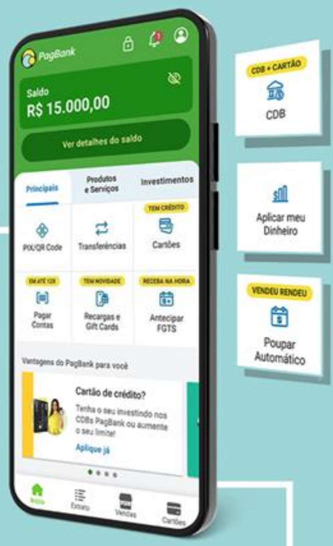
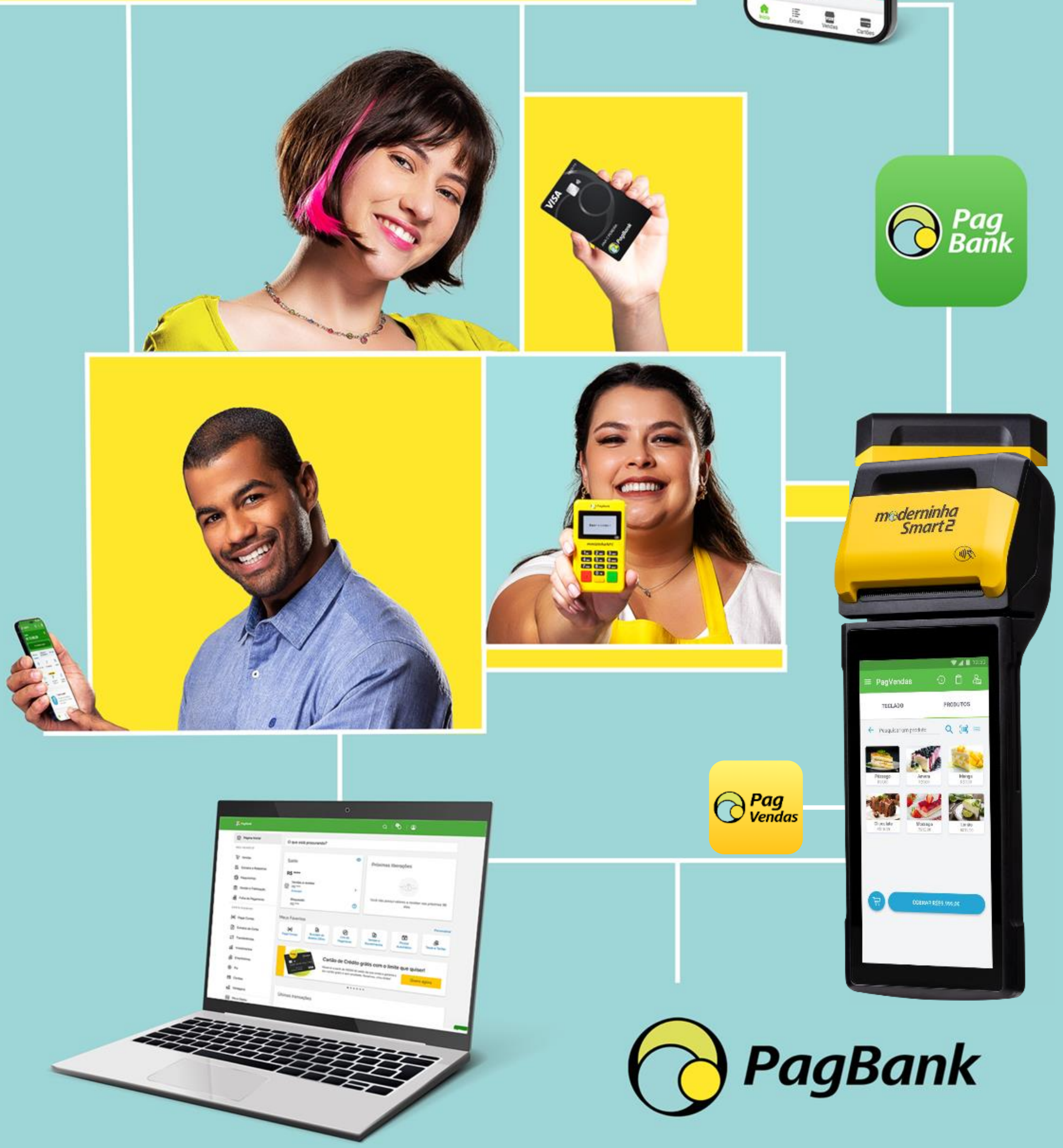
Earnings Call Transcript

4Q23

Feb 28, 2024





Earnings Call Transcript | 4Q23 Results

Operator: Good evening! My name is Audir, and I will be your conference operator today. Welcome to PagSeguro Digital earnings call for the fourth quarter 2023. The slide presentation for today's webcast is available on PagSeguro Digital's Investor Relations website at investors.pagbank.com. Please 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 your host, Eric Oliveira, Head of IR. Please, go ahead.

Eric Oliveira: Hello everyone. Thanks for joining our fourth quarter 2023 earnings call. After the speakers' remarks, there will be a question-and-answer session.

Slide 02: Before proceeding, let me mention that any forward-looking statements included in the presentation or mentioned on this conference call are based on currently available information and PagSeguro Digital's current assumptions, expectations, and projections about future events. While PagSeguro Digital believes that the assumptions, expectations, and projections are reasonable in view of currently available information, you are cautioned not to place undue reliance on these forward-looking statements. Actual results may differ materially from those included in PagSeguro Digital's earnings presentation or discussed on this conference call, for a variety of reasons, including those described in the forward-looking statements and risk factor sections of PagSeguro Digital's most recent Annual Report on Form 20-F and other filings with the Securities and Exchange Commission, which are available on PagSeguro Digital's investor relations website at investors.pagbank.com.

