Getnet

**International Conference Call**
**Getnet S/A (GETT11)**
**2Q22 Earnings Results**
**August 2nd, 2022**

**Operator:** Good morning, everyone and thank you for waiting. Welcome to **Getnet** second quarter **2022** results conference call.

This event is being recorded and all participants will be in a listen-only mode during the Company's presentation. After **Getnet** remarks, there will be a question-and-answer session. At that time further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

This event is also being broadcast live via webcast and may be accessed through **Getnet** website at **ri.getnet.com.br**, 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 the webcast may post their questions on our website. They will be answered by the IR Team after the conference is finished.

Before proceeding, let me mention that forward-statements are based on the beliefs and assumptions of **Getnet** management and on information currently available to the company. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur.

Investors and analysts should understand that macroeconomic conditions, industry conditions and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to **Luciano Ferrari**, Getnet's Investor Relations Officer.

Mr. **Luciano**, you may begin.

**Luciano Ferrari:** Good morning, everyone, this Luciano Ferrari speaking. It is my pleasure to welcome all of you to our 2022 second quarter conference call.

Today I am accompanied by Cassio Schmitt, our CEO, and André Parize, Getnet's CFO. Our call will begin with our CEO, Cassio Schmitt, going over our main strategic priorities, followed by the CFO, who will dive deeper into our results. We will then respond to written questions submitted via webcast or live during the conference call.

Before I give the floor to Cassio, on slide 3, I wanted to make a quick announcement regarding Getnet's interest on capital and new depreciation criteria.

As of April 1st, 2022, Getnet changed the useful life of its POS from 3 years, with an annual depreciation rate of approximately 33%, to 5 years, with a depreciation rate of roughly 20% per year. Taking into consideration the present and future of the company, and based on our devices strategy, we made this decision in order to align our criteria with those practiced in the industry and based on discussions with auditors and our controlling shareholder.

Therefore, the new depreciation criteria, combined with the Interest on Capital, positively impacted our Net Income in the quarter by 75 million reais.

For further information, please consult page 16 on our Earnings Release, which can be found on Getnet's IR website. Throughout this presentation, Andre Parize will also explore both events in terms of outcomes and impacts.

Now, I would like to welcome our CEO, Cassio Schmitt.

**Cassio Schmitt:** Thank you, Luciano. Good morning to everyone and thank you all for joining us for our 2022 second quarter conference call.

When I first addressed you as the CEO of Getnet, I gave a brief introduction on the direction and ambitions that I had decided to follow moving forward. As mentioned last quarter, our main strategic pillars are having the best-in-class client services, developing the Santander and the Independent channels, and boosting value-added solutions. We have observed a great potential and we are currently developing these initiatives.

We have focused our efforts in improving the onboarding process of our Santander clients, as well as those from other partnerships. In other words, we have directed several of our technological projects towards client acquisition and servicing. Thus, we expect to see significant improvement by the end of the year.

Moreover, our value-added services and retail volumes continue to gain traction. We have a larger portion of our revenues coming from fees related to different services within our Digital Platform. Additionally, retail volumes have rebounded quite well, achieving a larger percentage of our total TPV in E-Commerce, for example.

Finally, our bottom-line recovery continues, and this will be addressed in greater detail by André Parize. We will carry on implementing pricing initiatives, given the current macroeconomic scenario.

It is also important to mention that we are on track in terms of our integration with PagoNxt, developing new products and services for our clients.

On the other hand, there are some important challenges that Getnet will have to overcome. The competition in our industry continues to increase in all segments, especially in a market with rising costs, even though the industry grows at a rate of over 20%. In the last couple of months, we have been facing significant pressure in the prepayment of large merchants' receivables.

Moving on to our quarterly highlights on slide 7, Getnet had another solid quarter.

