

International Conference Call

PagSeguro

2Q18 Earnings Results

May 30, 2018

Operator: Hello everyone and thank you for waiting. Welcome to PagSeguro's 2Q17 results conference call. This event is being recorded and all participants will be in listen-only mode during the company's presentation. After PagSeguro's remarks there will be a question-and-answer session. At that time further instructions will be given. Should any participant need assistance during the call please press star zero to reach the operator. This event is also being broadcast live via webcast and may be accessed through PagSeguro's website at investors.pagseguro.com, where the presentation is also available. Participants may view the slides in any order they wish. The replay will be available shortly after the event is concluded. Those following the presentation via webcast may pose their questions on PagSeguro's website.

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

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

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

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

Mr. Ricardo Dutra: Hello everyone and welcome to our 2Q results conference call. Today I have here with me Eduardo Alcaro, our CFO and Andre Cazotto, our head of investor relations.

Before we go through the operational and financial metrics we want to reiterate our confidence in our strategy. Being an independent Sim Tech allows us to think exclusively on our clients' financial need delivering growth and profitability while creating higher stickiness with our clients by offering a unique ecosystem through our digital accounts. Being the first mover within nonreplicable, online distribution through UOL and Mobile First brings a natural advantage to PagSeguro. We believe that following this strategy we will be able to deliver long-term shareholder value through an increasingly attractive and growing ecosystem we operate in a new and massive addressable market with ability to launch and cross sell additional services through our digital account, which is a key piece to our long-term strategy.

PagSeguro proves that operating and winning in longtail requires an online and mobile first approach that is totally different from the traditional acquiring business model. We believe our market is just been 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.

On slide three we start with our total payment volume that has reached 16.9 billion BRL in 2Q, an increase of 8.8 million BRL up 107% YoY. This growth is the result of a greater penetration of our ecosystem longtail combined with new innovative products and solutions offered to our clients. The net take rate excluding sale of devices ended 2Q in 5% and kept stable when compared to the last quarter.

On the chart below we see the number of active merchants. Just remember the criteria used internally active merchants are those who made at least one single transaction last 12 months we ended 2Q with 3.5 million active merchants adding 1.4 million new merchants in one year representing an increase of 69% YoY. QoQ we had that 417,000 new merchants, which represents the largest number of net additions over one single quarter since we started the business or 6% higher compared to the 291,000 net additions in 2Q 17, which was our when we launched our Minizinha device. Compared with the 296,000 net adds on 1Q 18 we grew 41% this quarter.

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

Mr. Eduardo Alcaro: Thanks Ricardo and hello everyone. Before I start I would like to mention that in 2Q 18 we had a total of 14.5 million BRL of extraordinary events mainly related to the IPO and of the recent fall on. Let me remind you these items one by one: first stock-based compensation expense and related employer payroll taxes in the total amount of 62.3 million BRL. From this amount 40.6 million BRL refer to equity compensation and 21.7 million BRL refers to

payroll tax. In addition 31.5 million BRL is the quarterly recurrent provision and 30.7 million BRL is nonrecurring and related mainly to new shares issued due to new hires and additions to the long-term incentive plan. We exclude stock-based compensation expenses from our non-GAAP measure because they are non-cash expenses and they depend on our stock price and the exchange rate from USDs into Brazilian BRL at the time of the vesting of the equity award. The related employer payroll taxes depend on our stock price and the exchange rate from USDs into Brazilian BRL at the time of the exercise and the vesting date of the equity award over which management has no control and as such management does not believe these expenses correlates to the operation of our business.

Second financial income in the total amount of 27.3 million BRL related to the impact of exchange rate variation on the conversion from USD into BRL of the proceeds from our sales of new shares in our June 2018 follow on offering. We exclude this foreign exchange variation from our non-GAAP measures primarily because it is a nonrecurring income.

Third tax related to the remittance of full one primary proceeds IOF tax to Brazil in the amount of 0.7 million BRL. We exclude this IOF tax from our non-GAAP measures because it is a one-time and nonrecurring expense.

