Conference Call Transcript
2Q23 Results
Cielo (CIEL3 BZ)
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Operator:

Good morning, everyone and thank you for standing by. Welcome, everyone, to Cielo's 2Q23 results conference call.

With us today, we have Mr. Estanislau Bassols, Mr. Filipe Oliveira, Mr. Daniel Diniz and all of the Company's executive officers.

This event is being recorded and also being broadcast live via webcast and may be followed through Cielo's website at ri.cielo.com.br, A replay facility of this event will be made available right after its closing. Once again, participants will be able to send their questions via website. Those questions will be forwarded to our executives.

Before moving on, we would like to mention that forward-looking statements made during this conference call concerning the Company's business outlook, other projections, operating and financial targets are based on beliefs and assumptions of the Company's management, and also on information currently available. Those forward-looking statements are not synonymous to performance. They involve risks, uncertainties and assumptions as they refer to future events and therefore, depend on circumstances that may or may not materialize. Investors and analysts should have in mind that overall conditions, industry conditions and other operating factors might affect the Company's future results and thus lead to results that will differ considerably from those expressed in these forward-looking statements.

Based on the presentation published on the Company's website, this conference call is open exclusively for questions and answers, which will be preceded by a message from our CEO, Mr. Estanislau Bassols, with the quarter's highlights.

If you have a question, please press *1 on your touchphone. If at any point your question has been answered, you may remove yourself by pressing *2. Questions will be answered as they are received. We would like to ask you to kindly remove your phone from the hook as you ask your question. This way, an optimum sound quality will be achieved.

I now turn the floor over to Mr. Estanislau for his opening remarks.

Estanislau Bassols:

Hello. Good morning, everyone. I would like to thank you all for participating in our earnings call. Today, we will be presenting information about the Company's financial results relative to 2Q23, go to the advances and progress in the period and also share some of our strategies to move to a different level.

First, I will be addressing the quarter's results. Let's highlight the Company's ROE, which reached 19.4% in 2Q. This number reinforces our strategy of cash generation in a consistent manner. We also registered the eighth consecutive quarter in recurring net profit growth to a tune of R$486 million, a growth of 7% year-on-year. Including one-off effects, net profit reached the level of R$709 million.

To put these numbers into perspective, I would like to share with you some of the main levers that helped these results materialize. The first one, discipline in prices, same thing we have done because it's relevant in this moment, even as we face new norms.

Number two, expense control. Same thing we have been doing in monitoring with great responsibility and prudence across other company's initiatives. Number three, product expansions, especially ARV, which saw its volume growth by 39% vis-à-vis 2Q22, and also the eighth consecutive growth in terms of year-on-year, which shows we are right in diversifying our revenues. Lastly, the Cateno's performance, which continues to generate cash and positive results for the group.

In addition to results, I would like to talk about customer experience. You already have a very well-recognized position across large accounts. We are now adding results across all segments, as we move ahead in better service for retail.

The highlights I will show you are in line with our focus in maintaining our leading role in the industry offering what is best in the sector. I will start by service at the call center, we saw growth across different indicators. For example, 27% increase in clients served in up to 10 seconds. Our first car resolutions saw a 6% increase in 2023, and also the level of satisfaction with our human channel service, which grew by 5% since the end of 2022.

In logistics, our customers now are able to find more agility and convenience. Today, more than 30% of our terminals are delivered as they signed the contract through our sales force. About 90% of the installations happen in up to 2 working days. In large capitals, we can measure that delivery in hours. That improvement leads to more satisfied clients. 89% of those services are ranked as excellent.

We are also using more analytics since early in the year we have started using predictive models to change the battery of those machines that are dying without interrupting service.

The third point is, as we continue to transform the Company, we are happy with the financial results reached so far, but not totally satisfied. This journey has been great and allowed us to reach a great result level with an ROE of 19.4%. We are now investing to transform the Company and reach a new level.