Finally, I would like to remind you that during this conference call the company may discuss some non-GAAP measures, including those disclosed in the presentation. We present non-GAAP measures when we believe that the additional information is useful and meaningful to investors. The presentation of this non-GAAP financial information, which is not prepared under any comprehensive set of accounting rules or principles, is not intended to be considered separately from, or as a substitute for, our financial information prepared and presented in accordance with IFRS as issued by the IASB. For more details, the foregoing non-GAAP measures, and the reconciliation of these non-GAAP financial measures to the most directly comparable IFRS measures, are presented in the last page of this webcast presentation and earnings release. With that, let me turn the call over to Ricardo. Thank you.

Ricardo Dutra: Hello everyone and thanks for joining our fourth quarter 2023 earnings call. Once again, I have the company of Alex, our CEO and Artur, our CFO.

Slide 03: Going to slide 3, I am happy to announce in 2023 we had the largest net income in the history of the company. We successfully passed through a pandemic and a high interest rate cycle for a longer than expected period. Meanwhile, we have diversified our business model beyond longtail, beyond POS and beyond payments, managing the risks related to the credit cycle, and at the same time, reshaping our funding structure backed by deposits. Recently, we have been accelerating our growth, already reflected in the quarterly operating trends, which combined to the easing cycle of the Brazilian interest rate, should positively and additionally contribute to the business evolution, delivering growth, revenue diversification and profitability.

By the end of 2023, we reached **31 million** clients, and we processed almost **1 trillion reais** in financial transactions in 2023, a **+30%** growth year-over-year. In Payments, we keep growing in a profitable way, and our TPV reached **394 billion reais**. Aligned to our strategy to become a comprehensive one-stop-shop payments gathering cards, *boletos*, PIX, among others, our Cash-in reached **217 billion reais**, a **+59%** growth year-over-year. Combined, they drove up Deposits to the all-time high level, reaching **28 billion reais**, reinforcing the power of our closed loop which helps lowering company's cost of funding. And in our credit portfolio, the share of secured products reached **66%,** 25 percentage points higher than one year ago.

In the shareholders' return column we can see our earnings per share reached **R$ 5.10**, **+12%** higher than 2022. Net Income, in a non-GAAP basis, reached **1.8 billion reais** in 2023, and we also used **400 million reais** to buy back shares in 2023, **+37%** more than 2022.

Finally, our value-added to society stand out. We have become a benchmark among digital banks/fintechs in Latin America landscape, by including millions of Brazilians into the digital financial system, positively impacting clients, suppliers, investors, employees, and the society. That was possible due to our unique lean and high technological infrastructure in terms of security, AML, and data privacy with much lower impact on climate in comparison to the banking industry around the world, allowing us to roll out new products faster, and managing new and existing risks with an affordable price for our clients.

Slide 04: Moving on to the next slide, our Q4-23 highlights. EPS reached **R$1.53**, **+24%** higher than 4Q22. Total Revenue grew **+10%** year-over-year, reaching **4.3 billion reais** with all-time-high Non-GAAP Net Income of **520 million reais**.

The disciplined CapEx deployment resulted in **11.2 billion reais** in net cash balance in the end of the quarter, **+13%** higher than previous year, driven by cash earnings generation. Cash and Financial Investments reached **6.2 billion reais,** a **+112%** growth year-over-year.

On the payments' side, TPV growth accelerated in all merchants' segments, reaching **114 billion reais, +21%** higher than 4Q22, and TPV per merchant and SMB TPV grew +32% and +31% respectively.

In Financial Services, we see client´s engagement constant growth. Our Cash-in, which is composed by all PIX P2P and wire transfers sent from another financial institutions into PagBank account, marked **66 billion reais**, with Cash-in per Active Client growing **+43%** when comparing to 4Q22, reaching **4 thousand reais** per active client. This increase drove up Deposits to the all-time high level, reaching almost **R$ 28 billion reais**.

Now, I pass the word over to Alex for the commentaries on the operating highlights for the quarter.

Alexandre Magnani: Thank you, Ricardo! Hello, everyone.

Slide 05: On this first section, we'll show how our value proposition in Payments has unlocked new addressable markets by reaching relevant milestones throughout 2023.

Slide 06: Going to slide 6, our strategy to expand our services to a more diversified merchant profile led our payments' business to move beyond micro-merchants. Our go-to-market strategy has been focusing on merchant's activation, healthy cohorts, and cross-selling rather than merchants' net adds growth since 2022. On top of it, we have been strengthening our salesforce since September 2023. As a result, our TPV from SMBs and large accounts grew, respectively, +31% and +11% year-over-year in 4Q23.

We have also unlocked new markets beyond point-of-sales, ramping up online payments with the conclusion of MoIP integration and the revamp of our cross-border payments business unit called PagSeguro International. Furthermore, additional features such as Tap on Phone and facial authentication for payments via link has enabled our merchants to sell more through a seamless and integrated omnichannel solution.

As service levels become more and more relevant in clients' decision about their acquirer option, we also would like to share the great improvements done in our service levels. During the past three years, our teams have been working hard to increase client satisfaction while promoting additional cost savings, through processes, automation, and optimization.

Slide 07: We show on slide 7 that our merchant acquiring business remains solid and through the combination of our superior value proposition and the broad reach of our sales channels, we have been able to accelerate TPV growth faster than industry, driven by all merchants' segments. TPV reached **114 billion reais** in Q4-23, growing **+21%** year-over-year, with similar trends observed in the first weeks of 2024.

MSMB TPV posted **+27%** growth vs. fourth quarter 2022, primarily driven by SMBs, followed by micro-merchants. As Ricardo mentioned earlier, we also continued to see growth in TPV from Large Accounts, which is a result of our evolution on the development of an integrated omnichannel payments platform for large customers. During the Q4-23, we also observed a relevant growth of 14% among the longtail segment in which we already are market share leaders.

Slide 08: Moving on to slide 8, the instant prepayment product, which combines payments services and financial services through PagBank account, has promoted an increasing footprint in SMB merchants and a larger share of wallet, resulting in **+32%** year-over-year growth in TPV per merchant.

Our current strategy remains focused on disciplined CapEx deployment and merchants' activation, rather than net adds. We observed, once again, the growth of our active merchants, **+3%** year-over-year, when excluding nano-merchants. On top of it, POS activation has continued to move up which represents a positive sign of our strategy playing out.

Slide 09: On this next section, we'll share some highlights about the Financial Services business.