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Our TPV registered a 20% YoY growth, with volumes continuing to lean more towards credit and showing recovery in retail, both of which are strong revenue generators. This can be seen especially in E-Commerce, where the % of our TPV coming from SMEs and Microentrepreneurs doubled compared to the first half of 2021. We also had higher prepayment figures, with 36 billion reais prepaid in the quarter, a 28% YoY increase, with higher spreads also consolidating our pricing initiatives.

Our CFO will explore our EBITDA, Take Rate expansion and Net Profit growth with greater depth in the upcoming slides.

Moving on to slide 8, I wanted to share in greater detail some of our initiatives regarding our number one priority, which is client service. We are a core element of our merchant's day-to-day activities, and with that in mind, we launched GetAtende, a team of over 1,000 people spun-off from Santander Brasil. We are devoted to high-quality client servicing. It is one of our fundamental pillars. GetAtende will serve complex demands from Santander clients and will cover all our client demands from the Independent Channels.

In addition, we are improving the efficiency levels in our operation through Paytec, which is one of the largest logistics operators for payment products and services in Latin America. Initially acquired by Santander Brasil in March 2021 and incorporated into Getnet in April of 2022, Paytec allows us to offer customized logistic services not only for our clients, but also subacquirers, retailers, and partners, while becoming a central element to our circularity strategy.

Overall, Getnet continues to take its client centricity focus to another level, developing distribution channels and improving customer service.

Finally, before I give the floor to André Parize, I would like to give an update of what we are doing in terms of our commitment to advancing our ESG fronts on slide 9.

Through perfecting and expanding its laboratory actions and equipment recycling, which helped us in this period of POS shortages, we have been able to reintegrate 400,000 POS devices in the last 6 months and, at the same time, resulted in significant capex savings. In addition, as announced this week, Getnet has launched the 1st POS made with recycled parts, a 100% new equipment that uses old parts as the base for the manufacturing process. From now on, our retail clients will have access to more eco-friendly devices. Paytec is responsible for a large part of these figures and is a central element of this strategy.

Moreover, the company remains committed to developing an organizational structure with diversity and enduring results as its backbone. Over 35% of the leadership positions at Getnet are composed of women, while 18% of our employees are black professionals.

Everything I discussed here is related to our core priorities and businesses. Finally, I would like to call André Parize to go over our second quarter results.

**Andre Parize:** Thank you, Cassio. Good morning, everyone.

Thank you, Cassio. Good morning, everyone. To begin, when we look at slide 11, I wanted to go over some figures that stood out and reflected the effort from our teams this quarter. In terms of Gross Take Rate, we closed the quarter with 1.14%, a 48bps YoY increase. Our Net Take Rate was 0.55%, when considering the cost of funding, a 1bps YoY increase. Considering fierce competition and the increase in the Selic rate, we were able to increase our prepayment spreads due to repricing and the benefit of a richer mix from our TPV, including stronger retail and credit volumes. We also recorded a 47% penetration index in the quarter, continuing a growth trend that reflects our customized offers with prepayments. As a result of this strategy, our prepayment spread reached 60 bps, representing a 3bps QoQ increase.

Moving on to slide 12, when we look at our volumes, our TPV increased 20% YoY, highlighted by the recovery in retail, which reached 47% of our total volumes. Moreover, our prepayment registered a 28% YoY growth, another positive revenue driver.

In the next slide, we had a virtual flat quarter in terms of our Active Base, once again prioritizing profitable clients with higher stickiness. We continue to observe high Client Acquisition Costs in the Long-Tail given the competition and current macro scenario.

Moving on to slide 14, we have the evolution of our Net Revenues, which totaled 633 million reais in the quarter, representing a 22% YoY and 3% QoQ increase. Our EBITDA totaled 286 million reais, increasing 27% YoY. This strong growth is highlighted by our prepayment revenues, which registered a 36% YoY expansion, and processing services that include marketplaces and subacquirers, recording a 37% YoY growth. Furthermore, in line with our growing revenues, Getnet posted a 0.55% Take Rate in the second quarter.