To do that, we need to cover the whole company across 10 different work fronts, and I will be mentioning all of them. Number one, client management and NPS, lifecycle of our products, innovation in our core and also in payments, and also in new growth avenues; number four, a leap in our commercial front; number five, to leverage our digital marketing, number six, analytics to value; and then number seven, our work model has become more agile by the book and to end across the Company, number eight, ramping up our tech infrastructure, number nine, operating sophistication and lastly, an office help to be able to manage all those fronts in a single effort.

Now I would like to highlight some of the initiatives of the Para Cima Cielo. In the next quarters, we will hire up to 1,000 people to work in retail through our partner banks. They will work along with bank managers in about 8,000 bank agencies across Brazil. Those employees will offer customized service in line with the needs of those entrepreneurs, which will increase our success rate and our loyalty level as well.

To wrap up, I would like to highlight that the Company has been investing in an agenda that stresses our increase in quality and value generation. We are sure that we are on the right track, strengthening the Company and leading us to the next level of excellence.

Once again, thank you for joining us today.

Yuri Fernandes, JPMorgan:

Thank you for the opportunity to ask questions. I have a first question about your POS in the medium term. I think the message last quarter was that maybe it was going to look for stability in 3Q, that the selling force was going to focus on trying to reduce churn, but the TPV came in a little weaker this quarter. So what's the discourse now? When do you think maybe that stability in SMB, a little more TPV stability should come? So it's an outlook for your POS.

And I have a second question about this head count increase of agency, if these new employees in the sales force in the agencies. I don't think it caught on yet this quarter, it's a future hire. So, like, just to try to estimate a little bit what the cost pressure is that this should affect you. Thank you.

Estanislau Bassols:

Thank you for your question. I will start by reinforcing what you said. We have said that we expect TPV to remain steady in 3Q, and we continue to expect that. And we believe that we will address that several times. So I will take your answer in broader strokes. This quarter, we have come to the peak, close to the end of the cleanup we were doing in our entrepreneur sector, and that’s the first part of my answer.

Now the second, I had also mentioned last quarter that we continued to encourage our sales force based on productivity, but that was to an unexpected effect the search for smaller clients in retail and these smaller clients provided 2 effects. You had to work with them very constantly for reactivation and to avoid churn. And we were also avoiding the mortality of that segment, which was one client industries.

And we also have to deal with the mortality of this segment, which is the mortality of the customer as a Company, which is a little higher, so we redirect and we continue to work on encouraging our sales with productivity, but the volume of that we saw exceeded what we expected from mid- to late quarter.

Third point: Filipe and I have really stressed the fact that we had a deficit in our headcount compared to our share in terms of number of salespeople. We expect it to bridge that gap only via productivity, and, after an exhaustive pilot, we came to the conclusion that we would need to increase our sales force.

The pilot, which was made through four points, was a pilot product that allowed us to see that because of our logistics support together with our partner banks, we had productivity that was almost 2x that of our door-to-door operations, which gave us a competitive edge because of the reach that we can have via our partners.

The fifth point, we are working significantly to improve our capacity in terms of digitalization of this journey, which allows us to bring in more clients and also lowers the churn rate. And we are already making strides in that sense, and also building on our brand and communication to capture more customers, especially in retail, which is more sensible to this matter.

So, putting all together, we do expect to see stability, especially in retail TPV over the course of 3Q, as we had said before. And we are at what we believe to be a significant turning point.

Yuri Fernandes:

I just wanted to make sure that price was not a factor. You really mentioned customer services, but is price not something that you are keeping on your radar?

Estanislau Bassols:

Again, things that aren't changing: we're not changing our efficiency drive issue, our seek for profitability, and in particular, we're still extremely active at the point that for the industry to monetize it needs to readjust along the journey.

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We continue to observe that the level of price elasticity remains low, which is why we do not see why we should not change our pricing policy, which on the contrary, it continues and is a science that we do in a perennial way here at the Company.

Filipe Oliveira:

Just complementing the point of the expansion of commercial strength, the previous point of Yuri, I think some points here are important. The first one: we're advertising up to 1000. So even 1000 means it could be less than 1000.