And the last one income tax on the non-gap adjustment in the amount of 21.2 million BRL. For more details the foregoing non-GAAP measures and the reclassification of these non-GAAP financial measures to the most directly comparable GAAP measures are presented in the last page in this webcast presentation.

Moving to the slides on the top left of slide number four our non-GAAP total net revenue reached 975 million BRL in 2Q, up 75% YoY. Moving to the top right let me talk about our main revenue stream composed by transaction services or mainly MDR collected from merchants, financial income from the prepayment and hardware sales. In 2Q 18 transaction and services represented 55%, financial income 35% and hardware sales 10% over total net revenues. You can see that the terminal sales are becoming less representative in the mix when compared to the previous year and are expected to continue to trend down in relative terms going forward to low single digit.

On the other hand you can note that our revenues from transaction activities and other services grew nine p.p. compared to 2Q 17. This demonstrates the strength of our 3.5 million active merchants' base delivering high double-digit math revenue growth rates.

On the two charts below we present our total expense figures. I would like to point out here our lean cost structure allowing us to have a volume scalable business model. Our non-GAAP total costs expenses decreased 1.7 p.p. ending 3Q at 3.7%

over total TPV. Related to non-GAAP admin expenses over total TPV, which excludes stock-based compensation, reached 0.3%, a decrease of 0.1 p.p. YoY.

Regarding our cash flow we no longer discount receivables with issuing banks our financial expense should trend to zero. You will note in our cash flow in the line 'changes in receivables subject to early payment' that we repaid in 1H 18 approximately 1.6 billion BRL which we obtained early payment with the issuing banks as of December 31, 2017. We still have 155 million BRL in receivables to be repaid until the end of 2018. Adding back the impact of the repayment of notes receivables for which we received early payment from issuing banks as of December 31, 2017 Pags has 278 million BRL in negative operating cash flow driven by working capital growth partially offset by Pags cash generation.

On the next slide we show our non-GAAP net income growth. In 2Q we reached 242 million BRL, an increase of 160 million BRL up 195% YoY. The non-GAAP net margin reached 25%, an increase of 10 p.p. YoY. This shows the unique profile of Pags delivering growth and profitability. Here I would like to point out the unique Pags growth profile. Considering all US listed companies with market cap of 8 billion USD or more only 19 companies out of 10,475 listed companies grew adjusted net income above 195% QoQ in 2Q 18. Now I would like to have over back to Ricardo who will comment on new products recently launched.

Mr. Dutra: Thank you Eduardo. On the next slide we show our mobile Top Up app. Prepaid mobile phones are very popular in the Brazilian market, mainly in the longtail market where we have our core business. We are offering to our merchants the mobile Top Up feature using the benefit of PagSeguro digital accounts. It is integrated with the four largest telecom providers in Brazil that represent more than 99% of the market. Through our mobile Top Up app and combined with the bill payment solution launched earlier this year we are increasing our customer engagement and discouraging our clients to keep their balance in their Pags digital accounts.

On the next slide we show you our InApp Boletos or bank slip billing feature. Boletos are also very popular method of payment in Brazil. Through this App we target B2B and B2C markets where merchants and individuals can issue unlimited Boletos through the app as a payment method to their clients. Pags receives MDR through this transaction through bank slips.

Following the presentation we have our P2P peer-to-peer solution also targets to B2B and B2C segments. Merchants and consumers can transfer their balances between PagSeguro accounts free of charge. Additionally and to increase our network effect merchants and consumers can send free invitations to other people to create Pags digital accounts. The digital account is free and takes only 3 min. to sign up.

On slide nine we have our portfolio functionalities already available for merchants. PagSeguro has been building a unique and world-class payment ecosystem focused to deliver a frictionless online and physical payment experience.