On slide 15, I wanted to go over our costs and expenses. Our costs of services decreased 26% in the quarter, primarily due to the new criteria for depreciation and a reduction in POS device subsidies. As Luciano mentioned, given our long-tail strategy, we understood this change was necessary to align our criteria with those practiced in the industry, while also contributing to our client acquisition power moving forward. If we disregard this action, our COGS had a -11% quarterly variation. When looking at our SG&A, we had a 28% increase in the quarter mainly attributed to the integration of Paytec our logistics operation company and the effort in recovering POS devices from non-active clients which translated in to lower capex demand. When we compare quarters without the impact from this Paytec strategy, our SG&A had a 16% QoQ increase, reflecting our continued investments in the Independent Channel.

Lastly, on the next slide, we ended the quarter with a Net Income of BRL 176 million reais, a 99% YoY and 71% QoQ increase and an Adjusted Net Income of 101 million reais, representing a 14% YoY increase, driven by the positive trend in revenues.

This Adjusted Net Income does not incorporate the tax benefit from Interest on Capital from 2017 and the impact from the new POS Devices Depreciation Criteria.

Thank you everyone. Luciano, we can move on to our Q&A session.

## Question and Answer Session

**Luciano Ferrari:** Thank you, Andre. We will now start our Q&A session, where both written and live questions will be accepted on a first come, first served basis.

**Operator:** Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press star key followed by the one key on your touch tone phone now. If at any time you would like to remove yourself from the questioning queue, press star 2.

**Luciano Ferrari:** OK, first question comes from Mr. Ricardo Buchpiguel, from BTG Pactual:

"Can you please comment how your and peers pricing dynamics has been evolving recently? Do you believe there is room for additional repricing movements during the second half of the year?"

Andre.

**Andre Parize:** Thank you, Ricardo, for your question. When you look to the pricing dynamics, we do believe that we are 90% of the way, I would say 10 remaining percent is about the wholesale, the large accounts that we see now a different and much more competition from mid/large banks moving forward towards the prepayment, but when we look the long tail and SMES, we understand it's done, so now it's much more intelligence in different regions and different offerings than repricing across the board, OK?

So, just to be clear, we understand that for the second half what we have (and also the competitors) basically it's already done. Probably one or two competitors they still have to adjust parts of these segments, but when we compare pricing, basically we saw from the other peers the recent moves too, and we position ourselves in a competitive environment. So, basically, the difference here, as I said, is large accounts, mid to large banks are competing much more in an aggressive way on the prepayment side. This what I could share with you.

**Luciano Ferrari:** OK, next question is regarding the competition:

"What are Getnet's perspectives for the industry in the second half of 2022? Do you see the market getting more competitive?"

Cassio or Andre?

**Andre Parize:** I'll start here and then I leave the floor to Cassio. So, as I mentioned, what we see different and much more aggressive in pricing is the wholesale. Obviously, we do understand that not all the players are competing on the same ground, but the ones that are competing we see they're coming with much lower pricing for the prepayment bucket, so probably this is the difference, what we saw during the last 12 months and what are we're going to see in the next 12 months.

And long tail, I mean, in our case we're still working to complete our product range, so basically for Getnet it's going to be different when we are 100% complete in our products and services that we're going to accelerate in that segment, but so far, I mean, we remain with the same speed that I've been seeing during the last quarters, we didn't change so far and the costs are higher not only by the inflation, but, I mean, all the services and also we are increasing our external sales force, so we are carrying more expenses already. So, obviously, we priced that to support and to keep the profitability when we look forward.

So, this the basic ideas and now I leave the floor to Cassio.

