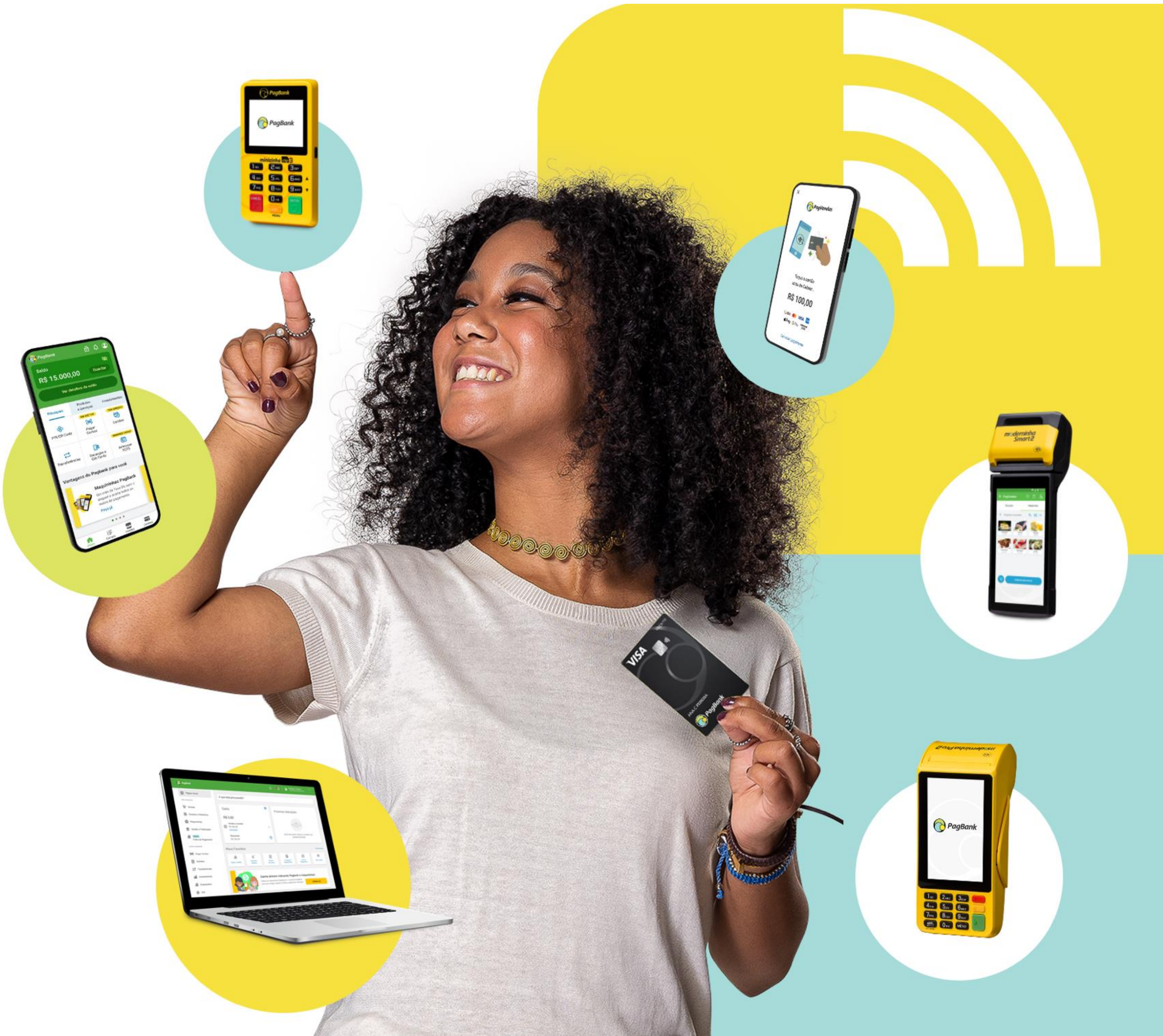
PagSeguro Digital Ltd.

Q1 2024

Earnings Call Transcript

May 23, 2024



Earnings Call Transcript | 1Q24 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 2024. 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 first quarter 2024 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 first quarter 2024 earnings call. Once again, I have the company of Alex, our CEO and Artur, our CFO.

Slide 03: On this first section, I will share the main operational and financial highlights for the quarter.

Slide 04: Starting with slide 4, Total Revenue grew **+15%** year-over-year, reaching **4.3 billion reais**, all-time high result for a first quarter with a strong TPV and revenue growth in all clients' segments, and our Gross Profit Margin was **40.6%.** We also reached the all-time-high Net Income, in Non-GAAP basis, of **522 million reais**, a **+33%** year-over-year growth. And on the last bullet in the bottom of the slide, we can see our EPS reached **R$1.63**, **+36%** higher than Q1 2023, also an all-time high

Slide 05: Moving on to slide 5, we reached **31.4 million** clients by the end of March, with **17.3 million** Active Clients.

We also had an all-time deposits level, reaching 3**0.6 billion reais**, an impressive **+64%** increase year-over-year. This strong result proves the power of our value proposition, which has been contributing to increase client engagement and has a positive impact on lowering our cost of funding, which increases prepayment spreads and net interest margin of our credit portfolio, and consequently, our profitability.

Worth to say, our one-stop-shop solution has been acknowledged under the PagBank brand as we were recognized and the best bank in Brazil by different institutes, such as Forbes and iDinheiro, among others.