This expansion will happen in three tranches, a first now of 400, starting now, in this month of July that has already passed. Having proactivity, having payback, having the return that we envisioned, we're going to do two more tranches of up to 300, coming here by the beginning of next year, our expansion.

If we choose to go up to 1000, this expansion should cost around R $ 180 million per year in the run rate. So obviously that impacts already this next quarter because it has this ramp up and these tranches. But if it goes up to 1000, it would reach up to 180 million a year.

Yuri Fernandes:

That was perfect. Thank you, guys.

Kaio Prato, UBS:

Hi guys, good morning. Thank you for the opportunity to ask questions. I wanted to address a little more of your strategy in the commercial force. I have two, actually, then I do the second one about expense. You're talking about adding up to 1000 people, which Felipe has commented on now as well, in the agencies specifically.

But on the other hand, I think one of your differentials in relation to independent players is exactly this distribution and sales force in the banks, which I think can be considered a differential of yours. And I understand that nowadays you pay the banks through this channel. So my question is why having to add people in this channel, and not actually rely on the manager of the banking channel itself, which is now going to be an additional cost for you.

And the second is whether these additional sales generated in the banks with your sales force, in the addition of you, also generates a rebate or something of that for the banks as well, or being generated by these new people, it wouldn't generate. Then I do my second at expense, please.

Estanislau Bassols:

Thanks for the question. I commented on some operational indicators, for example, I commented on indicators related to logistics, that we were working with facilities, about a third of the facilities at the time of installation. In order for this to be achieved also with our partners, we need this commercial and logistical support.

So, the support has a portion that is commercial, but an important portion, is a logistical support that allows you to make the installation at the time of sale or very close to the time of sale, which brings a comfort in the decision making of who is there in need, making the decision at that time of purchase. And what we see is that this increases the effectiveness of our marketing in a very important way.

We did some modeling that showed the following: Both the agency and you get the support of the agency. When you add support from the agency, productivity increases. When you have an agency that has that support, you take it out, it goes down. The best salespeople that we move from the face-to-face channel, in our door-to-door channel, to make this logistical and commercial support of the agency, ends up generating a productivity above twice as high as that which has in the door to door.

All together we manage to have an extremely favorable economic outcome, and the actions remain independent. You're having a commercial support, but a very special logistical support, I think maybe that's the fundamental point, one of the most important here. A lot of retailers, small retailers, make the decision at that moment and want at that moment to be operating, and that's what we're able to bring and take with this action.

And the account manager continues to have the issue of sales pitching and seeing opportunities and continuing to work with opportunities that are often not immediate. So you have a complementarity, that complementarity we piloted and we saw that (inaudible) all forms it shows up very positively.

Filipe Oliveira:

Just complementing a point that Caio mentioned, whether or not we pay the rebate, an incentive on top of these affiliations that are made by our commercial within the channel of the banks, the answer is yes. An important point within this is that the benefits that this customer brings that comes within the bank's channels, whether in lower cap, or in lower NPV, lower churn and even sometimes better pricing and profitability, compensates infinitely many times here the bills that are paid to the bank.

Kaio Prato:

That was very clear. Thank you.

Filipe Oliveira:

Just one other point. In some of these cases here the affiliation is from the bank manager himself and our role is more to facilitate. There are cases that we also do the affiliation, but there are cases that it is the bank manager himself who does. Just to clarify a bit.

Estanislau Bassols:

And it was logistics that is perhaps one of the most fundamental themes, to be clear. And from what we started pointing out maybe it was a coincidence, but when I was talking about the operational data, we gave it that highlight because it's no less important. The retail decision is very hot, it happens on time, and you have that ability to install in the moment, it makes a lot of difference.

Kaio Prato:

Perfect, it was super clear. And just to complement my questions. On expenses you commented on the impact of this increase in commercial strength, which I think was clear. And in addition, you mentioned in the release a transformation program and initiative to lead service. I was wondering if this next year has something structural that can in a way "offset" some of this increase of the commercial team or not.

And the last point on my side here, you talked a little bit about competition, but about the card yield, you can consider that we have reached a level that is the peak of the card yield this quarter, going forward. Thank you.