**Cassio Schmitt:** Thank you, Andre. Well, first in terms of competition, our perception is that competition will still increase, the dynamic of the market is still there in terms of our competitors trying to get market share and client base. But on another perspective also that is important, we're discussing a lot changes and dynamics there are and technologies that are coming to the market, which we all have to be prepared. We've already seen alternatives, we believe that payment links will increase share, there's an opportunity there, e-commerce as well, (unintelligible) prize and payments, as well as tap on phone as a solution that is coming to the market right now.

And there are other technologies, Pix itself, but what we see is, from our side, market in terms of acquiring is still growing by levels above 20%, we see that still keeping its space in the next 12 months, opportunities are there for all of us and we're working as a sector to improve the use, of course, of the use of credit cards as a solution for our… and debit cards for our clients in general.

So, expanding solutions, expanding offers is a growing market with still a lot of competition, there's room for us to innovate and increase our share.

**Luciano Ferrari:** OK, next question is regarding the tender offer:

"Could you give us an update in terms of the delisting process? What is the expected timeline?"

Let me take this one. The processes is currently on track, OK? We have at the calendar and actually the controlling shareholder has the calendar, and the public tender offer notice will be disclosed to the market on CVM and investor relations website. So, this the information we can share that this point of the operation. Any questions regarding it should be directed by e-mail ir@getnet.com.br, OK?

Next question comes from Mr. Pedro Leduc, Itaú BBA:

"You cite a 9% increase in staff and external sales force grew 13% to 500. At the same time, you cite MDR cuts. Should we expect continued commercial efforts growing this 2022? Should we look at market share to measure the sucess of these efforts?"

**Andre Parize:** Thank you, Pedro, for your question. It's Andre. So, yeah, we're going to keep growing our external sales force, and as we mentioned through some quarters already, we are it's completing our product range and the time we are complete we're going to target and accelerate in long tail with a minimum threshold in TPV, would make sense from the profitability point-of-view. So, basically, we're going to keep growing in 2022, and when you asked also about to look to market share, here is difficult to give you an idea because we are also giving up of large accounts that we are now profiting on any longer, so if we measure from TPV and retail that makes sense, if we're going to see the total TPV, then there's going to be mixed figures.

But for sure, with the time being and we start to accelerate a long tail we do expect to benefit of a richer mix in total TPV, OK? So, this I would share, right, Cassio?

**Cassio Schmitt:** Just make a few other comments, as I mentioned before, we are investing in our sales channels, the external force probably is the one that becomes more evident with growth that happened in the last quarter, but we will keep on then and investing digital channels, partnerships, and so on and so forth. So, our strategy is to grow our customer base and we will focus on this, when we're talking about long tail is having much more in improving the offer that we have with an increase of product range and our solutions, but this group here, this channel where we focus on external forces and this growth was much more related and focused in acquiring SMEs, as commented by Andre. So, the strategies combined, putting in place for each one of the channels a very specific strategy of each segment, we're going to address with the right offer.

This one is the most evident in the last quarter, but we are investing in all of our channels.

**Luciano Ferrari:** Next question comes from miss Neha Agarwala, from HSBC:

"As you are focusing more on the more-profitable retail segment, the TPV growth has been weak and TPV market share is falling. Where do you expect market share to stabilize and is that a focus of management?"

Andre, you start.

**Andre Parize:** Hi, Neha, thank you for your question. It's true, we're looking for profitability and when we see our figures in market share, as I mentioned before, some large accounts that were not profitable any longer we just gave it away, I mean, so it's difficult… I mean, it's a good question, it's difficult to tell you how big you are going to be looking forward, obviously, we're going to pursue to increase our participation, but this is not the main driver, we're still looking for profitability and we have to balance the size of large accounts or the wholesale in total operation just to balance cost per transaction, right.

So, everybody knows – you for sure knows a lot of the market – so from wholesale perspective, basically, what makes sense is to dilute costs, I'm going to make a lot of money over there, so basically, when we don't see the benefit then we are losing ground, but obviously, we believe we'll stabilize that in couple months after this aggressive pricing on prepayment from some new competitors in this arena, not new competitors because they were not competing before as a bank, whereas banks, but they're competing now for the prepayment poll, so this what's going on.