Slide 06: On slide 6, we share some highlights of the Payments and Banking units. In the first column, in Payments, we have a strong growth and our TPV reached **112 billion reais**, a **+27%** year-over-year growth, reinforcing our strategy of keep growing in a profitable way. On the Banking side, in the mid column, we can see our Cash-in reached **66.1 billion reais**, a **+48%** growth year-over-year, aligned to our strategy to stimulate our clients to use PagBank as their primary account. Our credit portfolio grew +8% quarter-over-quarter, to 2.7 billion reais, driven by the expansion of our credit underwriting on secured products.

PagBank

Also, in Q1 among all products we have launched or enhanced, I would like to highlight the launch of our Business Insurance for merchants and the PagBank Partnership Program, our payments solutions embedded in the most relevant software-as-a-service providers. Finally, we also took the decision to gradually resume, in the second half of 2024, the offer of Working Capital loans for merchants and Overdraft Accounts offerings for merchants and consumers.

Now, I pass the word over to Alex for the commentaries on the business units highlights for the quarter. Thank you!

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

Slide 07: On this section, we'll break down our business units' performances through this first quarter of 2024.

Slide 08: Starting with Payments on Slide 8, we show that our merchant acquiring business keeps growing through the combination of our superior value proposition and the broad reach of our sales channels, positively impacted by our salesforce expansion that started in the last year. We have been able to accelerate TPV growth faster than industry, driven by our main merchants' segments. TPV reached **112 billion reais** in Q1-24, growing **+27%** year-over-year, with TPV per merchant growing **+37%** on a yearly basis.

Continuing our strategy to expand our payments' business focused on a merchant profile with better engagement and profitability, we observed a **+5%** growth year-over-year of our active merchants on 30 days criteria, when excluding nano-merchants.

Slide 09: Moving on to slide 9, let's look further into the MSMB segment, which gathers micro-merchants with monthly TPV up to R$ 15 thousand and small and medium businesses with monthly TPV from R$ 15 thousand up to R$ 1 million. MSMBs TPV grew **+24%** year-over-year, reaching **77.6 billion reais** in the first quarter of 2024. The strong merchants' gross adds positively contributed to this performance, combined with higher productivity in our HUBs and geographic expansion.

We present an unparalleled value proposition to MSMB in Brazil. Our comprehensive approach embraces a broad reach of sales channels, ensuring maximum exposure and accessibility for merchants. With instant settlement, we offer the cheapest working capital source, empowering businesses to thrive without financial strain. Fast POS delivery and replacement ensures uninterrupted service, while our seamless integration of payments and banking simplifies transactions, enhancing efficiency and engagement. Additionally, we are also happy to share that PagVendas, our ERP software, has surpassed 1 million users, showing how we remain committed to innovation and customer satisfaction.

On to the next slide.

Slide 10: Here on slide 11, we show how our TPV from the LMEC segment has performed, comprised by Large Merchants, e-Commerce, and Cross-border clients. In the first quarter of 2024, this segment posted a **+35%** TPV growth in comparison to Q1-23, reaching **34.2 billion reais** in transactions.

We are increasing our share of wallet on larger merchants, segment that gathers businesses with monthly TPV above 1 million reais, driven by the development of an integrated omnichannel payments platform, embedded with management software solutions from more than 350 software partners in the new PagBank Partnership Program.

Our online segment posted a strong TPV growth, with e-Commerce boosted by our strategy to unravel PIX QR Code and tap on phone for e-comm platforms. Leveraging facial authentication helped to enhance security measures in online transactions, ensuring trust and reliability. Furthermore, our cross-border unit, under the brand PagSeguro International, is connecting foreign merchants with Latin America buyers, fostering a seamless and enriched global commerce ecosystem.

Slide 11: Moving on to the Banking business on Slide 11, our strategy to provide a seamless experience, combining payments, value-added services, and banking through multiple interfaces for merchants and consumers continues to drive engagement up. This engagement increase resulted in over **66 billion reais** in PagBank Cash-in, composed by all PIX P2P, wire transfers and deposits through *boletos/*invoice into PagBank accounts from other financial institutions. Finally, Cash-in per Active Client, an important indicator of our client engagement, grew **+44%** year-over-year, reaching **3.9 thousand reais** per client.

Our **Active Banking Clients** base reached **16.9 million** clients, a **+4%** year-over-year growth.

We also present in this slide the breakdown of active customers' growth by product, which demonstrates the increasing penetration of our financial products and services and how powerful the value proposition of our banking platform is. The number of clients using Investments and Credit products clearly stands out, growing **+85%** and **+235%,** respectively, compared to Q1-23.

Slide 12: On slide 12, we share that deposits were up **+64%** compared to the first quarter of 2024, reaching a record of almost **31 billion reais**, boosted by our triple-A rating attributed by S&P Global, which enhanced our CDs distribution among retail and institutional investors, on and off-platform. Checking Accounts balance, the cheapest funding source, and a key performance indicator to measure client engagement, grew **+37%** year-over-year.

Annual Percentage Yield for Checking Accounts and Total Deposits remained compelling, creating a unique engine connecting pricing power without harming profitability by lowering the average cost of funding for the company. We remain so excited about the Brazilian Payments opportunity and have a privileged position of holding a solid balance sheet and low cost of funding like big banks while demonstrating speed and superior product/user experience like fintechs.

Moving on to the next slide.

Slide 13: Slide 13 shows that our credit portfolio resumed growth since Q3 2023 and this quarter it reached **2.7 billion reais**, with increasing share of secured products, now representing more than 70% of our book loan, promoting financial inclusion, education, and important financing lines to our clients through these products.

We successfully passed through the pandemic, the rising of Brazilian interest rates and one of the worst credit cycles in the country with no negative impacts in our financial results and and without compromising our long term growth strategy. During this period, we took the opportunity to completely review our credit cycle fundamentals, enhancing our onboarding process, risk assessment, underwriting and collections policies and procedures.