Slide 10: Our strategy is to provide a seamless experience, combining payments, value-added services, and banking through multiple interfaces for merchants and consumers.

In 2023, we reached an important landmark in SMB bank account. Nowadays, not only micro-merchants can grow faster their business with an one-stop-shop solution, but also small and medium business can rely on our app and internet banking to manage multiple sales proceeds, multiple payments methods, and multiple sales channels in a simple, digital, safe, and seamless way.

For consumers, we are in the very early stage to capture the opportunity we have ahead of us. Still, we were also able to create a complete retail digital banking experience simplifying the financial lives of our clients. Our credit cards backed by investments help to educate our customers and their monthly income usage. Our payroll loans through our digital channel provides affordable APRs and no need to reach out a bank branch. For the savers, our investment platform is robust, and our high yield savings account enable to manage cash liquidity while providing the best returns.

Slide 11: Due to all of that, in slide 11, we present that PagBank clients grew **+12%** year-over-year, surpassing **31 million** clients, placing us among the most relevant Brazilian financial institutions, with more than **3 million** new clients added in the past 12 months.

Our active clients base reached **16.7 million** clients, leading to **66 billion reais** in PagBank Cash-in, composed by all PIX P2P and wire transfers inflows into PagBank accounts from other financial institutions. Finally, Cash-in per Active Client, an important indicator of the increasing engagement with our client base, grew **+43%** year-over-year, reaching **4 thousand reais** per client. Moving on to the next slide…

Slide 12: …combined, TPV and PagBank Cash-in led deposits up **+33%** compared to the fourth quarter of 2022, reaching a record of **27.6 billion reais**. This deposit level was boosted by our triple-A rating attributed by S&P Global, which enhanced our CDs distribution among institutional and retail investors, on and off-platform. Checking accounts balance, the cheapest funding source, and a key performance indicator to measure client engagement, grew **+31%** year-over-year, driving down our annual percentage yields to **94% of CDI**.

Slide 13: Slide 13 shows that our credit portfolio reached **2.5 billion reais**, due to our ongoing run-off of the working capital loan portfolio combined with the tax planning to write-off non-performing loans started in 2Q23. We expect this run-off effect to stabilize over the next quarters.

Payroll loan and advancing FGTS withdrawal already accounts for more than 50% of the portfolio, expanding our offerings to consumers primarily through a seamless experience and a cheaper cost structure. Our go-to-market strategy for secured loans is based on competitive APRs and digital end-to-end onboarding, risk assessment, underwriting and collection. This also includes our offering of credit cards backed by investments and savings. The total credit portfolio share composed by secured products reached **66%**, resulting in the ongoing downtrend in NPL90+ to **7.5%**, the lowest since 2Q22.

Now, I turn over to Artur for the financial highlights of the fourth quarter and full year 2023. Artur, please.

Artur Schunck: Thanks, Alexandre! Hello everyone and thank you for joining us in the call.

Slide 15: This quarter, I am proud to announce all time high net income, GAAP and Non-GAAP.

Net Income on a non-GAAP basis reached **520 million reais**, growing **+27%** vs. Q4-22. On a yearly basis, Non-GAAP Net Income reached **1.8 billion reais**, **+11%** higher than 2022. GAAP Net Income reached **488 million reais** in the last quarter of 2023, growing **+20%** year-over-year. On a yearly basis, GAAP Net Income reached **1.7 billion** reais, **+10%** higher vs. 2022. Earnings per share reached **R$1.53**, 26 cents better than in the last quarter. For the year, EPS reached **R$5.10**, **+12%** better than 2022.

Slide 16: Moving on to slide 16, this quarter we had a record of **1.7 billion reais** in Gross Profit, a **+19%** growth in comparison to Q4-22. On a yearly basis, Gross Profit reached **6 billion reais**, a **+9%** increase vs. 2022. We consider the Gross Profit as the best KPI to capture our margins evolution, since it considers the impacts of financial expenses and total losses in the spreads. We highlight two factors that has been positively contributing to gross profit. First one is PIX QR Code growth, due to the better unit economics, with instant settlement and lower costs in comparison to cards. Second, is the growth of Total Deposits since the access to a cheaper funding source enabling pricing power with healthy margins.

Q4-23 Total Revenue and Income grew **+10%** on a yearly basis, positively impacted by higher volumes from acquiring. Net take rate decreased in the quarter, and this downtrend is natural to continue in coming quarters, due to the growing share of larger merchants in our TPV, which has lower churn and lower take rates.

Slide 17: On slide 17, revenues from Payments unit grew **+8%** quarter-over-quarter, while gross profit grew **+13%** in the same period. TPV growth and Transaction Costs savings due to interchange cap impacted positively the current performance versus Q4-22. Comparing quarter-over-quarter, the increase was mainly due to client mix change towards larger merchants with lower take rates but incremental gross profit contribution.

Slide 18: In the next slide, Financial Services vertical's Total Revenues reached **253 million reais** in fourth quarter of 2023, with a strong increase in Gross Profit, reaching **125 million reais**, up **+24%** on a quarterly basis, mainly driven by higher margins. We ended 2023 with **515 million reais** in Gross Profit, a **30%** increase versus last year.

Slide 19: Moving to slide 19, We continue observing leverage on costs and expenses. Financial Expenses closed at **841 million reais** vs. 855 million reais in the fourth quarter of 2022. This decrease is mainly explained by our lower average cost of funding driven by a higher level of deposits and lower basic interest rate, partially offset by stronger TPV growth.

Total Losses decreased **-36%** year-over-year, accounting **123 million reais**, driven by lower provision for Expected Credit Losses and credit underwriting mostly on secured products. This performance is very important as it shows the evolution of our risk assessment tools and the quality of our collection process. The **2.8%** is the lowest level of Losses as a percentage of Revenue since first quarter of 2019.

Operating Expenses reached **700 million reais**, an **+13%** increase year-over-year. The increase is mainly due to the strengthening of our salesforce and marketing expenses to support and accelerate the positive momentum of the company's growth, which will continue to contribute to the revenue expansion and product cross-selling going forward.

