PagSeguro Digital Ltd. (NYSE: PAGS)

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Earnings Transcript

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Earnings Call Transcript | Q1 2025 Results

Operator: Good evening! My name is Audir, and I will be your conference operator today. Welcome to PagSeguro Digital earnings call for the first quarter of 2025. The slide presentation for today's webcast is available on PagSeguro Digital's Investor Relations website at investors.pagbank.com.

Please refer to the forward-looking statement and reconciliation disclosure in this presentation and in the Company's earnings release appendix.

Finally, be advised that all participants will be in listen-only mode. After the presentation, to ask a live question please use the "raise hand" button to join the queue. Once you are announced, a request to activate your microphone will appear on your screen. Please ask all your questions at once. Alternatively, you can also write your question directly into the Q&A icon on the lower part of your screen. Today's conference is being recorded and will be available on the company's IR website after the event is concluded. I would now like to turn the call over to Gustavo Sechin, Head of IR, please go ahead.

Gustavo Sechin: Hello everyone, and welcome to the PagBank earnings conference call for the quarter ended March 31st, 2025. I'm Gustavo Sechin, PagBank´s Investor Relations Director. Thank you for taking the time to join us today. We will begin by sharing the highlights of the quarter, followed by our live Q&A session. Tonight, I am joined by Ricardo Dutra, our Principal Executive Officer, Alexandre Magnani, our CEO and Artur Schunck, our CFO. Now, I would like to turn it over to Dutra. Please, Dutra.

Slide 04: **Ricardo Dutra:** Hello everyone and thank you for joining our first quarter 2025 earnings call. I will begin with slide 4, where we present our key operational and financial highlights.

I am pleased to announce another strong quarter, delivering growth with profitability despite the challenging macro-economic environment. We ended the quarter with **32.0 million** clients, growing 0.6 million clients year-over-year. Our financial performance this quarter was marked by a robust top-line growth and a resilient bottom line, while earnings per share grew at an accelerated pace.

Payments TPV reached a record first quarter of **129 billion** reais, a 16% growth year-over-year.

Our credit portfolio and funding are experiencing rapid year-over-year growth, further solidifying our financial strength and competitive position.

Going to financial highlights, our Net Revenues increased +13% year-over-year, reaching **4.9 billion** reais. Our Non-GAAP Net Income was 554 million reais, a 6% growth year over year. Our diluted EPS on a GAAP basis reached **R$ 1.72**, 14% growth year over year, which reinforces our commitment to continuously create shareholder value.

In this context, following our existing Buyback program with **1.1 billion reais** repurchased over the past 12 months, we are pleased to announce the launch of two key initiatives to further enhance shareholder value and drive more efficient capital allocation. **We are cancelling 23,9M stocks held in treasury** and, for **the first time, we announce the payment of cash dividend of USD 0,14 per common share**, to be paid on June 6. Going forward, at the discretion of PagSeguro Board and company and market conditions, among other factors, we expect to pay dividends corresponding to approximately 10% of net income.

In conclusion, this quarter's performance highlights our ability to consistently create value and deliver solid results. We remain one of the few companies in our segment to have posted positive results every single quarter since our IPO – a track record we have upheld despite evolving industry dynamics and economic cycles.

Slide 06: On slide 6, we illustrate the consistent growth in our earnings per share. Since our IPO, in 2018, we have delivered a 15% CAGR for our reported GAAP basis EPS metric. This trajectory reflects our strong operational execution and our disciplined capital allocation strategy – including increasing buybacks over time, which showcases our confidence in the long-term value of the company.

Along the way, we have achieved several key milestones that have expanded our addressable market and increased profitability. The acquisition of our banking license enabled us to broaden our product offering and deepen customer engagement through our credit offerings and digital banking platform.

More recently, our strategy has focused on winning the MSMBs, attracting and retaining these profitable customers, while continuing to scale our platform. The results of this shift are already visible in our improving monetization metrics and sustained EPS growth.

Slide 07: Moving to slide 7, we highlight how we've been building the company with a long-term vision. Our fully integrated ecosystem — combining Payments, Banking and Credit — allows us to use one business to effectively leverage the other, by offering a comprehensive suite of products and features to our clients. This approach has allowed us to deepen engagement, boost monetization, and capture a greater share of wallet by becoming a primary financial partner of our clients.