The results were fully captured by the relevant improvement in our asset quality, lowering our NPL90 from 18% to 4.5% in 12 months and now we see an opportunity to gradually resume the credit underwriting of other credit lines in the second half of 2024, such as working capital loans backed by future receivables and overdraft account limits.

Now, I turn over to Artur for the financial highlights of the first quarter of 2024. Artur, please.

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

Slide 14: In this last section of our presentation, I will share our consolidated financial results for the first quarter 2024.

Slide 15: Here on slide 15, I am proud to announce an all-time high quarterly Non-GAAP Net Income, which reached **522 million reais**, growing **+33%** vs. Q1-23, with non-GAAP Earnings per Share reaching **R$1.63**.

Net Income, on GAAP basis, reached **483 million reais** in the first quarter of 2024, growing above **30%** year-over-year, with earnings per share on a diluted basis marking **R$1.50**, 37 cents better than the same period of last year. This result was specially driven by a strong operational and financial performance, as shown in the coming slides.

Slide 16: Moving on to slide 16, Q1-24 Total Revenue and Income growth accelerated to **+15%** on a yearly basis, positively impacted by higher volumes from acquiring.

Consolidated Gross Profit Margin keeps trending up, reaching **40.6%** over the Total Revenue as we have been successful in balancing growth and profitability, driven by the execution of our strategy focused on clients with better unit economics and higher engagement.

Looking at our business segments in the graph on the right side, Payments' Revenue reached **3.9 billion reais**, a **+18%** year-over-year growth, with a gross profit margin marking **39%.** Banking revenue grew **40 million reais** quarter-over-quarter, mostly driven by interest income from credit, float and cash position, combined to service fees, linked to higher client engagement. Gross profit from our Banking segment reached **60%** in the quarter.

It is important mention that the gross profit margin in Banking is higher than Payments even based on our strategy of underwriting secured credit products that naturally presents low yields combined to high yields paid on deposits to attract and engage new clients.

Slide 17: In the next slide, we share how our discipline in capital allocation has been an important tool to balance growth and profitability, leading to higher value creation, with an **Earnings before Tax** growth of **+35%** this quarter versus the same quarter of last year. I would like to pick up three lines:

Even with a TPV growth of 27% y/y, **Financial Costs** grew +1.7% in the same y/y comparison that resulted in a leverage of 250bps over Total Revenue and Income. In nominal terms, Q1-24 costs was 14 million reais lower than Q423. This performance was positively impacted by our successful deposits franchise, lowering our average cost of funding.

Total Losses fell more than **-18%** y/y, mainly due to relevant developments on KYC and onboarding processes, decreasing frauds and chargebacks amounts. On top of that, the better quality on credit portfolio reduced the level of loan loss provision during the quarter.

Operating Expenses were flattish versus Q4-23 and grew **+21%** y/y, due to higher personnel expenses due to the strengthening of our salesforce and additional marketing investments to acquire new payment clients and distribute financial services. The strategy behind the capital allocation is to create efficiencies and support the company especially in growth cycles.

Slide 18: Moving on to slide 18, we show how solid is capital structure for this PAGS' momentum.

Equity position expanded to **13.8 billion reais**, with the Retained Earnings representing **61%** of the total which demonstrates the success of our strategy of best balancing growth and profitability.

Cash and Financial Investments ended the first quarter of 2024 with **8.8 billion reais**, twice as seen in Q1-23. In the last week of March, we anticipated a fund raising from April that increased cash position in Q1-24. Going forward, the Cash and Financial Investments position are expected to achieve an amount between 40 to 50% of equity balance.

Slide 19: On the final slide, we would like to reinforce our guidance for 2024 but acknowledging we started the year in a very good pace.

We expect Total Payment Volume to achieve between **R$441B** to **R$457B** with healthier gross profit margin, above **40%** over Total Revenue and Income.

The guidance on Gross Profit Margin was updated to above 40%, as we no longer excluding "Other Financial Income" from the calculation. We consider this view more appropriate and fair reading of our net financial results.

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, let me give the word back to the operator 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.

Mario Pierry – Bank of America: Good afternoon. Congratulations on the results. Let me ask you two questions. One, when we look at your growth, your TPV growth, we are seeing the large corporate segment growing faster than the MSMB. Could you explore a little bit the profitability of both segments, taking into consideration also the ability to grow deposits, looking beyond just payments? How do you see the profitability of both segments on a holistic approach?

And then the second question is related to your comments that you are ready to accelerate some lending in the 2H24, you said about working capital for merchants, in overdraft for merchants and consumers, can you give us any visibility on how big do you think this portfolio can be, and why are you feeling confident now that you want to accelerate the lending? Because again, when we look at the economy in Brazil, it's doing okay, it's not doing great, and I think maybe you have been working on your credit models and you have been preparing yourselves to start lending. So just give us the reasons why you are ready to accelerate lending. Thank you.

Ricardo Dutra: Mario, thank you for the question. So I will start with your first question about the TPV in these two different segments. You are right when you say that large merchants are growing faster than the MSMB, growing 35% and MSMB growing 24%. The blended grew 27%. It is important to take advantage and highlight that we grew 27% while the market grew close to 11%. So we keep gaining share, being more profitable, increasing engagement. So the performance is very well, as we can see in 1Q.

First thing here, when you say large merchants, in our criteria here, it's not the same as large merchants that we hear from other players. That's the first thing. So sometimes you say large merchants, people think about the Walmart from Brazil, a large merchant with a very small spread. It's not the case here. But of course, they have lower profitability when compared with MSMB.