Slide 20: In the slide 20, our cash earnings continued to gain momentum driven by disciplined control in Total Costs and Expenses, as mentioned in the previous slide, but also Revenue growth with higher margins, reaching a positive amount of **454 million reais**, up **+11%** vs. same period of 2022. On an annual basis, we have ended 2023 with over **1.5 billion reais** in Cash Earnings, a **+65%** increase versus the previous year.

CapEx marked **521 million reais**, mainly due to the upbeat trends in merchants' gross adds and product development on tech, but lower quarter-over-quarter. Looking forward, our discipline in capital allocation and efficiencies in tech investments will remain without harming the new ventures we are entering into it.

Depreciation and Amortization, including POS Write-off, totaled **405 million reais**, representing **9.3%** of Total Revenue and Income, a slight reduction versus previous quarter, keeping the pace to converge to CapEx levels in the coming quarters to unlock additional profitability in the future.

Slide 21: Moving on to slide 21, the solid result from this quarter contributes to the increase in our equity position, with **60%** being composed by retained net income, reinforcing our commitment to shareholders on capital allocation and returns. Our Net Cash Balance ended the third quarter at **11.2 billion reais**. In the past 12 months, our cash generation amounted to **3.7 billion reais**, from which **2.0 billion reais** were invested in POS purchase and technology developments and approximately **400 million reais** were used in buyback shares. As of December, Treasury held more than 4% of total shares issued, and the Company bought back **1 billion reais in** shares since 2021 that represents more than 80% of the total program approved in 2018. Cash and Financial Investments ended 2023 with over **6.2 billion reais**, a **+112%** increase year-over-year, which demonstrates the success of our strategy of best balancing growth and profitability with a solid balance sheet to support our business evolution.

Slide 22: On the final slide, we would like to share our guidance for 2024 based on the current scenario.

We expect Total Payment Volume to achieve between **R$441B** to **R$457B** with healthier gross profit margin, above Q423 level of **38.5%** over Total Revenue and Income.

Net Income, in non-GAAP basis, should be between **2,050 million** to **2,150 million reais**, considering the similar level of 2023's effective tax rate.

Following up, CapEx should be between **2.0 billion** to **2.2 billion reais** and D&A plus POS write-offs amount between **1.9 billion** to **2.0 billion reais**.

Now, we have ended the presentation, and we will start the Q&A session.

Q&A Session

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: you may select the icon and type your question with your name and company. Written questions that are not addressed during the earnings call will be returned by the Investor Relations team. Wait, while we pool for questions.

Antonio Ruette – Bank of America: Hello, team. Thank you for your time and congrats on the results. Very strong guidance, let me focus on this. So, please, if you could share a little bit on operating expenses assumptions and also take rate assumptions for the quarter, for the guidance. Thank you.

Ricardo Dutra: Hi, Antonio. Thank you for the question. This is Ricardo. We start with the take rate. If we look at take rates moving forward, take rates should go down a little bit, not because we are decreasing prices but because of changes in the client mix with more SMBs, SMBs getting share in the total payment volumes.

And to be honest, as the financial income and financial expenses are very important to our business, it is better to look at the gross profit yield, so to say, which captures the financial expenses. So if we look at the gross profit yield, you are going to see that it is very stable regardless of the growth, regardless of the change in the client mix, you are going to see that the percentage of the gross profit compared to TPV is very stable throughout the quarters.

But if you look specifically at that take rate, it should go down a little bit again, because of the change in the client mix with more SMBs. Regarding OPEX, Artur will clarify to you. Thank you.

Artur Schunck: Hi, Antonio, it is Artur speaking. Regarding the OPEX, it is important to mention that the growth is according to our growth strategy. So the company is growing, OPEX should grow too, that means, OPEX will grow more than inflation for 2024, but enable to pressure the margin increase going forward.

We are seeing and considering in this guidance, marketing a little bit higher than it used to be in the nine months of 2023, so something similar to 4Q. Personal expenses are higher because we are strengthening our sales force at the end of 3Q, and also, other expenses more related to infrastructure that we are considering to support the volumes that we will have.

Eduardo Rosman – BTG Pactual: Hi, everyone, congrats on the numbers. I have two questions here. First, on your potential credit growth or prepayment growth. We can see that you have lower losses, a very strong cash-in, which suggests improvement in the principality. So your client is using more PagBank as their main bank, and a lot of deposits. So what are you waiting for in order to expand a little bit more your asset base, because clearly, if that happens, your results can improve faster. That would be question number one.

And question number two would be about dividends. We can see, naturally, that you are buying back shares. I think your EPS has been even better, but you are still generating a lot of cash. You have a CAPEX plan that is not going to go up anymore, you are generating more cash than you need, why not pay dividends as well?

Ricardo Dutra: Hi Rosman, thank you for the question. I will start and Artur can talk about the dividends and so on. Regarding the cash-in, you are right, we had a very strong cash-in in 4Q, 66 billion in cash-in, deposit going to 28 billion, the all-time high. And as you know, deposits are important for a bank because it can have this cost of funding to be competitive and then you can offer better products on the other hand, regarding credit and so on.

We know that we got to have a diversified credit portfolio, that is part of our plan. In the past two years we have noticed an unfavorable scenario in Brazil, that you know very well what we saw in delinquency and even in the big banks and in incumbent banks. And then we decided to create this portfolio with secured products. We have been building this portfolio in the past years, we will keep building this portfolio in 2024.

We are running some tests on unsecured products, we have the team here, we have the processes in place. And we will start offering this credit unsecured when we think it is appropriate, but we are going to do it in a cautious way.

But we are fine with that because at this point we are building these deposits and building the secured credit portfolio, which is important for the future, because, you know, depending on the economic cycle, if the current cycle is harder we can go to secured and if it is more easy we go to unsecure but you have to build this credit portfolio as time passes by. But we are going to do it cautiously, in the following quarters, probably we are going to have some good news.

Artur Schunck: Hey, Rosman, is Artur speaking. Nice to talk to you. Talking about capital allocation and more specifically, dividends and share buyback. You are right, we used to buy back shares in the past, the last buyback was executed on October 2023. And we will continue executing in an opportunistic way.