Filipe Oliveira:

We were talking here about the issue of spending, I think it's important to note that already this quarter we're already in the pretty strong investment cycle. The numbers that were imported in this quarter already reflect here, in our view, almost all of the investments that we have in the transformation pilot, because it has already begun, it has already occurred in this quarter.

I think two examples here, when we look at administrative overhead, we had an increase of $21 million versus the previous quarter. This is fully attributed here already to the transformation program. When we also look at sales and marketing expenses, one of the big initiatives we have is precisely calibrating our digital channels. And the investments that are made here, already have an already adequate return.

So, looking forward, we're obviously going to find the sweet spot for investing in marketing, in other performance improvement initiatives. But I wanted to say that a lot of it is already included here within our P&L. What is not included is precisely this expansion that we mentioned. And the Company continues to have very strong spending discipline to ensure that all the money that is spent, that is investment, that has payback to the shareholder.

So I think an important point that we mentioned is that we're not here optimizing the next quarter in terms of results, in terms of P&L, in terms of spending, but we're using the Company's NPV here. So we're still here with that discipline to make sure that the spending is in work money, that it brings return, not spending that doesn't bring return.

Moving on to your yield question, we continue to understand, looking here inside the Company, that there is space, and relatively low elasticity. On the other hand, what we've seen in the market is that despite some communications that have been made to some competitors, we see a little more aggressiveness this quarter than we've seen previously.

We haven't seen the continuity of movement of some players that maybe we would have liked to have seen to continue the repricing movement upwards.

So the Company continues to be super disciplined. Profitability is a priority. Hard to say if it peaked or didn't peak, it's going to depend a lot on the market, but we don't have here at this point, any kind of planned upward movement in the near future.

Kaio Prato:

Thank you. Thank was very clear.

Thiago Paura, BTG Pactual:

Hi guys, good morning. Good morning, Estan, Felipe, Daniel, the whole Cielo team. Thanks for the opportunity. I have two on my side. The first with respect to the penetration of term products, we saw another very strong quarter in this sense, you have practically the maintenance of that percentage of penetration in Q2.

I wanted to understand going forward if there is any goal, any ambition in terms of penetration, and if there is anything outside of the tail wing of the market itself, of the opportunity that the credit capital market gives to this product at the moment. If there is something more organic of internal initiative of the Company that you are seeing that can still help to increase this penetration even more? Thank you.

Filipe Oliveira:

Thiago, thanks for the question. Regarding the penetration of deadline products, I will separate here between ARV and Receive Fast. ARV, in fact we have had the far superior presence. This is the result of both the market opportunity that arose here with the circumstances of the beginning of this year, but also of the performance improvement that we asked at the table already from the beginning of last year.

We continue to plan here to increase performance. I think it's hard to predict whether the market will remain so favorable, but the ambition here is rather to increase.

Within Receive Fast I think the story is a little different, we've had a certain stability here in the last few quarters, and we understand that there is room to grow. Here it's more organic indeed. I think here is a little bit of adjustment in our business procedures, so that we can reach more customers and have more effectiveness of conversion and retention of the customer, of the product. But we understand that yes, there is room to reach an even greater number.

Thiago Paura:

It's fine. Thank you. If I can ask a second question, going back to the expense part, Caio even commented and Felipe answered with respect to the forward dynamics in the commercial part. But if we look at the 2T itself, we did see the SG&A going up a little bit more than I think the folks were anticipating, the folks as well. And on the other hand, you had a little more positive other operating expense momentum this quarter.

If you can just break down the main components a bit, here's the issue of ISS rollback, but if there's anything else more relevant, just so we can understand forward what a reasonable run rate would be. Thank you.

Daniel Diniz:

Good morning, it's Daniel. How are you? We had some one-off effects here in the quarter on expense networks. I believe that the aggregate of administrative expenses was very much in line with what we had been talking to the market. It had a growth in relation to the 1Q, in line with what we had been communicating, but between the lines we had different behavior.

So the personnel expenses came in a little bit stronger and the other operating expenses came in positive if you look at the recurring income statements that we disclosed.