The other advantage that we have from the large merchants that they bring deposits. So when you look at the merchant in a more complete or holistic way, we may have lower margin in the acquiring, but a higher deposit base. That's going to help our cost of funding to be lower. In 1Q, it was 94% of CDI.

So if you look only in the acquiring, large merchants are less profitable than MSMB. But if you look in a holistic way, they are still less profitable but not that much, because they bring other advantages that we need to put into the account into these two different segments.

And going to your second question, which is kind of related to the first one, as you said, the economy is doing okay, and our decision to go for these nonsecure products is because, regardless if the economy is doing well or not, we have good clients over here. So it does not mean that if the economy is doing bad that our clients will have delinquencies. So that's not the case.

We have good clients here. We have these large clients that they are kind of stable, and they are looking for credit. So what we have been doing in the last 2 years is to improve the processes, improving the back office operations, improving our collection process. And then, we think it's time for us to resume the offer of these two products.

So the working capital for SMBs I guess you are expecting that to give more color on that, but the working capital for SMBs, the duration is going to be around 15 months, interest rates will be different depending on the client. So it will be customized for each client. And of course, it will be higher than what we charge for the prepayment because in the prepayment, we do not have any risk.

And in overdraft, we are going to offer for merchants and consumers. The limits are small and lower than 30 days because that's the dynamics of this product, and interest rate, as allowed by regulation, is up to 8% per month. So that's what we have so far for these two products.

Mario Pierry – Bank of America: That's very clear. Let me follow up really quick, Dutra, in terms of this size that you think this portfolio can get to until the end of the year. And then, when you talk about the market share, you are gaining market share, do you think this is a temporary thing, or do you think it's a structural thing? And the question is, it's clearly Cielo is going through some changes in terms of controlling. So maybe they are a little bit distracted operationally, I do not know. So the question is, do you think you have the ability to continue to gain share? Thanks.

Ricardo Dutra: Mario, regarding the size of the portfolio, it's too early for us to give any guidance at this point because we are at the very, very early stage. So we are going to start, then we are going to follow the performance. And then, as we have a credit portfolio with non-secured products a little bit bigger than what we have today, and of course, it's very small today, we can give more color on that. But it's too early for us to give you any guidance about the size of the portfolio and so on. But we will resume at the beginning of the 2H24.

And regarding the gaining share in TPV and our growth, what we are seeing right now is all the investments we have been doing in the last years, we have seen that it's maturing more and more. So all the investments we have been doing in the account with the products that we launched for PagBank, different cards, CDs. So we see that this integrated offer is really paying off, and we see the same momentum that we saw 1Q, a very strong momentum in 2Q as well. At the beginning of May 2024, on Mothers' Day in Brazil, we had the TPV record in the history of the Company. And we keep growing in the 2Q in a very strong way as well.

So good momentum. I do not see any big change looking forward. And as you said, there are some other companies that are making some restructuring and so on, and we keep accelerating. Sales productivity has been growing, so I do not see any change in the short term the momentum of the Company in terms of TPV.

Tito Labarta – Goldman Sachs: Good evening. Thank you for the call, for taking my question, and congrats on the results. A couple of questions also. Just on your net income guidance for the year, just annualizing this quarter, you will already be at the high end of that guidance. We could read at two ways: one, you expect earnings to remain flattish for the rest of the year, or do you think there could be some upside risk to that guidance, just assuming earnings will continue to improve from here?

And then second question, just on the expense side, expenses were kind of flattish on the quarter, but if you look at other expenses, that fell quite a bit, while personnel and the selling expenses were up around 8%, 9%. Just to understand the dynamic going forward, if you can give some color on those different expense line items and the different growth rates that we can expect. Thank you.

Ricardo Dutra: Tito, thank you for the question. I will take the first one and then the second one, I am going to pass to Artur to answer. But the first one, regarding the guidance, you are right. We are in the top of the guidance in 1Q, if you look at the guidance we gave for the full year. In all KPIs, we are performing better than the guidance, but it's only the 1Q. We only had 25% of the year, first 2 months.

So it's too early for us to make any change in the guidance at this point, but we are confident that we will be ready and we will be able to reach the top of the guidance. So there is no sign that we may have problems in the near future, but as I said, it's too early for us to change any guidance at this point.

I will pass the word to Artur.

Artur Schunck: Tito, good to talk to you. Regarding to our operating expenses, we are managing in a disciplined way, all the costs that we have and the expenses too. So we achieved in this quarter 16.4% of our revenue, and that's the level that we are expecting also going forward. And if we compare to 1Q23 and 4Q23, it was a similar level. So that's the reason our management is controlling the expenses here.

And remembering that in operating expenses, we include personnel expenses, marketing and advertising, and other administrative expenses.

Tito Labarta – Goldman Sachs: Okay. So the best way to think about that is a percent of revenues that should remain stablish from here.

John Coffey – Barclays: Thank you very much for taking my question. The first one, and unless I missed it, I do not think that you gave your TPV growth for the first 3 weeks of April, and I think that's been a tradition you have had for the past few quarters. Is that something you can disclose?

Ricardo Dutra: John, we are not disclosing information about 2Q at this point, but it has been strong. It has been similar levels to what we had in 1Q. And as I said in the previous question here, in first week of May, in Mother's Day in Brazil, we had the historical TPV record in the whole history of the Company. So, so far, good momentum and similar levels of growth of TPV at this point.