In 2023, we bought back R$400 million, an amount 37% higher than 2022. Now we have in our treasury 4% of outstanding shares. And, there is US$45 million remaining to execute, the program approved. We are discussing internally a new buyback program and we will disclose it as soon as we conclude the buyback program that we approved in 2018.

But there are no discussions on dividends at this moment, we see many growth opportunities and investments in new ventures that will provide higher returns in the future, this is the reason that right now we are not discussing dividends at this point.

Kaio Prato – UBS: Hi, guys. Good evening. Thank you for the opportunity to ask questions. I have two on my side, if I may, please. The first one is also related to credits but more specifically to the credit card portfolio. I understand that the product is secured and at the same point, we are seeing the level of deposits and investments in the PagBank continuing to increase, which is really good.

So my question is, why are we not seeing, I would say, a sequential increase in the credit card portfolio since it is secured and we are seeing an increase in terms of investments. So, I just would like to understand the rationale behind that, if you are being more cautious on the credit card even backed by the investments, or not.

And also if you think, at some point, I would say, to gain some traction in the Pix credit products that we are seeing from some other peers, as probably you are one of the main players in terms of Pix, market share, nowadays. And then I will follow up with the second question. Thank you.

Ricardo Dutra: Hi Kaio, thank you for the question. Regarding the credit card portfolio, you are right. We have been growing our deposits, as I said before, close to 30 billion, the all-time high. The explanation for, when you look at our data and you do not see the credit card growing faster is because we have the payroll and the FGTS products growing faster than the rest of the portfolio. That is the first one. So they are getting share.

And the other part is because we are replacing part of our unsecured credit card portfolio to secured credit card. So probably you do not see the growth because we are changing this mix from unsecured credit card to secured credit card. When you look at slide 13, it is 30%, 12% is secured and 18% is still unsecured and we are making this shift. So that is why you are not seeing the growth, because of these two moving parts.

Regarding the Pix market share, we keep working with our acquiring solution and we see that Pix credit is not going to get share from the credit card product because of many reasons. So we are following that very closely but at this point it is very small.

We see that consumers still prefer to use the credit cards because they have all the systems regarding chargebacks, all the security and so on, not to say the installments. So we are following that, but you do not see that change in dynamic because of this new product that some players are trying to develop.

Kaio Prato – UBS: Okay. Thank you. And my second question is about the effective tax rate. We saw that it actually reduced this quarter again, I think it is around 18%, down from 21% last quarter. So, I just would like to understand the drivers here and what is considered implied in your guidance, in terms of effective tax rate for 2024, please.

Ricardo Dutra: Kaio, you are right, when you see the 4Q compared to 3Q, but if you look at the whole year, you are going to see that in 2023, when compared to 2022, we have a higher tax rate, which means that the earnings before tax is growing.

And regarding the guidance I will let Artur just explain to you, but it is pretty straightforward here.

Artur Schunck: Kaio, thanks for the question. For 2024 we are considering an effective tax rate at the same level of 2023. So that is the point.

Yuri Fernandes – JP Morgan: Hey, guys. Thank you. I have two questions also. One is on the credit regarding the NPL, you mentioned that it improved again, now running around 7.5. So my question is if you have any kind of outlook for this NPL, should we continue to see NPL improvements for you? So that is the first one.

And I have a follow-up on COGS. When I checked your administrative expenses here, it was pretty good, down year over year. You mentioned some seasonal effects here and I would like to understand a little bit What is driving your improvement on administrative expenses? Because you are growing revenues, growing everything, investing more and it caught my attention that the administrative expenses, if you look non-GAAP or GAAP, is improving. So that is my second one. Thank you.

Ricardo Dutra: Hi, Yuri. Regarding the NPLs, we see that NPLs one year ago was around 20% and now it is down to 7%. It is a very good achievement, lots of work here to do so. Looking forward we see these trends with the same path, the NPL is going down mainly because we are getting more control with the credit concession, with the collection and all the processes that we have in place, and also because of the change in the mix with more security products. So looking forward, with the credit portfolio that you have at this point and that we plan for 2024, we expect the NPLs to keep going down.

Regarding the second question, Artur will explain to you.

Artur Schunck: Yuri, thank you for the question. In terms of administrative expenses, we had a decrease in comparison to 4Q22, mainly due to seasonal efficiencies captured in this quarter. We also have there, part of the long term incentive plan booklet, so there are some reversal on that line.

Yuri Fernandes – JP Morgan: Thank you, Artur. What are the seasonal efficiencies that you captured this quarter?

Eric Oliveira: Hi, Yuri, this is Eric. In 4Q22, we had a reversal in our long term incentive plan, so this creates like an easier comp in order to not fully capture the effect. So I would recommend you to observe the non-GAAP basis in order to proper model the administrative expenses moving forward.

Yuri Fernandes – JP Morgan: But Eric, even on the non-GAAP it was down and it is adjusted by the SBC, no? We can check this later. It is not that material, but it caught my attention that it is down. Thank you very much, guys.

Ricardo Dutra: Yuri, I think it is important to mention that. Administrative expenses, Eric can follow up with you after the call, in another meeting, no problem. But, it is important to say to you that OPEX is the most important then only taking a look in specific lines.

Eric Oliveira: Yuri, it is all about long-term incentive plans. We can follow up, but it is a difference between the long-term incentive plans in 4Q22 and 4Q23. So this is the main difference here, but definitely, we can follow up with you.

John Coffey – Barclays: Thank you very much. I had two questions I was asking both at once. So when it comes to your guidance for the TPV in 2024, that looks like the range is about 12% to 16%, midpoint 14%. Given that you had 21% growth in 1Q, can you help us think about the cadence of the growth in the other three quarters? Is it roughly going to be 12%, perhaps, or is it going to be moving up and down as the scores go on?

And the second question is, given that you did give 2024 guidance, does this contemplate that we are going to have about, you know, seven more 50 basis point Selic cuts in the, I think it is the remaining seven meetings of the Brazilian Central Bank over the course of the year. Thanks.