I would say to you this: the other operating expenses we had movement in some provisions for taxes that helped, but the appellant of the line also behaved well. The PDD with client, for example, which is one of the components, behaved well. But on the other hand, we also had one-off effects there, by the way, the other way around.

So we had, for example, expenses with shutdown, departure of people from the team that occurred at the beginning of Q2, some small restructuring that we did here, some hours of business, which consumed about BRL 15 million. So, I would say to you that in the aggregate, the expenses are at the level that we believe to be recurring.

This level should not be surprising, although we are already investing a lot in Para Cima Cielo, which is the transformation program that Estanis presented to you. I think the only point that should pull a little more relevant to the plateau is the issue of new trade expansion, which is obviously not reflected here in the numbers in material form yet.

Thiago Paura:

That was very clear. Thank you.

Pedro Leduc, Itaú BBA:

Hello, good morning everyone. Thanks for the question too. I wanted to go back a little bit to yield, the take rate of the recipe. You've already mentioned the science of price, but I wanted to understand a little bit how the mix, looking forward, might come to impact that.

I think in the call just now it was mentioned that it reached the apex of debugging, change in the customer base in one of the segments. So I wanted to understand if this mix effect of this base that mainly you guys have been coming out. How this might impact the yield going forward. Thank you.

Felipe Oliveira:

Hi Pedro. Thanks for the question. Yes, we had quite a significant mix impact in this last quarter because we had significant losses from large accounts that had a slightly lower yield. As Estanis mentioned earlier, our strategy is to have a stronger recovery, especially in retail. So yes, it can have a positive mix effect here on the yield looking forward.

I think another important point of mix that we'd like to talk about is that we have credit growing more than debt, when we look here in the market as a whole and that impacts the yield positively as well. These are two mix effects that tend to bring a slightly higher yield. It's a little early yet to say how it's going to behave in the next two quarters, it's going to depend a lot on the performance, what we're planning to do here. But these effects should bring up.

Pedro Leduc:

Did you mention on the retail basis, in these accounts that you've been going out and that's been driving the average yield up, there's still a lot of room? Should we expect that too? That too a (*inaudible*) positive?

Felipe Oliveira:

Your sound muffled a little. I'll repeat the question to see if I understand correctly. Do you say in the accounts that you have left, if you have an opportunity to recover those accounts? He muffled his question a bit, I didn't quite get it.

Pedro Leduc:

I'll redo. In these accounts that you have been leaving, that had profitability in the year, lower yield, are they still relevant? Do you still have a large mass of it within your current POS base? And that could also be a contributing factor to the yield or that driver has already been exhausted, given that it had that last quarter. Thank you.

Felipe Oliveira:

There are still accounts with the lowest yield, it's still a relevant proportion here of our TPV. Obviously it is not in our plans to lose accounts that we have today, despite low yields, a behavior aggregate our bottom line. So I don't see it as necessarily good for you to lose an account that brings, even marginally, something positive, just to increase the yield. But yes, I think that's an effect that can happen, we'll do everything we can to make sure that doesn't happen.

Daniel Diniz:

Just to complement one point, the dynamics in large accounts is a dynamic that we made clear to the market what the behavior would be throughout the quarter and so, I believe that at this point that we are, here in Q2, most of the POS that we lost, concerns even the load of trades that happened in Q1. That holds, for now.

We know how this is going to behave, the market for large accounts is very dynamic. But right now we are suffering more from the impacts of losses that had already happened even before the start of Q2.

Pedro Leduc:

Thank you.

Tito Labarta, Goldman Sachs:

Thank you. If you could talk a little bit about the competitive environment, this slowdown that we're seeing at TPV, especially what you've had experience this quarter, combined with the increase in headcount, do you see the competition getting more intense or are you going to keep increasing the headcount? And what kind of impact will that have on the expansion of TPV in this environment? Mostly, with the industry slowing down. And what would you think, how far can you get to the industry in that sense?

Estanislau Bassols:

I'm going to start Tito. What we're seeing here, we're not going to change our pricing strategy. Number two, the way in which we seek efficiency and the way in which we seek profitability, continues. That said, we were able to anticipate a stabilization in our base in the 2H of the year.