John Coffey – Barclays: Thank you. And I just had one related follow-up. When we think about the growth in 1Q of TPV, which was very high, and specially pretty high versus the 21% I think you gave for January, and I think that percentage reflected the first 3 weeks of January, so you really saw a step up maybe in that last week of January plus February and March. Can you just describe a little bit more about what's going on here? Is this new sales teams who have ramped up? Are there any other factors that we should be thinking about that will help us shape our ideas of where TPV growth can go for the remaining 3 quarters?

Ricardo Dutra: John, there are some reasons that we are growing at this level. I would say one of them is that our value proposition is really maturing. Sometimes things take a while to take off. So clients really understand the powerful combination of payments and banking. They understand when they use our device, our POS to sell, the money goes straight to the digital account instantly right after the sale; the money that stays in the account, they have high yields. They have a card that is easy to use. It's easy to understand the history of the transactions, the conciliation that we offer.

So I would say the value proposition is really maturing. Also, our sales productivity has been growing in the past quarters. The sales team, as time passes by, they understand better and better out of our proposition, and of course, the productivity also increased, and we also had an increase in marketing.

So it's a combination of different levers to deliver this kind of growth. So there's no silver bullet. That's the other way to answer. There's no silver bullet. It's a mix of different things. And things are really maturing here. All the investments we have been doing in the PagBank and all the features, clients are using and understanding, and as I said, it's a good momentum, good momentum.

Bryan Keane – Deutsche Bank: Congrats on the results. Maybe just on the 1Q results, I know they were higher than what we were expecting in consensus. Were they also higher than what you guys were forecasting internally and anything you would point to that drove maybe the upside surprise versus your internal forecast?

Ricardo Dutra: Bryan, thank you for the question. It is higher than what we thought, or what we forecasted. We have been seeing a strong growth in TPV. I guess, even the industry did not expect to grow 11% in 1Q. The industry grew very strong in Brazil, if we look at 11.4% in 1Q. So we thought that we would not grow at that pace. So we are kind of a positive surprise.

We were also able to have very good management in financial expenses, regardless of these discussions about interest rates, what's going to be the interest rate by the end of the year. So we were able to manage fairly well the financial expenses and, of course, manage the margins.

Our credit portfolio is also maturing and growing. After many quarters, we saw this increase of 8% of the credit portfolio, growing from R$2.5 billion to R$2.7 billion. So, good dynamics here in terms of growth and profitability and some positive surprises, to be honest.

Bryan Keane – Deutsche Bank: Got it. That's helpful. And then just a follow-up question on the net income margins. Just thinking about the rest of the year, I see the full guidance, but is there any seasonality to think about as we go through the fiscal year, between 2Q through 4Q on margins? Are there any different levels of cadence we should think about? Or should it be pretty similar as the 1Q kind of margin we saw?

Ricardo Dutra: Bryan, we expect margins to be similar, or even a little bit higher. Usually in 4Q, because of seasonality and because of the higher mix of debit margins sometimes go down, because the seasonality of the quarter, people use more debit cards. The debit TPV gained share in the mix in 4Q. But looking forward, in 2Q, 3Q, we do not see any change. We do not see any different margin than what we had in 1Q. It should be similar, or even slightly higher than what we had in 1Q.

Neha Agarwala – HSBC: Thank you for taking my question. Congratulations on the solid results. I have two questions at my end. First on the SMB segment specifically. Previously, you used to break down the MSMB segment. So could you just give us a bit more color on how the SMB segment per se has been growing? And have you been opening any new hubs in the last few quarters, or increasing the sales force to further penetrate the SMB segment? So any color on that.

And my second question is on Pix. The TPV growth is extremely strong, and I believe you do not include Pix volumes in your acquiring TPV. But could you give us a sense of what percentage of total acquiring TPV would roughly be the Pix volumes? I believe previously, you mentioned anything like 2%, 3% of the total acquiring TPV. So if you could provide color on that?

Ricardo Dutra: Neha, we really are not breaking down the MSMB. We are giving this full, blended information about this segment. I would say sometimes the micro became a small company, so sometimes it's hard even to divide that. So that's why we decide to give the information together.

But I would say you that SMB is growing a little bit faster than the micro because, of course, they have a higher TPV when compared to micro, and our sales force in the hubs are focused on SMBs.

We did not increase the sales force too much in 1Q, but we did have an increase. It's part of the plan to keep it growing. We see the opportunity. We think the growth is accretive to the result. We have very good paybacks, so that's why we decided to increase sales force a little bit in 1Q.

And regarding Pix, of course, Pix helped in the growth. But even if you are not considering Pix, the growth will be higher 20s. So it does not mean that because of the Pix, we had this strong growth.

So I would say that is a very healthy growth, with a large part of the growth still coming from cards, coming from credit cards, coming from installments. As I said before, the 11.4% that industry reported in the growth does not have Pix. So industry is really maturing here.

A week or 10 days from now, we are going to know the penetration of credit cards in the Brazilian consumption because we are going to have the report about the Brazilian consumption a week from now. We expect that the penetration is growing, is increasing.

So good momentum, good things happening at the same time, and I would say that, regardless of the breakdown between micro SMBs, Pix or cards, the growth is very strong and very stable throughout these different segments.

Kaio Prato – UBS: Good evening. Thank you for the opportunity to ask questions. I have two on my side, please. First, on your revenues, regarding the financial income. This quarter, it was basically flat versus last quarter, even with the seasonality solid in numbers, basically the historical high again this quarter. And if you look at the financial yields, excluding the financial expense, it was better than expected. So just wondering if you can share with us what are the drivers behind that, and if you are seeing prepayment penetration rising at some point, please? And then I will follow up with my second question.