Ricardo Dutra: Hi, John. Thank you for the question. You are right, our guidance is between 12 and 16, midpoint is 14. The industry is expected to grow in the high single-digit, low double-digit, so we expect to grow a little bit more than the industry.

What you saw in 1Q is not the same number, but a similar trend to what you had in 4Q23. So it is a good momentum in TPV. So that is why we are confident to give this guidance at this point with the best information that we have, which is the performance from 4Q, January, and almost the full month of February. So that is regarding TPV.

Regarding the interest rate that is going down, the last report you saw from the Central Bank is to have Selic by the end of the year at 9%. And you know that when we have this decrease we have a lower cost of funding. So we are considering that in our business plan and our guidance for 2024. So that is the assumption that we have at this point, getting at the end of the year with 9%.

Neha Agarwala – HSBC: Hi, team. Congratulations on the results on such a strong quarter. Two quick clarifications. First on the tax rate. You clearly mentioned that you are expecting in your guidance effective tax rate to be stable year on year in 2024. But given that we have seen an increase between 22 to 23 and with growing relevance of PagBank, should not the effective tax rate be gradually moving upwards? So if you could explain the dynamic there.

And my second question is on the TPV, all of last year you have been focused more on the MSMB, but it seems like now the volume growth is improving both in the SMB as well as in the micro merchant. How do you see the TPV mix evolving during 2024? Any noticeable changes that we should be mindful of? Thank you so much.

Ricardo Dutra: Hi Neha. Thank you for the question. I will start with the TPV and then Artur can clarify the tax rate. Regarding TPV, you are right, we are growing more in MSMBs but when we break down MSMBs and SMBs, you are going to see that we are growing more in SMBs and we expect to keep growing more in SMBs because we have all these sales force focus on this type of clients. And of course, they have a TPV pre-merchant higher than in the, it is more merchant, so that is why we expect the SMBs to keep gaining share in the total mix and that is part of the explanation or the main reason that is why network rates should go down.

But the gross profit, as a percent of TPV, being stable because you are going to have other adjustments in other lines, such as lower financial expenses and other adjustments that we are going to do in the Company to achieve this guidance. But going back to the question, SMB will gain share in the total mix. That is what we expect.

Artur Schunck: Neha, in terms of tax rate, naturally you are right, when we have more revenues in the banking, legal entity, the effective tax rate should go up. But we have an efficient tax planning here to work with all the legal entities that we have in the Group and we are not considering any increase in comparison to 2023. So this is the reason that we set in the guidance, that we have the same level of 2023, even considering that, the financial services should increase the revenue for the Company.

Neha Agarwala – HSBC: If I could just clarify one thing. Last year has been a bit weak in terms of promoting net ads in the long tail, we have been losing nano merchants and that has been more of a conscious decision to improve profitability. How is that evolving during 2024? Should we see stability there? Are you done with all the cleaning up that you had to? Any color on the long tail would be very helpful. Thank you.

Ricardo Dutra: Hi Neha. If we look at the total merchants, it should stabilize at some point in 2024. We do not have a specific quarter that is going to happen. But if you go to one of the slides in the presentation, remember slide eight, you are going to see that if we exclude the nano merchants that it is a big number of merchants, but they have a very small percent of TPV, is only 1.3% of TPV. If we exclude these merchants, you see that our base grew 3%.

But going back to the question, it should stabilize at some point but we are looking more at the total TPV, that we are giving this guidance, to grow between 12% and 16% in the whole Company.

Gabriel Gusan – Citibank: Good evening everyone. My question is about the TPV acceleration in SMBs. I would like to double click on the strategy, what has been implemented, is it more regions, is it more salespeople or are you doing more ads or, overall spending more in marketing? Is it helping?

And can you please comment on the competitive landscape in that segment that has allowed you to outperform so much in the quarter? Thank you.

Ricardo Dutra: Hi, Gabriel. Thank you for the question. As you can imagine, there is no silver bullet here, it is a mix of many things. So we did have a little bit more people in the sales force but we also have been focused on the SMBs with a very strong value proposition for the banking products. So we are offering them our banking products and then they can decide to work with us, not only because of the acquiring, but because of the whole package or the whole value proposition that you bring to them.

We keep gaining share from other players, because of the service, because everything that you offer, the instant settlement, the logistics that you have, that are one of the best in the market, if not the best. So all these things, the service levels and the service that you offer, help us to get this SMB client.

So there is no specific reason but it is a mix of many things, at the end of the day is to serve the client the best way that we can.

Gabriel Gusan: And about the competitive landscape and pricing environment?

Ricardo Dutra: In the competitive landscape, to be honest, Gabriel, everyone is being more rational. We do not see any company trying to buy market share, even the company that was gaining share in 3Q, for instance, some of the companies lost share in 4Q. So we see everyone being more rational, which is good in the market.

So, pretty much the same that has been seen last year, no irrational movements, everyone is looking for profitability and the industry is growing, as you can see in the total year, the industry grew 10%. So, I mean, the industry is growing and everyone is trying to get the clients and not making irrational movements.

James Friedman – Susquehanna: Hi. Thank you. It is James Friedman. So, two questions. One, with regard to guidance, over the years you have given guidance, sometimes not given guidance. I am just curious philosophically, in terms of where you are thinking now as to, do you feel like your visibility has improved such that you can guide? That is one thing.

And then, in terms of the SMB mix shift, which I know is an evolution, how are we thinking about the hub's support strategy related to the evolution of the merchant base? So the first one is on the guidance and the second is on the hubs. Thank you so much.

Ricardo Dutra: Hi, James. Thank you for the question. Regarding the guidance, yes, if you look back, during the pandemic and even a little bit after the pandemic, we used to give a quarterly guidance because there was a lot of uncertainty in the market, so people were concerned about TPV consumption and so on.

So we took this decision back there to give a quarterly guidance to give the comfort for the market and for the investors, what we were seeing, because there was some, let's say, people thinking that could be more volatility in the market, consumption going down and so on. So that is why we decided to give the quarterly guidance.

And when we decided to stop giving the quarterly guidance, the main reason was that everyone was looking only for the specific numbers for the quarter and were not looking for the whole picture for the trajectory of the Company, for everything that the Company was developing and all the clients and so on.