Regarding our QR code paying solution we already started to gradually roll out into our merchant base and expect to expanded in 2HTY. We believe the QR code payment to be an important complement to our portfolio of products as a new alternative to foster the adoption of electronic transactions in longtail.

Finally on the next slide we have our closing remarks. It is important to highlight the size of our total addressable market and the huge opportunities that Pags has ahead. Considering our last 12 months TPV we have only 3% of our addressable market and we still have a long way to go.

Being the first mover, having a fully vertical lysed and lower cost ecosystem with 3.5 million active merchants, Mobile First, strong brand, lower cost of merchant acquisition and replicable online distribution through UOL brings a natural advantage in our market. In 3Q we continue to see very healthy TPV growth and net additions are still growing the same pace as observed in 2Q, while take rate remains stable sequentially. We are confident our business will continue to deliver long-term shareholder value. Now we finish our presentation and we 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. If at any time you would like to remove yourself from the questioning queue press star two.

Our first question comes from Carlos Macedo with Goldman Sachs.

Mr. Carlos Macedo: hi good afternoon gentlemen thanks for taking questions. A couple of questions, one obviously over the last few months but has been a lot of talk about competition in the market and many different players launching products, many... like Itau through its... Credicard POP and Cielo and others talking about entering the market and competing against you in the longtail.

Could you talk a little bit about what you have seen in terms of competition? Are you feeling the impact of other players coming in? Is it something? Obviously it has not really affected the pace of growth of your merchant base or TPV; but is it something that it is more because of the efforts that you made to maintain that growth or is it just because you are not really seeing the competition so far?

Second question a very impressive list of products you have here. We talked in the past about maybe having a lending product come up here as well. It is something that one of your competitors does; are there any plans to add a lending product so that you can lend money to your merchants, the merchants in your network and go outside of the prepayment option? Thank you.

Mr. Dutra: hi Carlos this is Ricardo thank you very much for the question. Let us talk first about competition. I guess before we talk about the competitors it is also worth to say that we have a huge addressable market in front of us. According to our estimates we only have 2% of this market and so there is a lot of room to grow, a lot of room to grow. We have a position; we have the strength; we were built to serve longtail. The way we distribute our services as well like using our distribution, 100% online, self-service and so on.

So we are well-positioned to serve longtail with the prepaid card. We have a slightly increasing cost off per merchant acquired. As you could see in our growth more than 400,000 net adds. We cannot say that the competition that we have is decelerating substantially our growth; on the opposite we are going in a sustainable and profitable way.

Talking about lending we are trying to lending with a small base of our merchants. We know some competitors are already... Have this product in their ecosystem and so we are testing lending with a small part of our merchants. We are very cautious about credit risk. We have no doubt there is going to be a lot of demand for that; but we should think about it and be cautious the way we are going to execute that because it is very easy to lend the money but it is hard to collect. So the way we are going to execute, if we are going to work with someone else only as a distributor, if we are going to lend the money only for the best merchants and the other portion of the merchants we are going to send to someone else.

That is something that we are discussing right now and probably we are going to have this product in the future; but again the secret here is execution. We have no doubt there is going to be demand - we are going to be very cautious about the execution and this product because we do not have any credit risk in our balance sheet and we are cautious about that in credit risk in our balance sheet.

Mr. Macedo: okay thanks Ricardo and any timetable on that? Is it something for this year, for next year maybe?

Mr. Dutra: we are testing as a said. We are talking to other companies the way we are going to work with them, if we are going to work is a distributor. There is a lot of discussion about the way we are going to work with them and so we hope to do it this year; but we cannot guarantee because it is a back-and-forth negotiation and so on. So as soon as we have some new information we are going to let you know.

Mr. Macedo: okay great thank you.

Mr. Dutra: thank you.

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

Mr. Craig Maurer: hi thanks for taking my questions. I just wanted to go down our little to the commentary you just made. We are two months into 3Q now, focus is on competition, as demonstrated by the last question it is impacting you in 3Q. You just commented on net new adds being stable in terms of growth. Does that mean another quarter of 400,000+ net new adds and regarding TPV is the momentum stable there as well? Thanks.