And why do I say that? First, we've almost completed cleaning up our entrepreneur base, something we've been talking about since last year. Number two, we have been working to increase profitability, as I have already said, the Company's market share has turned out to be much higher than what we see in the commercial strength share of the industry.

We're trying to increase productivity and we're now at a point where we believe we should increase the sales force to increase the retail presence.

But we're doing it this way: using our sales force, in terms of sales and logistics, in combination with our partner banks because we see that the productivity of these people can double or triple more than this door-to-door work. We are also working on this transition of the Company, not only in acquisition, but also in decreasing churn.

Overall, we believe we are on the right track. What we foresee in this regard is to seek opportunities to reach customers in different regions, different segments. So the answer is yes. We're in a very competitive environment, but I still see opportunities scattered around the scene.

Small opportunities, but when we combine all this allows a small growth, but not increase competitiveness in the segment, so as to expect any war, at least until now.

Filipe Oliveira:

I think your question was very good, Tito, and I think Estanislau covered most of it, but it is complicated when you have a decelerating market that's getting increasingly more competitive. So, the commitment that we have here at Cielo is that we are now expanding our headcount in order to reestablish equilibrium in this industry, but we are fully aware that we should not be too aggressive in further expansions in order to generate a toxic competitive environment.

So, that is an equilibrium that we are always seeking, and we are seeking to reestablish an equilibrium right now, because we are at the moment not satisfied with our performance, especially in the SMB segment.

Tito Labarta

Okay. Thanks for that. That's helpful. And what are your thoughts on the growth for the industry for the year going forward?

And maybe just one follow-up, because I understand you want to kind of maintain your prices, but the competition is showing up with having to increase that sales force. So, what do you see is more important for your clients, having that better service, which could mean more costs, or if competitors start to lower pricing, particularly as rates come down and fighting a bit for TPV, would you be forced to match even if you may not want to just understand a little bit that dynamic as well.

Filipe Oliveira:

Yes. First, industry growth, we currently believe in high-single digits industry growth for the year. We were in the low-double digits before, and we believe that we will probably see some deceleration this quarter. We will probably see some deceleration in the quarters after this. So, that's on growth.

Regarding prices versus service and versus distribution capability, when we look at what's more effective in bringing more clients comparing to the cost or the revenue that we do not have, if we lower prices, we understand that lowering price is the less efficient lever that we have. So, that's not one that we should use unless we exhaust the other levers that we have, which are increasing distribution capabilities and increasing service level.

Tito Labarta

Okay. Great. Thanks, Filipe and Estanislau.

Antonio Ruette, Bank of America:

Good morning. Thank you. I would like to deep dive in the competition front, if you could talk about it. You mentioned that the competition and the loss of share in this quarter was not only the long tail, but also in the SMBs.

If you could please explore the client profile, the size of those clients, and why do you think you are losing those clients? Is it a matter of pricing? Is it a matter of service? Is it competition that is bringing more pressure from bank-controlled competitors, not listed? Whatever you can share in terms of competition and of loss in this quarter would be great. Thank you.

Estanislau Bassols:

Thank you. I think it's to answer that question in a more effective way, it's important to start by talking about, when we look at net income results and ROE results, they reflect one of the consequences of our sales force incentives policy.

We did over the course of last year's 2S an incentive policy for the sales force that focused on profitability. I commented last quarter that an effect that was perhaps not expected, that we had, which was the capture of customers in the small, smaller retail segment, around $3,000 in turnover/month.

And this brings up some issues that are customers who end up being, it has a higher mortality than average, because the client stops exercising activity in a faster way, point number 1.

Point number 2, it's a customer who is more erratic, so you have to get more in touch with him so that he stays active, and in the end ends up having a bigger churn as well.

Joining all this with the question of balance between profitability and the issue of volume, we changed our staff, the sales force, continuing to put absolute emphasis on the theme of profitability, but also bringing the issue of volume, seeking profitability in larger customers.

