



1Q21 RESULTS

WEBCAST TRANSCRIPT

OPERATOR

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After PagSeguro PagBank's remarks there will be a question-and-answer session. At that time further instructions will be given. Should any participant need assistance during the call please press star zero to reach the operator.

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Finally, I would like to remind you that during this conference call the company may discuss some non-GAAP measures. For more details, the foregoing non-GAAP measures, and the reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures are presented in the last page of this webcast presentation.

Now, I will turn the conference over to Mr. Ricardo Dutra, CEO.

Mr. Dutra, you may begin your presentation.

RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

Good evening from São Paulo everyone and thanks for joining our first quarter results conference call. Tonight, I have here with me **Artur Schunck**, our Chief Financial Officer and **Eric Oliveira**, our Head of Investor Relations. First of all, we hope you and your families are well and safe.

Before we move on, just a quick update about the outbreak of Covid-19 in Brazil. It seems the worst is over; however, the economic recovery may take a while due to the speed of vaccination rollout in Brazil. Although we are enthusiastic about the availability of effective vaccines, the rate at which vaccinations are taking place in Brazil is still low when compared to other countries like the US.

Consequently, merchants and consumers have changed their behaviors to keep working in the scenario with more digitalization, less cash and the adoption of alternative payments methods. Meanwhile, our dedicated employees have been doing an extraordinary job to keep serving our clients with excellence. **Thank you very much PagSeguro PagBank team.**

Despite the pandemic, the resilience of our business model and our focused execution allowed us to achieve great results and records in several KPIs in this quarter. I am pleased to report that **PagSeguro achieved record consolidated TPV, growing 102% year over year, and kept adding 300 thousand merchants and more than 1 million PagBank users per quarter while Total Revenues were above 2 billion reais in the quarter.** In fact, we are the company with the highest growth in terms of volumes, net adds and have been increasing our acquiring market share in the past quarters, reaching approximately 9% in 1Q21 (vs. 5.9% in 1Q19). Our last quarters' performance have reinforced our belief that both businesses, acquiring and banking, will deliver robust growth in years to come.

Talking about banking, we continue to see unprecedented changes in the highly concentrated banking industry in Brazil. Although we have experimented the entry of new players in the last few years - **PagBank** being a precursor of this movement - in December 2020, more than 70% of the Brazilian credit portfolio was concentrated among the top 5 banks. We see that as a huge business opportunity and a reason to bring more competition to an economic segment that has been basically the same for decades. The opportunity to change people lives thrives the stamina that runs in **PAGS** professionals' veins.

We considered ourselves exceptionally well positioned to continue to disrupt banking in Brazil because of 3 main reasons:

1. **Our Tech DNA:** Approximately 6.500 engineers in **UOL** group - with the best-in-class professionals working for **PAGS**;

2. **Our unique expertise and knowledge on the Brazilian internet:** Since the early beginning back in 1996, which today, the most visible aspect is the **UOL** audience with a reach around 90% among Brazilian internet eyeballs (right after Facebook with 93% and Google with 96% reach);
3. **The fact that we are the first movers:** creating a new market unserved by the competition before us and finally, but not least, a strong culture and excellent execution, I would resume as “**PAGS** way of doing it”.

We operate in an evolving industry whose answers to some questions are not a 100% clear. For that reason, we permanently promote self-criticism. But having said that, we can affirm that our investment thesis relies on the following six pillars:

- 1- **Payments is the best entering door for digital banking:** **PAGs** has the largest Brazilian merchant base that generates recurring revenues *through a digital account* that naturally provides cross-selling opportunities for additional banking products. Payments industry has consistently grown two digits in the last two decades driven by merchants accepting new electronic payments. New payments methods (such as NFC, P2P, among others) continue to replace cash transactions. For example, in the first quarter, NFC volumes increased almost 8 times in comparison to the same period of last year. We consolidated our leadership in the longtail market and the see limited competition as incumbents have given up serving these clients. Now, we will prove our thesis that is much easier to go up in the pyramid than to go down in it with our *hub* strategy. Our hubs are extremely successful, and we are gaining market share with profitable SMB's clients very rapidly.
- 2- **Online is core.** Online payments go on as core for us and our focus has delivered a growth of 140% in Q1-21. **PAGs** is enhancing omnichannel solutions for merchants and increasing cross-border transactions. In the first quarter, cross-border volumes increased 3 times compared to the same period of last year.
- 3- **Cards and lending are core.** Because banking industry is highly concentrated, Brazilian unbanked population is still huge and the spreads are very high. This is an opportunity for us 17 times larger than payments in terms of revenue pool. **PAGs** has been working with cards and loans in the last three years, mainly focused on the micro-merchants, creating a unique database and credit models to manage returns and risks, clearly a strong entry barrier for new players.
- 4- **New financial products are core.** **PAGs** movement to go up in the pyramid to conquer market share in SMB's market can and will be replicated with other **financial services**.
- 5- **Technology, customer experience and product development are core.** Technology, innovative and client centric culture combined with a lean structure promotes disruption, awareness, and engagement. In the first quarter, **PAGs** reached 48 million apps downloads and processed 81 billion reais. We believe that value relies on active and recurrent clients.

And we are happy to announce that we surpassed the mark of 10 million active clients in PagBank's 2nd anniversary.