Slide 08: Moving to the next slide, we show that on top our robust performance, there remains significant room for market penetration and future growth. In some banking businesses, we have less than 1% market share so that we strongly believe we are still scratching the surface in terms of the full potential our platform can reach.

As we scale our banking operations, we open up new avenues for sustainable growth, including a deeper focus on cross-selling banking products, strengthening our deposits franchise and increasingly expand and diversify our credit portfolio.

Now, I'll pass to Alex, who will deep dive into our operational performance for 1Q25. Thank you.

Alexandre Magnani: Thank you, Ricardo! Hello, everyone. In this section, we'll walk through the performance of our business units for the first quarter of 2025.

Slide 10: On slide 10, We announce that from this quarter on, we are adopting a new classification criterion for our client segments. Merchants with a Total Payment Volume (TPV) up to R$ 3 million per month are now classified as MSMBs, compared to the previous threshold of up to R$1 million per month. Additionally, we now define merchants with TPV above R$3 million, as well as all online merchants (e-commerce and cross-border) under the Large Retail and Online segment, formerly called LMEC.

This change was implemented to more accurately reflect the dynamics of our business, in line with our strategy of winning on the MSMB space.

Slide 11: Moving to slide 11, In 1Q25, we reached 32.0 million clients, adding 600 thousand clients in the last 12 months. We ended the quarter with 17.7 million Active Clients, with our client base expansion driven by a sustainable growth of 5% year-over-year in the Banking-only clients. As we have seen in previous quarters, we have been focusing on activating higher-value clients, prioritizing monetization and profitability.

Slide 13: On slide 12, we show that our merchant acquiring business keeps growing in all segments. TPV reached **129 billion** reais in Q1-25, growing +16% year-over-year, with TPV per merchant growing to +20% on a yearly basis.

In the fourth quarter of 2024, we initiated a strategic repricing process in response to the ongoing interest rate hikes in Brazil. Now, six months into this effort, we believe that acting early was crucial in partially offsetting the impact of higher rates, while also helping to manage our product mix more effectively.

In accordance with the new segmentation mentioned previously, the MSMB segment, which now includes merchants with a monthly TPV up to 3 million reais, grew 11% year over year. For comparison purposes, if we have maintained the previous classification used through 4Q24, MSMB TPV would have grown 13% over the same period in 2024. This expansion of our core segment is mainly driven by increased productivity in our HUBs.

Meanwhile, the Large Retail and Online segment, which includes merchants with monthly TPV above 3 million reais, as well as e-commerce and Cross-Border operations grew 30% year over year. Excluding the on-line business, our Large Retail segment grew approximately 8% year over year. Growth was particularly strong in cards-not-present transactions, enabling us to extend our market reach beyond traditional POS channels.

Slide 12: Now on Slide 13 we show that our strategy to deliver a seamless experience by integrating payments, banking and value-added services, drove cash-in levels to 83 billion reais in the PagBank accounts. Cash-in per Active Client, a key metric of our client engagement, grew +23% compared to 1Q24, reaching 4.8 thousand reais per client.

The evolution of our engagement metrics is shown on the bottom-left graph, which demonstrates the increasing usage of our app. Furthermore, we observe the significant penetration increase of bill payments and PIX services, Investments and Insurances products across our customer base.

Slide 14: On slide 14, we show our strong deposits performance and cost of funding reduction.

Total deposits were up **+11%**, reaching **33.9 billion** reais. This growth is particularly noteworthy given our ongoing efforts to reduce the cost of funding. It shows that we are successfully managing customer deposits, while improving the efficiency of our funding base.

The APY for Total Deposits decreased by **500 basis points**, reaching 90% of CDI in the last year, as a result of our strategic efforts to lower the average cost of funding such as adjusting the remuneration, the duration, as well as diversifying our funding sources.

Our deposits are primarily utilized to fund prepayments to merchants and our loan book. As of December, our Loan to Total Funding ratio, which measures our Total Funding against our Expanded Credit Portfolio, stood at **114%**.

Slide 15: On slide 15, We highlight that we have been able to expand our credit portfolio gradually in a sustainable way. This quarter, our total Credit Portfolio reached **3.7 billion** reais, a **34%** year-over-year increase, led by the origination of secured products, which represents **85%** of our book loan.

Since 2H24, we have gradually resumed credit underwriting for unsecured products, mainly focusing on working capital loans for merchants. This has been driven by the continued improvement in asset quality, risk assessment and collection processes. Consequently, there has been a 16% increase in 'Working Capital Loans' in the last quarter.