Mr. Dutra: Craig thank you for the question thank you for the time this is Ricardo. Just remember that in 2Q we had in Brazil the World Cup, the truckers strike and even with this type of event we could grow in a very healthy way, in a sustainable way and being profitable. What we are seeing in 3Q we are going to be in the same range. I am not saying that we are going to have the exact numbers; but we are going to be between this range between 300 and something and 400 and things like that because we are... There are other things we have in September and so what I am trying to say here is that 3Q is shown us that it is going to be a strong quarter as well in terms of net adds and also in terms of total payment volume.

Just to give you another information we had the largest total payment volume captured in one day in the last August 11 that was one day before Father's Day in Brazil. So it was a record of total payment volume that we captured. Before that the record was me this year one day before Mother's Day in Brazil. So just to give you some information that not only net adds are growing but as you can see total payment volume is growing as well, and of the take rate we do not see pressures on take rate so far.

Mr. Maurer: this is really helpful thank you.

Mr. Dutra: thank you.

Operator: our next question comes from Jason Kupferberg with Bank of America.

Mr. Jason Kupferberg: hey guys. I wanted to ask about pretax margin. I think the rate of your YoY improvement there did slow a bit versus 1Q. I was unclear some of the expenses related to the offering in June were absorbed in that or any other investments that perhaps you made and maybe just any color on how we should think about pretax margins in the back half of the year would be great.

Mr. XXX: all right hi Jason. Just answering your first question if you look at our... Let us talk about first the net income margin. If you look from a net income margin

perspective it has been stable if you look 1Q and 2Q. We reached 20... 25% of net income margin.

In terms of tax rate you should expect something for the year on the high 20s and low 30s in terms of percentage the total ETR.

As far as pressure on margins you could see that we did not see pressure on MDRs. MDRs they remain stable. We decreased the price of the hardware as well and that could create some pressure in our net income margin; but we were able to absorb that and deliver a 25% net income margin QoQ.

Mr. Kupferberg: okay that is helpful. Can you talk a little bit about how the proceeds from the recent primary share offering in terms of putting those into the prepayment business, talk a little bit about this reinvestment and exactly how those funds are going to be deployed.

Mr. XXX: sure. When we talk about the primary proceeds from the IPO let me explain that. We raised 3.3 billion BRL in the primary proceeds during the IPO. From the 3.3 1.7 will be used to liquidate receivables that we anticipated with issuing banks, that we discounted with issuing banks as of December 31, 2017. So we have 1.6 billion BRL more left for the working capital needs between 2018 and 2019 that we expect to use until the end of 2019 and from 2020 going forward the company will be generating enough cash to absorb the working capital needs.

The primary proceeds coming from the follow on will be used to speed up and enhance our digital ecosystem. You could see that in 1H TY we launched several new products. So for example as Ricardo just said the Mobile Pop Up; the QR code; the bill payment; so all these features the cash that we raised during the follow on is for deployment of new features and new products and our platform.

Mr. Kupferberg: okay that is helpful thank you for the comments.

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

Mr. Josh Beck: hi thank you for taking the question. I wanted to ask a little bit more of a strategy question. So when we look at all of these products - I think you have 11 of them as part of the ecosystem - what is the ultimate goal? Do you foresee them increasing engagement or do you see them as additional services that you can monetize or is it a combination of both? What do you see as the end benefit?

Mr. Dutra: hi Josh this is Ricardo thank you for the question. It is a mix of both. What we have in mind here is to win the long tail merchants. That is our main target. We know how to do it, it is a profitable business, we already have 3.5 million merchants. So we have processes in place, it is a profitable business. So the main target here is to win the long tail merchants and we know that by being only a payment solution all yet MDRs and prepayment at some point you cannot

differentiate from your competitors and so what we have in mind is to have a more robust digital account where the merchants can come to us, they can have payments and they can also use additional services.