Ricardo Dutra: Kaio, thank you for the question. Regarding the financial income and financial expenses, or the spread of these two different lines of the P&L when compared to TPV, you are right. Even with the seasonality played against us because in 4Q, we have Christmas, Black Friday, the 13th salary in Brazil, so even with this seasonality that does not help in 1Q, we were able to grow our financial income, and we were able to manage better the financial expenses because of the way that we work here in the treasury department, the way that we are managing the financial expenses, I would say.

And of course, we should take into consideration the deposits. When you see deposits growing 64% year-over-year, it also helps to lower the cost of funding.

So at the end of the day, it's a better financial income, the way we manage our pricing conversion, and managing better the expenses, which includes increased deposits. So no big changes, no one-offs, it is just part of the dynamic of the business.

Artur Schunck: And Kaio, only to take advantage on what Dutra said, and only to stabilize the same level that we manage this financial income plus financial expenses, or excluding financial expenses, I incentivize you to include other financial income because our expenses also include the cost of deposits that are invested in treasury bonds, for example.

So in our view, the best way to understand our financial result is considering financial income plus other financial income minus financial expenses. That's the result is a little bit better than you are seeing in our calculation.

Kaio Prato – UBS: Very clear. Thanks a lot. And then my follow-up question is on costs, please, if I may. We are seeing it growing at a slower pace than our TPV as well, both year-on-year and quarter-on-quarter, which is a good number. So I just would like to understand what the main drivers of these efficiency gains here that we are seeing are, as it has been reducing as a percentage of TPV. And what else can we expect going forward in terms of efficiency?

And finally, we saw a reduction in other expense this quarter, I think, by almost 40%. Just if you can share some thoughts here, the drivers behind that, please?

Artur Schunck: Talking about expenses, you are right. We grew our revenue by 15% this quarter versus 1Q23, and our total cost and expenses grew 12%. So we could leverage around 70 bps when we compare to our revenues. So the total cost by revenue, we are leveraging the costs that we have.

The main drivers on this performance were related to especially financial costs. As we mentioned, we are doing a great job on managing these costs through banking insurances and especially bringing more deposits to the Company. That has dragged us to have more deposits in 1Q versus 4Q23.

Total losses also create a good leverage to us. All the developments that we did in QIC and onboarding process, and also in the transactional process provided to us better charge-back numbers. Total losses in credit also performed well.

And in operating expenses, as I mentioned before, we could have a good number in terms of other expenses. That means administrative expenses. And in personnel expenses and marketing, we are now in a growth cycle, and then we are investing more in strengthening our sales force; investing in marketing, that is an important tool to the Company to acquire new clients, and also distribute digital services and reinforcing our brand, PagBank that is quite new in the market, and we need to invest in promote this brand to the clients.

Sheriq Sumar – Evercore ISI: Thanks a lot for taking my questions. I have two questions here. On the competitive dynamics, I just want to follow up on that. Are you seeing any threat from international players, with Clover trying to enter into this market? And are there other new players where you are seeing like increasing competition? And what's been Pag's response on that?

Ricardo Dutra: Sheriq, thank you for the question. I will split the answer in two parts. The first one related to the international players. We do not see any international player coming to the market and getting market share or growing faster than us, or getting market share from players.

And one of the reasons, I would say the main reason is because we have got to have an integrated solution, if you want to grow in Brazil. If you just come with a pure acquirer, you are probably going to get some market share from big players with a very, very low margins, and that's not the way that we work.

So we believe really in the integration between payments and banking and making the bank more and more complete as time passes by. And the end game is to get the principality of the client in terms of the banking account, because then it's a very virtual cycle where the money stays here because the cash-in is through the POS and the cash out is going to help through a card and then we get interchange revenue. So that's the beauty of the business here that we have by having an integration.

So that's the part of the answer for the international. And I would take advantage because that's also the part of the answer for the second part for the local players here. We are not seeing big changes in competitive dynamics here. We have a very clear competitor in the micro and small business and then another one in the medium business, I would say.

So they are the two competitors who have been completing in the last years. The incumbents from the big banks, they are stable in terms of market share or losing a little bit. And we do not see that changing that much.

So to be honest, the competition is very similar from what we have been seeing in the last quarters. And we are in this growth cycle because things are maturing. We increased our sales force a little bit, sales productivity in the hubs is growing, and online payment is also growing.

So we are having this different leverage. But going back to your question, no big changes in the competition, not even from international payers or local players.

Sheriq Sumar – Evercore: Thank you so much. And my follow-up is on the active merchant side. It's nice to see that it was flat sequentially. That's a 2-part question here. So A, how much more runoff can we see on the nano merchant side? And B, is there a possibility for you to break down what is the composition of large merchants, micro and SMB within the 6.5 million?

Ricardo Dutra: Sheriq, we do not give the disclosure. And also, to be honest, there is no definition in the market about what is large, what is medium, and then even if we decide to give this information, it's kind of messy because it's a different comparison when you look to other players. But we are not disclosing this number.

In terms of nano, you are right, it's kind of stable. We expect that this number of active merchants could be stabilized in the following quarters. But to be honest, nano merchants, although they might be millions in our base, they are responsible only for 1.5% of our TPV, with very, very small volumes. And we do believe that we should keep working in the micro and the SMBs, where we have this competitive advantage by having the bank.

We know how to handle these clients. They have good margins, and they are growing. So the main goal here is to get more TPV from the clients that we have in the base as well, and get a share of wallet from other competitors that these merchants might be eventually splitting the volume between us and other players, and convince them to use us.

So that's the main dynamics here, getting new clients starting from the micro and SMBs, and nanos, they have lots of volumes in terms of clients, but very, very small volumes in terms of TPV, in terms of money. So the idea is to keep working with micros and increasing share in these clients.