When we consider the financial operations related to prepayment to merchants, facilitated by our instant settlement feature on the acquiring side, our expanded credit portfolio exceeds **46 billion** reais, a **34%** increase over the past 12 months.

Our NPL90, on the bottom right of the slide, demonstrates the improvements in our asset quality in the last 12 months, moving from 4.5% to **2.3%** in the period, which is significantly below the market average.

Now, I turn over to Artur for the financial highlights of the first quarter of 2025. Artur, please.

Artur Schunck: Thanks, Alexandre! Hello, everyone, and thank you for joining us today. I'm pleased to present our consolidated financial results for the first quarter of 2025.

Slide 17: Turning to slide 17, we delivered total revenue and income of 4.9 billion reais, representing a 13% year-over-year increase. This growth was driven by sustained strength across both our Payments and Banking segments, as previously highlighted by Alexandre.

Our consolidated Gross Profit Margin reached 39% of total revenue, reflecting the ongoing repricing process that partially offset the impact of higher interest rates throughout the quarter.

Looking at the charts on the right side, Payments' revenue totaled 4.3 billion reais, supported by TPV expansion and the evolution of our client and product mix. Banking revenue reached a record 582 million reais, growing **60**% year-over-year, driven primarily by higher interest income from our expanding credit portfolio and increased float from our cash position. Additionally, revenue from service fees grew, supporting our strategy to deepen client engagement, improve principality, and drive greater profitability.

Finally, the gross profit margin of our Banking segment reached 70%, marking its fifth consecutive quarter of growth.

Moving on to the next slide.

Slide 18: Here, we present a comparison of our Gross Profit from Q4-24 to Q1-25. The most significant positive impact comes from our repricing strategy, which helped offset the negative effects of quarterly seasonality and an average interest rate hike of 31bps compared to the last quarter of 2024. It is important to note that we initiated repricing at the beginning of Q4-24.

In the right side of this slide, I want to highlight the strong performance of our Banking business, which has become an increasingly strategic pillar in our overall results. Banking gross profit grew 85% year-over-year, with its share of total gross profit rising from 13% to 22% in the last quarter. This growth was accompanied by a margin expansion from 60% to 70% over the same period. These results reinforce our resilience, the diversification of our revenue base, and our ability to scale complementary products and services effectively.

Slide 19: On slide 23, we take a closer look at our costs and expenses, providing deeper insights into their evolution and impact on our financial performance.

Our continued financial discipline - a key lever in balancing growth and profitability - was instrumental in delivering this quarter's results. We achieved an additional 10 basis points of operating leverage compared to the same period last year.

On the cost side, Transaction Costs rose 5% from Q1-24, growing at a slower pace than TPV due to shifts in product usage by our clients. Financial Costs increased 42%, driven by higher interest rates and TPV growth, which required larger prepayment volumes. These effects were partially offset by funding initiatives aimed at diversifying sources and reducing interest expenses. Meanwhile, Total Losses declined, reflecting the evolution in our fraud prevention processes.

Operating expenses decreased by 3% quarter-over-quarter, with marketing costs remaining in line with Q4-24 and reductions in personnel and other administrative expenses. This reflects our disciplined approach to cost management and the efficiency achieved.

Finally, tax efficiency remains a fundamental pillar of our business strategy. We continue to advance tax optimization initiatives aimed at enhancing profitability and driving long-term value creation for our shareholders.

Slide 20: Moving on to slide 20.

As demonstrated throughout the presentation, this quarter was characterized by resilient operational and financial performance. We achieved a non-GAAP net income of 554 million reais, reflecting a 6% growth compared to Q1 2024

Shareholder value creation, measured by diluted GAAP earnings per share, reached R$1.72 in the last quarter, reflecting a 14% year-over-year increase.

On the right side of the slide, I am pleased to present the improvement of 140 basis points in our annual Return on Average Equity, which increased to 15.0% from 13.6% as reported in Q1 2024. Despite maintaining a conservative capital structure, the Company continues to deliver consistent returns.

On the next slide, we will take a deeper look at our capital allocation strategy.

Slide 21: So, moving on to slide 21, I would like to share the initiatives we are executing to create shareholder value and strengthen our capital structure.

We maintained consistent execution of our buyback program throughout 2025, repurchasing over 8 million shares. To date, we have executed more than 75% of the current program, approved in August 2024.