Some of the services that we launch is going to be only for stickers and some of them is going to be to increase our revenues and our bottom line; but none of them is going to hurt our profitability, our net income. Even if you think about the bill payment it is a service that we launched and we will make some revenues from that. For every bill that we collect there is a fee, the Mobile Top Up is the same.

So it is a way to increase the stickiness and at the same time make some money. Some of them will not be transformational; but some of them we think is going to be helpful in the future if you think about QR cold for instance it is a transaction that people can use using Pags digital balance in the digital accounts and so it is a transaction that is very profitable. So what we have in mind is to increase the ecosystem so that we can differentiate from competitors, increase the stickiness, make more money and at some point it is going to be unavoidable we should go for consumers, because part of our longtail merchants they are consumers and merchants at the same point. They are so small that it is the same guy, the mix the bills for the company with their personal bills. So at some point we can launch additional services focused on the consumer us; but right now we want to increase the stickiness and win the longtail merchants.

Mr. Beck: thank you that is very helpful. I also wanted to ask a question on regulation and I just wanted to understand how likely do you think it is that the settlement time could shrink, and if it were to shrink what would be the impact on your model?

Mr. XXX: before I answer you just to put everyone on the same page: the discussion about settlement date from D 30 to D 2 does not affect prepayment right? Because prepayment it is we charge 2.99 from the second installment to the 12th installment. So if you think about changing the settlement it is going to be only for the first installment and prepayment does not relate with this first installment; prepayment is from the second installment going forward.

If you think about the settlement from D 30 to D 2 we already have the option to pay the merchants in D+1 and we charge more for that. So the market is already offering this to the merchants. It is not something that merchants do not have options in the market. This is a longer discussion, at least that I know since 2006 because it is not easy to change.

If you are from... If you look from outside of the industry it seems that it is very easy to change; but let us say today the banks with the card schemes they have the interchange and a charge the acquirer to pay us in 30 days. If they need to pay us in one day we do not know what is going to happen with the interchange,

if they will increase; if the acquirers will increase the price; and the merchants are going to increase the price for the consumer us and so on. So there is a lot of things that could happen. What we see from the regulator is that they are fostering competition.

Merchants already have the option to receive in D+1, we are one of these players and charge more for that. But even if that happens the regulator does not talk about regulating prices, they do not regulate prices; they leave the market to set the prices. So so far we already have this product. We are competitive in prices in D+1 and so we do not see that change hurting us so far. So we do not see any high risk by changing this from D 30 to D+2.

Mr. Beck: ok very helpful thank you so much.

Mr. XXX: thank you.

Operator: our next question comes from Brian Kaene with Deutsche Bank.

Mr. Brian Kaene: hi guys, solid results. I just wanted to ask a couple of clarifications. A competition question: if competition uses lower price to get into the micro merchant market do you guys believe that you can maintain a stable net take rate or is that something you have to see how it goes to see how successful they are as they enter the market?

Mr. XXX: we do not see that pressure because - thank you for the question - we do not see that pressure because at the end of the day price is just part of the equation. What merchants longtail market are looking for they do not want to have fixed costs. They do not like rent; they do not like to play rental fees while they are on vacation or why they do not have any sales and things like that. When they decide to come to this market they look for the portfolio devices; the price of the portfolio; the MDRs of course; but they also look the acquirer... The acquirers going to have a bank account because they need to pay every month to have a bank account in Brazil. So it is a mix of things. We do not see pressure in MDRs at this point as you could see in 2Q, we had the same 5% and if you think about the longtail that we have in our base these guys they have been spending a total payment volume per year is 80 thousand BRL and if you divide that by 12 1500 BRL, something like 400 USD. Even if you did some discount about a few bps that is not one big bank that is going to make them to choose one acquirer in opposite to the other.

So the price is part of the equation. We also make promotions. If we think that promotions would be good to accelerate our net adds we will do it; but we do not see that the price pressure is going to come through MDRs in such a way that, so big that it is going to hurt our net revenues.