Daniel Vaz – Safra: Congrats on the results. A couple of questions here. I saw that your personnel expenses increased significantly. You attributed that to the increase of sales force. Also, marketing expense followed the same trend, right? So if you could elaborate a bit more on this increase, how many salespeople did you hire, and if you expect to hire more throughout the year? So what's the strategy behind this? Are you willing to penetrate further in specific niches or maybe increased cross-selling in banking and related products. Are we talking about a hunter profile or a farmer profile of this personnel so as you need to improve service or a lower churn? So if you could elaborate a bit more and give us more color, it would be very helpful?

Alexandre Magnani: Daniel, we are not actually disclosing the number of salespeople we have in the field. What we can say at this point is that the increase we did in our was sales force for specific geographic locations that we felt that we were underpenetrated, comparing to our average penetration. And what also drove our TPV growth was the maturing of the investments we have done in our online payments, cross-border payments platforms, all based in putting together a superior value proposition in all of these segments.

So we believe that we have reached a very good level of productivity in our sales force. And also, by investing in all the technology that help these people to promote the sales with more intelligence, we not only grew the productivity, but we also shortened the learning cycle of the new teams that we just hired.

Soomit Datta – New Street Research: Thank you very much, and congratulations on the strong numbers. A couple of questions from me, please. Firstly, can you remind me what is your embedded assumption for Selic for the year-end, which feeds into your net income guidance? Obviously, there's been some kind of change of outlook there in the last few weeks. So I am just curious what is built into the net income guidance, please.

And then secondly, could I just take you back to slide 18 in the presentation, just looking at the chart on the right-hand side, where we can see the increase in cash and financial investments? I was just kind of curious about what the implications of this are. You have kind of talked about 40% to 50% of cash balance as a percentage of book equity going forward. Are you thinking about using cash on hand to fund prepayments? If you could just talk through the implications of that chart, please, it would be super helpful.

Artur Schunck: Soomit, thank you for your two questions. The first one, related to the expectation for Selic going forward, what I can tell you is that based on the level that we have today, and we are not expecting too much drop this year based on the information that we have.

We are working hard to manage this level of Selic right now through deposits. So all of our management is focused on bringing more deposits to the Company. That is the cheapest third-party funding source that we have. But the guidance remains unchanged because of that until now.

Regarding to the second question, related to the level of cash and financial investments that we have today, in the end of March, only to explain you why we have this R$8.8 billion in 1Q24, we had a very good opportunity to advance receivables to bank issuers for the last time in March, that we used it in April 2024. That's the reason our cash position increases.

Going forward, we are thinking to work around 40% to 50% of our equity in cash, and this cash is based on some mandatory deposits that we have in treasury bonds, our fixed account to run the business and based on our asset liability management that controls our liquidity risk.

As you mentioned, related to prepayment, yes, we are using the results that we are achieving today to support the growth in the Company, and part of this growth also requires more money to prepayment of our merchants.

James Friedman – Susquehanna: Thank you for taking my question. I wanted to ask about what your message is about the credit portfolio mix, secured versus unsecured. How should we be thinking about that evolution on the secured side going forward? I see you are at 73%, but should this change in the mix continue with this magnitude?

Ricardo Dutra: James, as I mentioned before, we are going to resume this different products, working capital and overdraft account, in 2H. So it's going to be small steps. We are at the very early stage. So I do not think we should consider this mix changing dramatically going forward.

It's going to be similar to the levels that we have today, because we already have this portfolio of R$2.7 billion. The majority of this R$2.7 billion is secured, and we do not think that's going to change in short term. We are going to start in 2H in a very small step. So let's see, as time passes by, we can give more color on that.

But the best information I have at this point, I would say the non-secured is going to be small in short term. So this mix will not change looking forward, for the following quarters.

James Friedman – Susquehanna: Perfect. And then more generally about the new product rollout especially when you look at things like the PagBank partnership program or the business insurance for merchants, I am just curious how typically do you go to market with those? How are they being sold, and what in general has been the consumer merchant response to the new product rollout? Thank you.

Ricardo Dutra: The partnership program is based on software that you have partnership with more than 300 different Software-as-a-Service providers. The majority of them use are smart POSs. Remember, our smart POS is an Android one, and then it's kind of the ERP.

Let's say, you have a parking lot and then you can use your POS to manage your parking lot. Or if you have a restaurant, you can install a different app for your restaurant to take the orders, to split the payments between different people in the same table. And let's say you have a drug store or a gas station, you can use your software that you already use combine it with our payment solutions.

So the distribution of this partnership, we usually distribute the POS and the merchant decides to use the software they already use or someone recommended to them. So that's the way that it works in terms of partnership. It's a combination between our payment solution with a third-party software.

And the insurance that you are asking. Usually, the majority of the issuance we sell through the app. Some of them we sell during the onboard, some of them we sell during the cross-sell of different products. Let's say, we are asking for a card. And then I can offer you an insurance for your card. If you lose your card, someone uses your card, I can reimburse you. So it depends. We have different types of insurance.

And for the merchants, that we mentioned in the presentation, the sale of these insurance is done through the hubs. When they go there to work with the POS, they can also sell the insurance. So a different channels for different products, depending on the type of the client.

Yuri Fernandes – JPMorgan: Thank you, and congrats on the quarter. I have a question on your TPV volume guidance. This was a pretty strong, R$112 billion, 27% year-over-year, and your guidance is basically R$441 billion to R$457 Billion. If we consider the seasonality for the 1Q, I know it's not the smartest way to see this, but historically, 1Qs are 20%, 22% yearly TPV, and this would imply more than R$500 billion if you keep this historical seasonality for the 1Q. And basically, you need to decelerate to maybe industry trends from those more than 20% to maybe something around 12% to deliver your guidance.