In addition to that, I would like to highlight two main initiatives that we are announcing this quarter, aligned to our commitment with sustainable shareholder value. First, we are immediately canceling approximately 24 million treasury shares, reflecting our confidence in the long-term value and performance of our business.

Finally, as Dutra mentioned earlier, we have announced the first cash dividend payment in Company's history, USD 0.14 per common share, to be paid on June 6. Going forward, we expect, at the discretion of PagBank's Board of Directors, to pay dividends corresponding to approximately 10% of net income, subject, among other factors, to market and company performance and financial conditions.

This demonstrates the Company's ability to balance growth and profitability and our commitment to strengthening the capital structure and creating value for shareholders. Our Basel Index consistently declined from December 2023 to Q1-25, reflecting an improvement of approximately 5 percentage points in capital allocation.

Moving on to the next slide.

Slide 22: Now, let's take a quick look at this year's guidance.

Q1 results are well aligned with the Company's outlook for the year, confirming that we have started on the right path to delivering our expected performance.

Diluted EPS, based on the same share count as of December 2024 - excluding the effects of the new shares repurchased in 2025 and the new shares to be distributed under the 2025 LTIP - grew 15% year-over-year, demonstrating the resilience of our performance and the disciplined execution of our strategy. We expect this metric to continue improving throughout the year as we balance growth and profitability while exploring initiatives to strengthen our capital structure.

Regarding Capex, current investment levels align with expectations for this point in the year.

Now, I'll turn it back to Alexandre for the closing remarks.

Slide 22: **Alexandre Magnani:** Thank you, Artur. Before we finish, let's turn to the next slide for our closing remarks

Overall, this quarter's results capture the disciplined execution of our strategy, focused on diversifying our revenue sources and preserve profitability in a challenging macro environment.

I would like to highlight once again the increasing contribution from our banking business, which now represents 22% of our total gross profit and how the company, through its resilient performance, starts the year on track to deliver the expected guidance.

For the next coming quarters, we remain focused on mitigating the macro uncertainty as we continue to execute our repricing strategy and promote financial discipline.

In addition to that we should keep working on ways to improve our capital structure, executing the initiatives that were recently announced.

Finally, I should also emphasize that our long-term focus is to become the primary interface for our clients, exploring the significant opportunities to drive future growth highlighted in this presentation.

Now, let me give the word back to the operator and we will start the Q&A session. Thank you!

Operator: Thank you for the presentation. We will now begin the Q&A section for investors and analysts. If you wish to ask a question, please press the “Raise hand” button. If your question has already been answered, you can leave the queue by clicking on “put hand down.” There is also the possibility to ask your question through the Q&A icon at the bottom of the screen:

Arnon Shirazi, Citi:

Thank you for the opportunity of asking questions. My question is related to TPV. We saw the growth was slightly above 16% year-over-year this quarter, decelerating for 28% from the 4Q. What explains this? Thank you.

Ricardo Dutra:

Arnon, thank you for the question. I will take advantage of your question just to remember that we are not a payment-only company anymore. So 22% of diversified our gross profit comes from the banking operations. We already have more than R$3 billion in credit portfolio, controlling NPLs, close to 18 million active clients, 2/3 of the clients are from the bank. So just to remember that the Company is much more as of today than it used to be in the past, and it is diversifying quarter after quarter.

But going back to your question about TPV, you are right, we grew 16%. It decelerated a little bit from 4Q. I will not say easy comp, but the volumes in 1Q24 were a little bit higher than what we had in the past. So it's a difficult comp compared to 1Q24.

And remember, we have been saying that our focus is in winning the MSMBs and online. So if you look at slide 12, we are going to see that in large retails, we grew 8%, in e-commerce and cross-border, we grew more than 30%, and MSMB, we grew 11%. So it is aligned with the strategy that we have been saying to the market in the last, I would say, 2 years. Our plan is to win on MSMBs and win e-commerce. And part of the explanation is because we had this repricing.

As interest rates in Brazil goes up, the tool to mitigate this increase in financial expenses is to make the repricing, and the large retail are more sensitive to this type of movement, which is fine because our focus is in the MSMB.

So we are always trying to balance growth with profitability. So we delivered a very decent growth in 1Q, very decent profitability. But in large retails, we had this kind of deceleration, which is fine because these clients, they have lower margins usually. But part of the explanation is because it's natural that we make the reprice and then we had a decrease in growth in the larger clients.

