazil**.

In the chart below, we see the number of **bill payment transactions** rose **72%** quarter over quarter. Our **mobile top up** feature is also ramping up, growing almost **90% sequentially**. Moving to new payment methods our **NFC transactions** more than **100%** quarter over quarter and our **P2P transactions** increased **45%** quarter over quarter.

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. In the past two months we added our **Saving account** and **Super app** application and for payments we launched our low-cost smart terminal version, called **Moderninha X**.

SLIDE 17

On slide 17, we present our new banking products such as **Savings Account, that yields more than Poupança**, the most popular saving account product in Brazil and our initial **Super app strategy**, adding new services like **Uber, Spotify** and **Google Play** directly in app. We are just starting in our Super app strategy and we should continue to expand our products and services.

SLIDE 18

On the slide 18, we show our new devices, starting with **Moderninha X**, the most advanced POS in the world, with apps and software included to help merchants to manage and grow their business, and it also comes with PagBank digital account and an international cash card for free.

Additionally, we also have **Minizinha Chip 2**. An upgraded version of our entry level device, with a promotional price of 12 installments of 8.90 reais or 106.80 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 offer a wide range of software solutions to our clients.**

We ended Q3 2019 with **123 thousand clients** using our software products, **up 45% quarter over quarter.**

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

Now I would like to turn the conference over **Eduardo** again.

EDUARDO ALCARO | CHIEF FINANCIAL OFFICER

Thanks Ricardo!!

SLIDE 20

Finally, on the last slide we have our 2019 guidance. Even accelerating investments in new initiatives, **we continue to reiterate our commitment to reach close or at the top our non-GAAP Net Income guidance.** Now we finish our presentation and we will start the **Q&A session.**