So, probably is going to stabilize that in couple months and then we're going to have a better idea of our size, but just to be straightforward, we're going to pursue to increase our participation, it makes sense, we're completing our product range in a long tail and we are presenting if not the lowest cost per transaction, one of the lowest cost per transaction in the industry, and this one of our true differentials to accelerate in that segment, OK?

**Luciano Ferrari:** Next question comes from Mr. Luan Calimerio, from Banco do Brasil?

“Could you discuss Paytec and the synergies expected with this acquisition? Could you give examples of how you will have competitive advantages in terms of logistics?”

**Cassio Schmitt:** Thank you, Luan. As of now – and the market is changing, I've mentioned that before – with different solution, payment solutions, but as of now, POSs and devices are part of the strategy for any one of the lead acquirers for us to be able to grow in the market. so, since logistics is core to our strategy, being able to coordinate or even lead the strategy through Paytec of how we're going to improve our services, delivery services to our clients using different strategies of timing for the delivery of these devices, as I mentioned, the circularity that we are working on as well – and this has been very important for us in the last quarter – is part of putting together a… differentiate us in the market of how we attend our clients, how we serve our clients.

In synergies, for sure, when we're talking about managing, this could be a long answer, but putting together how we service our clients in delivery is being able to define a strategy where we recover part of our POSs with its core when we're working in long tail and putting it back to the market this is, for sure, one of the most important synergies that we've been realizing in recent months and we see that in the future, but also having a team that we work with Paytec specific for us with, you know, custom offer in delivering our devices. Thank you.

**Luciano Ferrari:** Thank you, Cassio. Next question from Mr. Ricardo, from BTG:

“Could you please provide some color on why you increased the depreciation period of POS devices from 3 to 5 years? Does this period make sense for all segments, including long tail clients?”.

Andre.

**Andre Parize:** I mean, yes, the first point is from three to five years for all segments the answer is yes and in line with what Cassio just mentioned with Paytec acquisition we do see a lot of synergies back and forth, or what I mean, the reverse logistics. So, not only in quality levels that we are putting a lot of force to increase that perception from client point of view, but also to recover the devices. So, if you put all together, we are reducing Capex demand and it's going to be huge what are we going to be reducing for the next years.

So, basically, when we had an appraisal and we understood SMEs and large accounts with the wholesale, the equipment are much more than three years, that's the reality. And for the long tail, if I understand your angle here, is because the churn is much lower than five years, it makes sense, but once again, we have huge rates in reverse logistics, or back and forth, and we obviously recovered equipment or the device from the non-active client to a new active client. So, basically, this is what we’re doing. And in certain period of time, this must be reviewed to be in line with the reality.

So, I hope I answered your question, Ricardo.

**Luciano Ferrari:** Next question comes from Neha Agarwal, from HSBC:

“I'm going to make two questions altogether: All acquirers seem to have shifted focus from long-tail to SMB segment, what does that mean for competition, pricing and mid-term profitability of this segment?

And the next one: “What can you do differently to gain share in long-tail segment once policy rates stabilize or come down?”

Andre, please.

**Andre Parize:** OK, good question, Neha. As we mentioned before, it is true, I mean, it is much more difficult to make money on the long tail. This not only for us, it’s for the full industry, and it appears pretty clear now.

So, once again, our true differential here is the cost per transaction to be really low, probably we're the lowest or one of the lowest costs, I mean, we present the lowest cost per transactions in the industry, so this the true differential. We also, I mean, looking around, we saw peers replacing big time long tail, OK? So, this also happened from the largest player actually, and then makes more sense when we expect a minimum TPV in that segment per client, the cost of the device then the logistics, the SIM card and MDRs, automatic prepayment. So, putting all together, makes sense.