But remember, if you look at the financial expenses, we had a 42% year-over-year growth. So we had to make this price to keep the profitability of the Company. Some of the clients are more sensitive and they have been moving part of the volumes to some another company, but that's the explanation.

Arnon Shirazi:

Got it. Super clear. And if I may, I have another question here regarding the announcement of 10% dividend distribution on future net income for the following years. Why only 10% and not more since the Company has a lot of capital on the balance sheet?

Ricardo Dutra:

The dividends that we are announcing, it's an initiative combined with the share buybacks. So we will keep working in both initiatives. As you could see, we have been much more aggressive in buybacks in the past quarters. We bought more than R$1.1 billion in shares in the last 12 months. So the idea is to combine dividends with buybacks. We keep doing the share buybacks, and we plan to keep doing so, and the 10% is just to have a sense of what we have in mind at this point. It does not mean that we could not change, but remember, this is a combined initiative with buybacks.

Beatriz Abreu, Goldman Sachs:

Good evening, and thanks for taking my question. My question is on deposits. So we saw some contraction there in the quarter. So the decrease on checking accounts somewhat understandable given the higher cost of opportunity due to the higher rate environment. But CDs also fell in the quarter. So I just wanted to understand a bit what drove the decrease there in deposits and if the 90% of CDI is a floor of what you can pay on deposits without seeing any significant outflows. Thank you.

Artur Schunck:

Beatriz, thank you for your question. When we take a look on the deposits, we are managing all the funding lines. Sometimes we have more deposits, sometimes we have other deposits growing or even interbank deposits.

When we compare quarter-over-quarter, part of the explanation is related to seasonality. We put more focus on analyzing deeply checking accounts and CDs, sometimes we have amounts moving from checking accounts to CDs. In terms of CDs, we are putting together in-house distribution, third-party distribution. And the most important point to me is to put attention on the average total cost that is stable in terms of comparison to other and past quarters.

Actually, we are doing a great job on working to reduce the cost of funding for the Company. And the second point is the 85% of the distribution of CDs in-house versus 74% of the distribution in 1Q24. So we are doing a great job on reducing costs. And also, we are distributing more deposits to our clients that will engage them more and allow us to cross-sell more products for them.

Beatriz Abreu:

Great. And do you think you can lower even more the API paid on total deposits, or is 90% sort of a floor that you are seeing?

Artur Schunck:

We are working to do that. There are initiatives that we are thinking about to reduce the cost, but also we need to balance the total amount that we have versus the percentage that we are paying for our clients.

So we can reduce it, but losing amount is not good for the Company because we need to move to other lines that are more expensive than deposits. So we are working hard to focus and distribute those products to our clients to engage them in the ecosystem, and also working to reduce the cost for the Company, too.

William Barranjard, Itaú:

Good evening, everyone. My question goes on the gross margin plan. So looking at the slide 18 you provided, it seems like repricing is more than offsetting funding cost growth. So my question is, from now on, as the average interest rates will grow slower than they grew sequentially in the 1Q, is it fair to believe that from now on, gross margins should improve sequentially or there could be any effects on lower repricing efforts from now on, or even TPV mix changes that could impact eventual margin gains from the 2Q onwards.

Artur Schunck:

William, thank you for your question. So when we have this comparison, this bridge on slide 18, as you mentioned, we are including the pricing and mix of products together in the same bucket. The majority of the positive result comes from the repricing that we had, but not 100%. I could say that we did not compensate 100% of the increase from the Selic rate. And on top of that, during the 1Q, we have 2 increases from the Central Bank on the basic interest rate for the country. And the full impact on the cost will be in the 2Q and also in the 3Q because we had an increase last week.

So what we can say is, we are working hard to reprice our clients to reduce the cost of funding for the Company. On top of that, taking care on the costs, transactional costs, total losses, and even compensated through expenses to continue to grow in our results going forward.

So I see that we can have more impact on gross profit in 2Q and 3Q. But in the end of the day, we have the guidance that shows a growth from 7% to 11% versus last year, and we are confident that this guidance will be achieved until the end of the year.

William Barranjard:

Thank you, Artur. But just checking, so how would you compare the magnitude of repricing effect in your gross margins, maybe in the 2Q? How would you compare the expectations with what happened in the 1Q?