And we decided to give the guidance for 2024 because I think it is a good decision to give this comfort to the investors so that you can understand what we are thinking. Is not a short-term guidance, a quarterly guidance, we have this, let's say, plan for 2024 that you can execute against this guidance.

And we think it is going to be a good north for everyone to understand what we are thinking and what we are seeing and the results of the Company that we expect. So, yeah, that is regarding the guidance.

And regarding the SMB evolution in the hub strategy, the hubs, of course, help us to get the clients and of course, the hubs also help us to serve the clients. So not only to acquire the clients, but also to do some farming, to cross-sell some products, and even to deliver some support and some service for the client, the SMB client.

So we are using the hubs in very different ways, not only to acquire the clients but also to support them and to do some farming. We keep working with the hubs, we grew a little bit in 3Q23. So that is what we have seen in the hubs so far.

Will Carlson – Cantor Fitzgerald: Hey, team. This is Will Carlson on for Josh. Two questions. The first one is, what services are you seeing new clients on board with? And how is the shaping the way you think about platform investments looking forward?

And then second question, can you dive into the improvements you are implementing for onboarding and risk assessment to reduce chargebacks and losses? Thank you.

Ricardo Dutra: Hi Will. Of course that the clients that have in the acquiring business usually get the device and many clients decided to use our cards, because it is a way for them to cash-out, so they can have a card that can withdraw the money, they can make purchases and so on. So usually these two products go very well with the clients, and we try to offer them additional services such as investments, insurance and so on. So part of the clients are buying or acquiring these services, but usually they acquire the POS, the device, and the cards.

And regarding the investments platform, your second question, we keep evolving the platform. A few months ago we did not have, for instance, stocks, today we do have stocks, but we do not have options, for instance. So we will keep evolving this platform and the prioritization takes into account what our clients are looking for.

I know we got many questions in the past about crypto and so on but that was not the type of clients that we had in our base. So right now we keep evolving this investment's platform because it helps us to get the client to increase engagement. But we are having some prioritizations here, we are in the path to have a complete platform in the following quarters.

Regarding chargebacks, I will pass the word on to Alex.

Alexandre Magnani: We have made many improvements in our onboarding and also getting biometric information and validation of our customers. We also implemented some second authentication factors in our cash-out, in some of our solutions for online payments we have implemented facial authentication for the transactions so we can improve, not only chargeback but also conversion rates.

And we have been putting in place a lot of intelligence and usage of our data to better prevent fraud in our ecosystem, in payment and financial services altogether and we have been scanning our base, being more rigorous in the onboarding process, to avoid fraudulent activity in our ecosystem.

Bryan Keane – Deutsche Bank: Hi, it is Bryan Keane of Deutsche Bank. Just thinking back here strategically, going through, thinking about the IPO process, when you guys came out you were growing mostly micro merchants in the payment business and growth rates were well above industry. Then, over the past 18 months, well, I guess the recent six months there has been a massive transition, but I guess going back, we went into the payments business of basically growing at market and obviously the stock was under quite a bit of pressure under that.

And then now we have completely reversed and we are back to gaining share versus the market, significantly in the payments business in particular. Can you just talk about structurally what is changing in the strategy that has worked and how sustainable you think the share gains are now in the payments business?

Ricardo Dutra: Hi, Bryan. Yeah, you are right, the Company started micro merchants in the IPO six years ago. And of course, it is part of this dynamic market for the Company to evolve and to change. I would not say that we are making this transition but I would say we are doing this expansion because we are not only focused on serving the micro merchants but also, in addition, we are having the SMBs as well.

So we are growing the size of the pie that we can work with and in my opinion, we have been very, very successful in doing this expansion as you can see in our SMBs.

Part of the market, in terms of micro merchants, does not grow at the same pace that used to grow six years ago, because of course, we have more penetration of credit cards acceptance in the micro merchants, so that is why we do not see the growth. It is not saturated but it is not growing at the same pace that used to grow in the past. So that is why you do not see this number of merchants growing at the same pace that used to grow in the past.

But what we do see is credit cards getting more penetration in PCE. We also see opportunity in SMBs, not only because we are getting new clients but because we are getting TPV from what other acquires they work with. Sometimes they have more than one acquiring, we are trying to make this TPV for us. So that also helps to understand why we are growing more than the market.

But we are not growing significantly more as we have only the micro-merchants, because, I mean, the size of the Company is also much bigger than it used to be in the past. So, the market expects to grow high single-digits, low double-digits in 2024, and our guidance is between 12% and 16%.

I would not say that the strategy has changed that much, we are just trying to get SMBs as much as we can, trying to make this shift from other acquirers to work with us. And of course, we also take advantage of the credit card penetration in PCE that is still happening in Brazil.

Bryan Keane – Deutsche Bank: Yeah, it just looks like the execution on the share gain side of what you are growing versus the market has improved, especially over the last two quarters. So I was just trying to see if there was anything in particular to think about in the mix of business. Obviously, all those (61:00), you bring up or logical but the amount of share gain that you guys are now getting is better than the market expected, better than our expectations.

Alexandre Magnani: It is important to mention that we also have done in the past year many investments to explore new and profitable segments where we did not have too much participation and penetration, such as online payment, cross-border payments, and also, serve larger merchants with integration, with automation systems.

And all the integrated partners that we have been integrating our payment platform into. So this is also helping us to explore other markets that we would not reach before and also in a profitable way.

Tito Labarta – Goldman Sachs: Hi. Good evening. Thank you for the call and taking my question. And congratulations on the strong results. A couple of questions, I guess a little follow-up just on the competitive environment. I am just kind of curious how you think, if there could be any changes, we are seeing one of your competitors potentially being privatized by its owners. We have heard that Pfizer in the US wants to grow Clover in Brazil.

And just, as things get better could there be any potential changes in the competitive environment? I mean, you seem pretty comfortable with growing faster than the market going into next year, but just any thoughts about how that could potentially change if anything?

And then the second question on the loan book from a different angle a little bit. As you grow more SMBs, is that something you would consider, you know, perhaps doing some working capital loan to those SMBs, some of your competitors are doing that, and some of your bank-owned competitors, kind of compete from the bank in perspective. Is that something that you would look into or consider another way to increase your take rate potentially?