We started to see that maybe in the product mix. So we see installment credit and credit coming in with perhaps greater volume in the whole of the Company to the detriment, for example, to debit. On the other hand, it is a movement that is more gradual.

We also commented in the last two meetings we had here, that our share of sellers compared to our market share, was between 8 and 10p.p. below what was expected. We were looking to take that difference in terms of productivity, we increased productivity to the level that we think is extremely high.

We look at the difference between the first quartile of salespeople and the fourth quartile and see that this difference is getting smaller and smaller, which shows that we are getting close to the total capacity in terms of productivity that we can achieve.

And seeing this reality, we decided to understand from the pilot that we carried out in the branches in our partner banks, that we also had a great opportunity there. Why the opportunity? I'll speak again, but in a different way.

The first point of opportunity is the productivity of this sales support and logistical support that is very high. So even with a very similar cost, we're bringing a much higher result, point number 1. Point number 2, it can travel physically, but also at a distance, agencies that are in places in Brazil less served by other acquirers, which ends up bringing us a competitive advantage, an advantage in terms of geographic footprint, which for us is important.

And when we look at the results of this action, again, which was at a pilot pace, they show that we bring a market, also new to the acquiring as a whole, which for the whole is quite interesting. So it ends up being a good competitive advantage.

So the way to approach this growth in the sales force is one way that we believe it's healthier than putting more sales executives in the same places that would simply increase competition. So we're looking at a different channel, a channel that's showing good results, a channel that's able to work in a different geographic footprint as well.

So by combining all of that, I think we're bringing an ability to grow back in retail in a differentiated way. I don't know if I've answered all your points.

Antonio Ruette:

Yes. Thank you.

Juan Recalde, Scotiabank:

Hi, good morning. Thank you for the opportunity to ask questions. My question is related to interchange rate caps. We asked if you could talk about the impact of that and how it was passed on to customers. And still moving forward, how much of that positive impact, do you think will be passed on to the customer in the future? If anything, anything is going to be passed on to the customer.

Filipe Oliveira:

Juan, thank you for your question. Regarding the cap of the interchange fees, the total benefit in this quarter was around 4 bps in our revenue yield, and we have seen very little passing through of this price in other segment, either large accounts or the SMBs.

Of course, large accounts, you eventually have a little bit more pressure, but we have seen a very little passing through. And the main reason why we have seen little passing through is because when you look at the interchange rates that were charged for the segment before that were included in our pricing, they were based on debt at interchange rates, which were 50 bps and the cap is actually at 70 bps.

So, there is not really a lot of benefit to be passed through. It’s just so this is a fast distortion that was corrected by the regulation. So, because of our former pricing was already made, including lower interchange rates, we do not really see a reason to pass through. And we have seen the market behaving in a similar manner with other players as well.

Juan Recalde:

That’s very useful comment. Thanks for the color.

Operator:

Thank you so much for joining our Q&A session. I would now turn over to Mr. Estanislau for his final remarks. Please sir, you may proceed.

Estanislau Bassols:

First thank you all. I think this quarter, as I said earlier, is a special quarter, we had the highest Q2 recurring profit since 2Q18. The highest net income since 4Q18, the eighth quarter of year-over-year growth in recurring net income, the largest capital allocated to term products in the historical series with R$21 billion, and ROE that reached a level of 19.4% recurring.

When we look at these results, they encourage us a lot with what we have built so far and give us a lot of pride, but it makes us think about how to reach a new level of profitability and volume of value, which is the main ambition that we have, to generate value for our shareholders.

To this end, we have advanced this transformation program that we call #ParaCimaCielo, which is a program in which we are investing in the Company, in actions that we believe will bring important results to the segments that are our focus of action, with differentials.

I think the example that we're bringing in the topic of the sales force, is an interesting example, because it's not simply an increase in the sales force, it's an increase in the sales force with a high level of differentiation, which in fact helps not only the results of the Company, but also the industry as a whole.

Thank you all very much. I hope you have a great day.

Operator:

This concludes Cielo’s conference call for today. Thank you all very much for joining us, and have a great day.