Artur Schunck:

We used to say that we are repricing. In each round, we are repricing 60% to 70% of the clients. That will be a little bit less in terms of amount. So we are not sharing exactly the amount that we are doing. And as we communicated before, our strategy of repricing is aligned to the Central Bank increase. So after the increase from the Central Bank, we have some days to take all the repricing 100% implemented.

So it's difficult to set exactly the magnitude of the impact going forward, but we are doing all the efforts that we can do to reprice our clients without losing volumes, without losing clients and also keeping the margins up as much as possible.

Antonio Ruette, Bank of America:

Good evening. Thank you for your time. I have 2 questions. I would like to continue on Arnon's questions. So first, on TPV, as for the deceleration, I would like to check if you also had some impacts of the repricing strategy on MSMBs. I understood that you had some large accounts and also that you have tough comps here as 1Q24 was stronger than usual, but we do see growth coming down from 20% to 11% year-on-year. So I would just like to deep dive here, if you could share if you have an impact from churn related to repricing or any other effects that you could share? That's on volumes.

On your capital distribution, I was just curious if you could share a little bit more on why cash dividends and not more buybacks. I understand that you mentioned that this will be a strategy combining both, but why? If you could share a little bit more, it would be great. Thank you.

Ricardo Dutra:

Antonio, regarding the first one, the repricing and how it could have affected the MSMBs, when you look the MSMBs segment, it goes from R$1 to R$3 million per month. So there could be some impact in these clients. As we said before, in the large retail, they are more sensitive and the impact on churns is more immediate. In the MSMBs, it could take a while. We keep following that to control the churn rates. The larger the merchant, higher the probability that he could have some churn. And when I say it's churn, it does not mean that he's going to stop working with us, but he could move some of the volumes to another company.

So we keep monitoring that. I would say it's popping up in our screens here saying that we have a crisis or that the churn is spiking up. But yes, there could be some churn in these type of clients. And remember that also in the 11%, there could be some mortality of the clients throughout this year. So when you look at the MSMBs that goes from R$1 to R$3 million, you have, I would say, different profiles of clients.

But yes, it's natural that when you increase prices, you have some friction with the clients. And the whole market is increasing prices. Some companies have different strategies. They make one increase based on the future curve. As Artur mentioned before, we wait to see what's going to be the interest rate and then we decide to reprice. We do not reprice all the clients at the same time. We have different clusters for different MCCs, different geographies in Brazil. So I mean, to answer your questions, there could be some impact in the MSMBs and repricing, yes, but it's not something that is popping up in our screen here saying that we have a problem.

But yes, there could be. Regarding dividends, yes, we could keep going with the share buybacks and only buy back shares, but we decided to combine part of the discussions that we had in the past quarters, dividends appeared as an option, and then we decided to make this R$250 million, around this R$250 million. And again, it's going to be combined. Both initiatives are going to be combined to increase the shareholder value of the Company.

To some extent, we are going to increase our return on equity because the equity will go down. So it's the following initiatives we have been doing in the past year to increase our return on equity and the increase in shareholder value.

Antonio Ruette:

Thank you. If I may follow up on the first one, you mentioned that on MSMBs, you could have some impact related to mortality. What do you mean by that? Is the usual mortality of the long tail pressured by the high rate environment, or something rather than the usual impact? And also on the large accounts that you mentioned that you had some deceleration related to repricing, among those segments within those clients, could you share, which segments? Was it like large merchants, online? What was the part here? That's it for me.

Ricardo Dutra:

Antonio, I will just reinforce that we keep looking at many metrics here, but we think that gross profit reflects the best metric for the Company because it includes many, many variables. It includes the TPV, times, take rate, revenues minus interchange costs, minus card scheme fees, minus losses, minus financial expenses that you know is very important for our business here.

But going back to your question on TPV, the large retail grew 8% year-over-year. So that's something that we keep working with these clients, but it's not the main focus. The main focus is the winning on MSMBs. And so it grew 8%. The e-commerce and cross-border grew more than 30% and the MSMBs grew 11%.

When you look at the MSMBs, part of the mortality it is related to usually smaller merchants. Many merchants that we have, you have been seeing the unemployment in Brazil, some of the merchants they could have employed, they have lower volumes. But I would say to you that the mortality is related to the mortality of the companies in Brazil overall. And with these interest rates, it tends to have more difficult for some types of businesses.