So my question is, how are you seeing your TPV guidance for this year? Can you surprise us positively? Or do you see any deceleration that make this strong 1Q to be kind of a one-off?

And I have a second question on capital allocation. You report this cash in financials, but when we try to estimate our net cash, you have over R$11 billion of net cash. You are growing your deposits. So just a refresh. I remember you discussed in the past quarter about doing a new buyback program, if you have anything on that. If you can have any comment on dividends, M&A. Basically, how to allocate, because it's a good thing, you are seeing a pile of cash. So just asking what we should expect from this money. Thank you.

Ricardo Dutra: Yuri, regarding TPV, you are right. There is definitely upside risk. We just do not want to change the guidance or give this type of increase in the guidance because we only had 3 months of the year. Of course, we are seeing the TPV in April and May that we look at every day our intra-day, but we decided to wait a little bit and see how it will evolve.

As I said before, the momentum is strong. We see a strong momentum for the Company as a whole, considering TPV, considering banking, considering cash-in. And definitely, there is this upside risk. If we just think the right thing to do is to revise the guidance, we are going to do it. But we just think that at this point, it's too early to make any change.

And the other thing I would say is that in 2H23, our TPV was strong as well. So there could be some hard comps in the 2H. It does not mean that we see a risk for our guidance. Again, there's definitely upside risk, higher than the top of the guidance, but we just want to wait a little bit and then maybe in 2Q, we could revise if we think it's time to do so, because the 2Q call is going to be in August. So from there, we are going to have more visibility to what happened throughout the year.

Artur Schunck: Yuri, regarding capital allocation, our thinking here is to look for growth opportunities, especially organically. We analyze a lot of M&As and so on, but we did not figure out anything that can create any transformation to the Company right now. If something appears, we will communicate it properly, but we are looking forward to grow our product services in payments, in banking products to merchants, to consumers, to all our clients.

And the TPV is growing close to 30%. Our result, more than 30% in the quarter. So the cash flow that we are generating, we are reinvesting in the business because we need to support this momentum. It's a positive momentum for the Company. We are growing a lot again, a new cycle of growth for the Company, and we decided to use this capital to run the business and support this momentum.

Regarding dividends, we are not discussing any program at this point. And the share buyback program, we are still having R$45 million in the original plan that we launched a long time ago.

Ricardo Dutra: I guess it's US$45 million, right?

Artur Schunck: US$45 million, exactly. Thank you Dutra.

Renato Meloni – Autonomous: Congrats here on the results, and thank you for the space to ask questions. So first, on deposits growth, I am curious here about what you are seeing for the rest of the year. Growth rates are pretty high. So I wonder if you see it similar or maybe decelerating going further into the year.

And my second question is just a follow-up on selling expenses. If you look just at this expense line as a percentage of revenues, it has been going up, but previously in the call, you mentioned that on a consolidated basis, we should expect a relatively stable ratio when you are looking that against revenues. But specifically at selling expenses, do you think, given your growth prospects here, that this will continue to go up and then it's going to be compensated by lowering other cost lines, or is everything pretty much stable on your planning now? Thank you.

Alexandre Magnani: Renato, thanks for the question on the deposits. Regarding the deposits, what we can say is that we are working with the integrated value proposition between our payments and banking platform, this has been very successful to drive deposits up and drive more and more engagement of our payments' customers within the banking business.

Also throughout our CDs, high-yield CDs offerings, we are also able to capture new customers outside of the relationship of the acquiring business. And also, through the payroll loans, we are also bringing new customers that does not have a relationship with the acquiring business, and these new customers are engaging with the account and bringing more deposits.

So we believe that our strategy is in the right way for us to keep growing our deposits on the next quarters. But we do not have a specific guidance for that.

Artur Schunck: Renato, regarding to the selling expenses. And before I talk to selling expenses, I would like to adjust one comment that I did in the Kaio's question that was related to the leverage I said to total costs and expenses. I mentioned that it was 70 bps, but we have a leverage of 220 bps versus 1Q23.

Regarding selling expenses, we are including in this line, marketing expenses, that we mentioned we will keep this level of marketing in the coming quarters because it's totally focused to support this growth, acquiring new clients and reinforcing PagBank brand in the market.

Inside this line, we also have total losses that, as I mentioned, we are performing very well, and we expect to continue doing this performance going forward. And on top of that, we also have the cost of sales force. As we mentioned, we are strengthening our sales force and part of this amount was captured in 1Q, part of this amount will be captured in the coming quarters.

On top of that, in personnel expenses, we have the collective agreement bargaining that happens in 2Q, and all of these items should be considered to project the selling expenses going forward. We achieved R$435 million in 1Q, and I expect that we have a higher amount going forward, but not too much.

Renato Meloni – Autonomous: Thanks. And just a quick follow-up. When you say marketing expenses at the same level, you mean the same financial absolute level or the same level relative to revenues?

Artur Schunck: At this point, what I can share is the same nominal level.

Operator: Thank you. That's all the questions we have for today. I will now pass the line back to Alexandre Magnani for the concluding remarks. The floor is yours.

Alexandre Magnani: Thank you, everyone, for the participation in our call. We really believe that our business model that combines payments and banking is bringing all the results for all of our investments we have done during all of these years.

We look forward for the next call, and to see you again. Bye.

Operator: Thank you. This does conclude PagSeguro Digital 1Q24 earnings conference call. We would like to thank you again, and wish you a great evening.