Operator: our next question comes from Rafael Frade with Bradesco.

Mr. Rafael Frade: hi guys good afternoon. I have two questions, the first one I was a little surprised with the MDRs that came mostly flat QoQ although you started to give some discounts in 2Q. I would like to understand if it was not relevant the base of volume that was impacted by this or there was a significant change in mix that explains that?

And my second question is looking for your receivables I would like to understand if you are already accepting AMEX and Elo as a full acquirer or not, you are still as a VAN model?

Mr. XXX: thank you for the question. Regarding MDRs we did not see any change in our mix. As was said in the previous call this year the promotions we are doing we are not decreasing the price; we are just making promotions for new merchants. It is limited for up to three months or 1500 BRL. So as I said the impact is very limited and that is why we did not see any impact in our MDRs.

Related to Elo and AMEX we are not... We are still working as a VAN and we do not capture these cards. That is why you do not see their volumes in our...

Mr. Frade: okay perfect thank you.

Mr. XXX: thank you.

Operator: the next question comes from Alexandre Spada with Itau BBA.

Mr. Alexandre Spada: hi gentlemen good afternoon and congratulations on the results. Can you share with us how much of your total revenues derived from activities that came from non-acquiring services this quarter?

Also you already commented about the new services recently introduced and we all expected further innovations ahead. So with that in mind is there a target contribution from those non-acquiring services to your total revenues? And if so when do you expect to reach these targets? Thank you.

Mr. XXX: thank you Alexander for the question. The services are still too small, too small. The services we launched, the revenues related to the services are very, very small. As we said we launched the bill payment last quarter, Mobile Top Up as well. So too small when you compare with the other revenues that we have.

We do not have here a target in mind to say you about what is going to be the target for these services in the future; but we know that by having these services it is going to be beneficial for us in terms of getting new merchants and also to increase the stickiness for these merchants. So they will be marginal to our results so far; it is going to be additional to the business plan - but it is pretty small and if I give you a number right now it is very small. Let us see in the next quarters

if we have something new that is getting a lot of traction, getting a lot of revenues and we will be able to give you more color on that.

Mr. Spada: thank you and if you allow me another question we have been hearing about POS supply difficulties in Brazil probably given the growing number of players addressing these micro merchants market. So has that been affecting PagSeguro somehow and how can the company prepare to an environment of more scarce POS supply should that be the case?

Mr. XXX: we did not see this scarcity of POS for our base. If you go to our website you can see that we did not change the number of days that we deliver the POS. We have a very well-planned way to work with the POS manufacturers so that we can give more visibility how many POS we are going to sell in the next months. So we did not see any problem with POS manufacturers not giving POS to us. We did not see that.

Mr. Spada: okay that is very clear thank you.

Mr. XXX: thank you.

Operator: our next question comes from Jorge Kuri with Morgan Stanley.

Mr. Jorge Kuri: hi good afternoon everyone. Two questions if I may, the first one on your cost of goods sold on your terminals on your sales revenues were much higher this quarter. I am assuming either that has to do with you providing discount prices are lower prices on terminals or not being able to negotiate better prices with your suppliers and that caused your gross profit. I am looking at... Sorry let me take that back; I am looking at revenues and the transactions and sales and prepayment below the revenue line. So that made your cost of goods... Your gross profit grew only 3% sequentially versus the 13% growth you had in revenues, again transactions and sales. So I am wondering if that is a permanent change in the underlying profitability, gross profitability of the terminals or if there is scope for you to negotiate their terms and we can see an improvement in that.

And my second question is about guidance. I am guessing you have got a lot of requests from sell side and buy side analysts to provide guidance for the year, which I do not see in your presentation or press release. So I am wondering, and again in the context of you having benchmarked yourselves with square, which provides... guidance. I am just wondering if you can share with us your thinking behind not providing guidance for the year thank you.