But it's a mix of everything. There's no silver bullet here. It's a mix of many, many variables. It's the mortality, it's a little bit of the pricing and so on. So I do not have the specific number to give you here, but usually, large retailers are more sensitive to increases. So that's why it grew 8% year-over-year versus the 16% of the Company on average.

Jamie Friedman, Susquehanna:

Thank you for taking my questions. My questions are also about slides 18 and 19. These are good slides. And I will just ask my 2 upfront. So Artur, in terms of the transaction costs, this is slide 19, the transaction costs actually declined as a percentage. They grew 5% less than the total volume. You said in your prepared remarks that it was partly due to mix. I was wondering if you could elaborate on that. That's my first one.

And I know you get a lot on this on the repricing on slide 18, but how durable do you think the repricing is? What are you expecting from, if anything, the competition on the repricing front? And what's embedded in your outlook on repricing for the remainder of the year? Thank you so much.

Ricardo Dutra:

Jamie, I will start with the last one, and then Artur can answer the first one. Interest rate of the economy in Brazil used to be 10% in 1Q24 and today it's close to 15%, 14.75% to be more specific here. At the beginning of 1Q24, nobody expected that increase. The expectation was that the rates should go down by the end of 2024. As you could see, we have this growth in interest rate, not only in Brazil, but in many countries of the world. So that's the raw material for part of our company and for competitors as well.

So the increase for the companies that are looking for profitability, and we understand that everyone in our sector today is focused on profitability, not in market share or other metric, it's a matter of time. So everyone will increase the prices because that's the raw material for everyone.

We will keep working with our clients and make this price increase in a very smart way, with the lowest impact in churn and lowest impact in the growth of the Company, trying to balance these 2 variables, increase prices and keep growing.

And I would say, looking forward, I would stick with the guidance. We are reaching the guidance in this 1Q25. We expect to reach the guidance for the whole year, the gross profit, earnings per share and capital expenditure. So that's the best answer I could give to you at this point.

Regarding the first one, I will leave Artur to answer. I do not know if it was clear, Jamie, but if you need more explanation, we can help you.

James Friedman:

That was great. The second question was about the mix in transaction costs. What are you referring to there? Is that the PIX mix? Or is that the debit credit? Or if you can elaborate, that was 1.3%, it only grew 5%. Slide 19.

Artur Schunck:

The transaction cost that we have here is related to all the costs that we have for the transactions in terms of banking and payment. It includes fee, scheme fees, interchange fees from cards and other small items that we also include here that are related to banking and payments. But the majority of this transaction cost is related to interchange and scheme fees.

Renato Meloni, Autonomous Research:

Thanks for taking the questions. I just wanted to go back to your deposit and credit growth and how you have been balancing the two. If you are looking at the loans to funding ratio that you put on your slides, that has been hovering about 110% to 115%, I wonder if you have a target there, if you aim to stay here.

And then, going forward, do you see the deposit base at the current cost as a limitation for credit growth? And then if you have to face a decision between growing credit more and sustaining lower cost of funding, which one would you do? Thank you.

Ricardo Dutra:

Renato, the first one, we do not have a target for this loan-to-funding chart that we see in slide 14. We are just giving this information to the market, but there is no specific target. And I would say that we could have more deposits if we wanted to. As you could see in the same slide in the bottom left, we move it from 74% from off-platform to our own platform. So today, it's 85% in 1Q25, which is great news because we are just having the clients using our platform. We could have more off-platform if we wanted to.

And I would say to you that our credit portfolio today of R$3.7 billion, if we decide to grow this credit portfolio, funding will not be a problem. And with the spreads in Brazil, the cost of funding that we might need to have and an additional funding that you might need to access to have growth in credit portfolio will not be a limitation, will not be a constraint. It may be a few bps higher if we decide to grow aggressively, and the spreads of the loans support that with no constraint.

So there will be no decision between one or the other as you asked it. If we decide to keep growing the credit portfolio, funding will not be a constraint, I would say to you.

Renato Meloni:

And then the marginal cost is similar, regardless of how much you are accelerating?

Ricardo Dutra:

Exactly. Because when you think that we have R$40 billion in total funding and our credit portfolio is R$2.7 billion, so even if we grow, let's say 30% in 1 quarter, we are saying to grow R$1 billion. So it's R$1 billion growth compared to R$40 billion that we already have. So it will be a small amount compared to the volume that we already have. So it's not a constraint.