Obviously, it’s tough, but if we’re still presenting lower costs per transaction we're going to profit on tha.t So, we still completing our product range, as I mentioned at least for the last two quarters, makes no sense if we do accelerate and we do not have the complete ecosystem to engage clients from long tail, so that's the reason we’re still not accelerating, but we're going to have many new features until the end of this year and then we believe that churn will be much better from our side and that would be the moment to accelerate into profit. I mean, fuel… I mean, money for each client I mean, but with volumes makes a lot of sense from the math point of view.

**Luciano Ferrari:** Thank you, Andre. Next question comes from Mr. Luan Calimerio, Banco do Brasil:

“Could you give more details in terms of the credit products offer?”

**Andre Parize:** OK, if I understood your question, regards to our credit offering. So, just to be clear here, we do not carry loan book, we have only the origination. We launched our credit platform in May, mid-May, and we’re still learning with that, so basically, we have our credit policy and hand-in-hand with Santander and during our education, I would say. So, obviously this makes sense for us and the compound our programs for the long tail, so the origination makes a lot of sense and we're going to be remunerating with a fee for the portfolio, for the credit portfolio, and this portable strategy also for SMEs, so depending on the size of the SME.

So, this is what I would say to you regarding your question.

**Luciano Ferrari:** OK, next question is regarding the client base:

“What actions will Getnet take in order to grow the client base?”

**Andre Parize:** I don't want to be repetitive here, but, I mean, once again, we’re still working on our capacity and our scales for long tail, OK? So, what you see right now that basically we lost, precisely we lost a little bit of our active client base in 90-days criteria, but even though became much were profitable, I mean, we have much more revenues per user now and profitability tends to increase until we see that we are complete in our ecosystem, our product range for long tail, and then we're going to resume growth.

So, we have to check if we're going to reduce churn through our new portfolio, also, we are working on purchasing devices in a different mode that also would be less expensive per device, we just acquired Paytec, it will help us a lot to get back devices from non-active clients and to put back on the market reducing dramatically our Capex demand. So, putting all together, we do believe that we're going to see more for 2023 and on our client base resuming growth.

**Luciano Ferrari:** OK, next question comes from Mr. Antonio Ruete, from Bank of America:

“Could you please explore why you should not increase prices anymore on SMEs and long tail, and why do you think competitors should still increase in prices?”

**Andre Parize:** From our side, I mean, what I meant from our side in repricing is that we've done, I mean, we executed the strategy already, we are offering the combos or packages when clients realize that MDRs are lower and we are probably on the back of prepayment, right? So, this is not new for the market, we just improved and optimized our offerings. So, basically, when we look around and also check MDRs, we’re still really competitive, and from prepayment we understand that probably we’re going to have few moves on SELIC rate increases and then we’re going to be hand-in-hand. So, that’s what I meant, that was the idea.

Also, when I commented about the peers that are still increasing prices, probably I gave the wrong idea here; what I meant is many of peers already done adjustments, we don't see new ones, but there are one or two names that is still lagging and probably they are closing the gap in repricing. That was the idea.

For now, this is what we see actually, we're comparing obviously in daily basis with competitors, their offerings, and monitoring as you could believe, and we don't see new moves during the last month any longer, so that's the idea for the second half. Probably we reached the price where it should be and only the pre-payment will be adjusted according to new moves on SELIC rate. That's the idea.

Besides that, once again, the wholesale or the large accounts then became the other way around, much more aggressive on deep pricing in prepayment rates, OK? So, just to be clear here.

**Luciano Ferrari:** OK, since we have no more questions, I'd like to thank all of you to reach this conference call today. On my behalf, on behalf of Getnet naturally, Cassio and Andre, we’re still available to have your doubts, to answer your questions, the investor relations team is here to answer you, OK?

Thank you, have a great week.

**Operator:** This concludes today's Getnet 2022 second quarter results. We appreciate your attendance. Have a great day.