Mr. XXX: Thank you Jorge, thank you for the question. I am going to take the first one and Alcaro can complement the first one I also answer the second. You are right when you talk about the cost of devices. Part of this subsidy so to say you are right. We decreased the prices to accelerate net adds to be more competitive, to make some promotions and so that is why if you look at these lines in the

revenues related to sales and costs related to sales you see that the loss is higher than what we had in the past.

We try to negotiate with the manufacturer to kind of offset the decrease of the prices. Of course when you decrease the price you are going to have more volume. At some point we got some negotiation with part of that and part of that we need to make ourselves. So you are right when you say that we have this loss in terms of devices if you compare the revenues and the cost of these devices.

Mr. XXX: and just to complement Ricardo's comments, Jorge, we were able to invest in clients and to deliver the same and net income margin that we had in 1Q. In 1Q we delivered 25% net income margin, in 2Q we also delivered 25% net income margin. So we were able to invest in new additions to have more than 400,000 new merchants through our base and still maintain profitability of the company.

About your question about not sharing guidance as you know we operate in a very competitive market here. We believe it is in the company's best interest at this point to not provide guidance. But we can say is that as Ricardo said the business, the fundamentals of the business remain strong in 3Q. We continue to see growth in our merchant base in the same pace observed in 1Q and 2Q and we are also not watching any MDR compression in 3Q as well.

Mr. Kuri: all right thank you guys.

Mr. XXX: thank you.

Operator: our next question comes from James Friedman with Susquehanna.

Mr. James Friedman: hi this is James with Susquehanna. Eduardo, Ricardo good results here. I guess I would just ask my two questions up front. The first is about slide four, it is the one you show that increase in transaction activity in other services as a percentage of revenue. You call that in the text that number went up 900 bps. I am just wondering - I know you do not give guidance - but I am wondering in that journey where do you see that potentially going as a percentage of revenue? That is my first question.

My second question is interchange is coming down in Brazil, I think it is scheduled to. We have been through this before in Europe in Spain, in the UK and in the US. Is there any reason to believe there would be any different of a benefit for PagSeguro than it has been in the many other card... do that? So the first one is on the transaction and the second one is about interchange thank you.

Mr. XXX: if you look at the transaction on slide four as you said last year it was 46% for transaction services and 31 for financial income and you see here 55 and 35. If you disregard the sales of devices and look at the proportion between these two parts, the transaction services and financial income, you will see they

are pretty similar. So as one thing goes up the other kind of goes together, because the way the Brazilian economy works is based in installments. When people spend more money installments increase as well. That is why if you look at the 55 divided by 90 or 46 divided by 77 it is going to be a kind of similar in proportion between these two parts.

So we do not see that mix changing; depending the way you look we already have 3% or 4% of the market - but we already have a size that you do not have this mix shift substantially occurring nowadays. So if you look in the future probably the sale of devices is going to be even lower and the other two parts are going to increase at the same proportion. So I do not know if I answered your question, if not let me know.

And regarding interchange you are right, the interchange is going to be kept beginning October 1 for debit transactions in Brazil. The goal is to decrease the interchange for debit transactions from 8 bps to 50 bps. It does not mean that every transaction is going to decrease because what the central bank is looking for is the overall, the average. All debit card transactions should go from 8 bps to 50 bps in the interchange.

For us it is going to be a decrease in our cost. We will take advantage of that for a while... At some point the market is going to adjust that, the same thing that happened in other markets. At the beginning we are going to capture this increase; but at some point the market is going to adjust and the margin is going to be the same. So in the near term it is good news; in the medium term the market is going to be adjusted and the prices will go down. That is what we believe.

Mr. Friedman: great thank you very much.

Mr. XXX: thank you.

Operator: Ladies and gentlemen as a reminder if you would like to ask a question please press star one.

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: hi everyone. We would like to thank you all for the time spent with our management team. We would like to reiterate our commitment and focus to deliver solid results and 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.