Artur Schunck:

And Renato, on top of that, and that's the reason we are providing total funding in that slide, not only the deposits that we have, because we have been working in the last 2 years to diversify funding source lines, players, products. So we have a lot of space to grow credit portfolio as we want with a similar cost that we are presenting on slide 14.

Maria Guedes, Safra:

Good evening. Thank you for taking my question. Most of them have been answered, but maybe 2 quick ones. First, a follow-up on the credit portfolio. I just wanted to get a quick update on your guys' appetite towards credit lines. We saw a slight uptick in the working capital loans. I know it's not representative, but I just wanted to get a quicker view from your, if anything in terms of appetite has changed. And also, you provided the Basel ratio. I am just wondering if you are targeting an optimal level in terms of Basel ratio as well. Thank you.

Ricardo Dutra:

Maria, thank you for the question. On the credit portfolio, you are right, we have been growing faster in the working capital in the last quarter, and we plan to keep doing so. We see this opportunity to increase this exposure to our best merchants in terms of credit profile.

And there is no change in the guidance or what we had in mind. This is part of the plan. We expect to grow working capital faster than other lines for this year. We will keep growing the other lines, but working capital will grow faster.

And the second question is about the Basel index.

Artur Schunck:

I can help on that one. We do not have exactly a target of this Basel index, but it's important to mention that since December 2023, we reduced it from 33% to 27%. And all the efforts that we have here are to optimize in a solid way our capital structure.

So we are taking decisions to dividends, decisions to buy back and also investing in the Company through our CAPEX, but we do not have exactly a target to pursue. And we know that we can do more and more as time goes by, but in a solid way for the Company.

Eric Ito, Bradesco BBI:

Good evening. Thanks for the call and for taking my question. I have just a quick follow-up on your banking. I think throughout the presentation, you were pretty clear on saying how important the banking business is. It's already representing 22% of the total gross profit compared to 13% in the 1Q. So I just want to understand if you have any target here or any idea of how much you think it could represent, maybe by the end of this year on your total gross profit expectation for the year. And maybe for 2026, how much do you think this line can grow?

And then a second follow-up here is still on credit, if you could give more color on your expectations for growth for the unsecured credit line, the working capital. How do you see this growth under this scenario? Just some numbers on the previous question from Maria. Thank you.

Ricardo Dutra:

Eric, thank you for the question. We are not giving disclosure about how important the gross profit of the banking could be in the following quarters. I would say to you that we know that once you create this credit portfolio, you start to generate operational leverage because the system is the same, it does not matter if you have R$10 million in credit portfolio or R$10 billion.

Usually, the technological system, the back office is the same. So we do expect to have operational leverage. We have been growing the credit portfolio in a very sustainable way, I would say. NPLs are under control, and the credit portfolio keeps growing.

We have been growing working capital faster than other lines, and we think that's going to be what's going to happen in the following quarter as well, but we are not giving the specific number here. I would just say to you that we expect that credit portfolio keeps growing and then we have operational leverage because of the items that I just mentioned to you.

Artur Schunck:

Just to complement here in terms of the unsecured growth in credit portfolio and the products that we are developing, we resumed our overdraft account last year. Now it's a positive margin. It's performing well, and we are working to scale that part of our business.

And regarding the working capital, we resumed the operation this year, and now we are working to measure, track the results and working hard to also scale that business. We invested a lot in the past years in terms of developing a better process, hiring a seasoned team, investing to develop credit models, collection process, behavior model. So we have been investing a lot to develop this piece of our business because we know that it's very important to the future.

That is the beautiful piece of our business. We have the payments very well developed, and now we also have in the other side, the banking to navigate in macro scenarios that are not doing great in a positive way for our Company.

Ricardo Dutra:

And just to complement, Eric, and taking advantage of the question, on slide 8, we gave some numbers about our penetration. And you could see that we are, to be honest here, scratching the surface in terms of banking businesses and credit portfolio that could reach in our platform.

So we are not giving the guidance, but we do expect to grow in this banking businesses faster. As you could see, our gross profit grew 86% year-over-year. So there are good possibilities here and good opportunities in the banking.

Operator:

Thank you. That's all the questions that we have for today. I will pass the line back to PagSeguro Digital's team for their concluding remarks. Please go ahead.

Ricardo Dutra:

Thank you very much for investing your time to listen to us, and thank you very much for the questions. Thank you.

Operator:

This does conclude PagSeguro Digital's conference call. We thank you for your participation, and wish you a very good evening.