Alexandre Magnani: Okay, Tito. Thank you for the question. I will start with the competitive landscape. Well, regarding the move you mentioned about some of the competitors getting together their bank and acquiring operations, this is good news for us because it only proves our successful model.

We were born in an integrated way between payments and financial service and we believe we have a strong value proposition that makes total difference in the market because it addresses our customers needs. On our platform our customers get paid instantly, 24 hours a day, seven days a week. They say they have the automatic savings features, they get their money returned in a much higher way than other competitors and also they use these funds as a limit for their cards. So we have these all integrated.

What we see, looking at some of the competitors, is that they have two big legacies, the acquiring legacy systems and the banking legacy systems. And in order to get these integrated working properly to offer a superior value proposition like we do, we think it will take time, it will be hard for them. So this is actually good news.

And, as we see right now, there are some of the players that are working in this integrated mode between acquiring and banking for a while and we do not see that much challenge in the competitive landscape. What we observe is that there are some market share gain cycles, they alternate between market share gain and profitability recovery cycles. So what we see is a more rational competition and it is fine for us.

Regarding your other question, about our lending strategy, our credit portfolio, what we see is that we have been able to create a very strong customer engagement in our banking business and we see a very big growth of cash-in into our account and also deposits, and we also have been able to generate more traction on services that generates revenues for us, such as, car insurances, bill payment, and other features we have in our platform.

So, it is important, we know that credit is a fundamental pillar of our banking strategy. In the last years and right now, we are focusing on creating this strong portfolio of secured loans, as we are also, in parallel, improving all of our infrastructure to manage risk properly and that we can be in the future mixing our loans with non secured loans portfolio in order to raise our spreads, our margins, in this activity.

Ricardo Dutra: Important to say, Tito, that we do not see that as a differentiation when we try to get the acquiring clients. So we are not seeing any pressure from players that work or that offer working capital versus our value proposition. So that is important, just to be clear here.

Soomit Datta – New Street Research: Hi, guys. Thanks very much for letting me jump on. I just wanted to go to the reference in the slides on online and cross-border. You touched on it briefly, I am just intrigued, you calling that out, maybe you could talk a little bit about the opportunity in a shade more detail. Just in terms of what are the different competitive dynamics. What exactly are you doing in that area of the acquiring market? And at the end of the day, how significant could these two opportunities become? Thank you.

Alexandre Magnani: The origin of our cross-border operation started in 2012 when we acquired a company called Boa Compra. We have been running this business in parallel to the PagSeguro business for a while, in a more segregated fashion. And just recently, about, a year ago, we decided to really integrate the cross-border payment business platform into our core payment business, in order to get some of the competitive advantages we have in the acquiring business in that platform, so we could serve a lot more customers and bigger customers, more complex customers that we were doing in the past. These have been very successful, we did a real revamp in this business.

And we have been able to gain some new clients and accelerate growth. So we see a very interesting growth avenue by exploring this cross-border business, uniting all the assets and capacity, our brand, into it. By the way, we have changed the name from Boa Compra to PagSeguro International in order to leverage the business visibility.

Soomit Datta – New Street Research: That is interesting. Thank you. And maybe just a quick follow-up. So, are you sort of up against the same competitors? Is it a different set of peers that you are up against, any different kind of dynamics in the market?

Alexandre Magnani: Our focus on this business, today we offer payment solutions for all countries in Latin America, for any foreign company.

Ricardo Dutra: So the competitors might be different depending on the solution. Let's say for the cross border, there are probably going to be different players than what we have in the online environment in Brazil and different from what you have in POS business in Brazil. So there are players that are focused on this type of services, so the competitors might be different from what we have in the POS market in Brazil, the acquiring market in Brazil.

Andrew Geraghty – Morgan Stanley: Hey, congrats on the results. Thanks for the opportunity to ask a question. I was hoping you could elaborate on the contribution of Pix to total TPV growth. And when we think about the 2024 guidance, how much of that is being driven by Pix, if we can maybe disaggregate Pix from it, just to kind of create a fair comparison versus the rest of the industry.

And maybe if you want to think of it relative to via BACS projections and whatnot. If you could kind of just give us a sense of how much of the growth is being driven by Pix, that would be great.

Ricardo Dutra: Well, the participation of Pix QR code is similar to what you see in the industry, is low single-digit, and we do not think that is going to change dramatically in 2024. So that is what you saw in 2023 and that is what we expect for 2024. We do not give disclosure of the exact number, but it is similar to what you see in other players in the industry. And, of course, we are talking about Pix QR code, which is the type of transaction that generates some revenue for us.

Renato Meloni – Autonomous Research: Hey guys, thanks for the opportunity to ask a question here. I have a follow-up on take rates. First, if you could break down the decline in 4Q between seasonality and mix change.

And then, I know you already said that you expect some compression in 2024 but I would appreciate it if you can give some level here to what we should expect. And also, when you are thinking that we will stabilize? Thank you.

Ricardo Dutra: Renato, to be honest here, of course we follow many KPIs and that take rate is one of the KPIs. But we follow closer the gross profit as a percent of TPV because gross profit captures the financial expenses that we have. And of course this is important for us because we have all this instant settlement that you need to fund the transaction. And, of course, we have financial expenses to get this fund.

So, I do not have here at the top of my mind or even in my hand to give you the exact net take rate for 2024. What I do have here that we follow very closely is the gross profit as a percentage of TPV, which has been stable, around 1.5% throughout the past quarters and we do not think that is going to change dramatically in 2024.

So what I am trying to say here is that net take rate, I do not have the information to give to you at this point, and I do not think that is the most important KPI for us at this point, because, again, of the financial expenses line that we have in our P&L and the importance that it have for the cost of funding.

Operator: Thank you. That is 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 everyone for participating in the call. Thank you for the questions. I would like to take advantage here to say a big thank you to all the Pag's team for the great results in 2023. Thank you very much. See you next quarter. Thank you.

Operator: This concludes PagSeguro Digital's conference call. We thank you for your participation and wish you a very good evening.