6- Regulatory environment helps. Regulatory changes, such as Pix, Marketplace of Receivables and Open Banking, creates a positive environment for new players like us.

With these initiatives and achievements, we are truly committed to keep promoting the financial inclusion in Brazil, making investments that are accretive and will bring higher returns in the future.

Finally, the pandemic is not over in Brazil. This year will be another challenging one, but we feel prepared to face it and ready to explore the economic rebound in the coming years.

That said, Artur and I will present some slides and we will have Q&A session at the end.

SLIDE 3

On slide 3, we highlight the achievements of the first quarter. We break down in three sections: (i) operating and financial results; (i) PagSeguro, our acquiring business; and (iii) PagBank, our banking business.

Starting with the operating and financial highlights:

- **Consolidated TPV of 81 billion reais**, up **102%** year over year
- **Total Revenue and Income of 2.1 billion reais**, up **30%** year over year, with **consolidated net take rate of 2.41%**
- **Adjusted EBITDA of 573 million reais**, up **12%** year over year, despite PagBank and Hubs investments
- **Non-GAAP Net Income of 327 million reais**, down **11%** year over year
- Excluding **one-time events** during the quarter, **Adjusted EBITDA of 617 million reais**, up **20%** year over year, and **non-GAAP Net Income of 371 million**, up **1%** year over year

Moving to PagSeguro:

- **Acquiring TPV of 50 billion reais** in Q1, up **58%** year over year, despite new lockdowns in the end of March 2021
- **Online TPV** grew **140%** year over year, while **Hubs TPV** grew **410%** year over year, diversifying our exposure to new segments
- **Active Merchants of 7.3 million**, with **Net Addition of 301 thousand** new merchants, or **1.8 million** more merchants in comparison to the same period of 2020
- **Total Acquiring Revenues of 1.9 billion reais**, with **Adjusted EBITDA of 725 million reais**, margin of **38%**

- During this quarter, we launched **PagPhone**, the first world-wide one-stop-shop POS which combines acquiring, banking and software. We also launched **Moderninha ProFit**, the smallest POS with integrated printer and **Auditek app**, reconciliation software.

Moving to PagBank:

- **PagBank TPV** of **31 billion reais**, up **261%** year over year, boosted by wire transfers and bill payments
- **PagBank app downloads** of **48 million**, with almost **7 million** downloads in the quarter
- **PagBank Active Clients** of **9.1 million**, up **144%**, with **net addition** of **1.3 million** in the quarter
- **PagBank Consumer Clients** of **3.5 million**, 5 times larger than in the first quarter of 2020. In the first quarter of 2021, consumers represent **38%** of PagBank Active Clients
- **Credit Portfolio** of **773 million**, **Deposits** of **5 billion reais** and **PagBank CDs** surpassing **1.4 billion reais** in March 2021
- During this quarter, we also announced the cashback offering for **payroll portability**, and launched new **third party investment funds** and **personnel accident insurance**

SLIDE 4

Moving to slide 4.

2 years ago, **we launched PagBank** aiming to explore and capture the existing opportunities in Brazil. At that time, we had a few products in our portfolio, providing the basic digital accounts features only to our merchants.

SLIDE 5

In the slide 5, we can see all the achievements throughout the last two years, **becoming a complete ecosystem now**, serving both, merchants and consumers, as we were able to combine acquiring, banking, partnerships, software, marketplace, insurance, investments, loans, and cards.

SLIDE 6

Moving to slide 6, we show how powerful is our ecosystem and how it is boosting our growth trends.

First, I will talk about client acquisition and awareness. We reached **7.3 million Active Merchants**, up **33% year over year** and **9.1 million PagBank Clients** in the first quarter of 2021. This

represents a growth of **146% year-over-year**. Moving down, we can see we reached **48 million downloads in PagBank** – as of March 31, 2021.

Talking about engagement, we observe the acceleration of volumes growth. Consolidated TPV increased **102% year-over-year**, while **net new consolidated TPV** grew **215%** when compared with **Q1-20**.

Our **market share** in the Brazilian payments industry reached **9%**, more than **3 percentage points** in comparison to the first quarter of 2019. Our **products per user** ratio increased from **2.5** to **2.7**, which also indicates higher engagement of our clients.

Last but not less important, in the third column PAGS monetization. Revenue and EBITDA growth shows we are able to monetize our business and to balance growth with profitability. **Total Revenues** increased **30% year-over-year** and our **Adjusted EBITDA** increased **12%**.

SLIDE 7

Moving to slide 7, we will start presenting our operating figures for the acquiring business.

Our **TPV growth** remains strong with a **58% increase year over year**, boosted by TPV per merchant growth, which grew **18%** when compared with **Q1-20**, and **net merchant adds** that reached **300 thousand** between January and March this year, ending the quarter with **7.3 million active merchants**.

The strong growth, despite the new lockdowns in Brazil, was driven mainly by a faster cash conversion into electronic payments and success in our new verticals and client segments, such as online and hubs.

Volumes growth for April and May were very strong, respectively 108% and 91% increase year over year, despite the new lockdowns in the country.

SLIDE 8

Moving to slide 8.

Total Acquiring Revenues were **1.9 billion reais**, up **29% year over year**, accelerating the growth in comparison to 2020. **Acquiring Adjusted EBITDA** up **28% year over year**, with EBITDA margin of 38%.

TPV mix improved in comparison to the fourth quarter, which drove up acquiring net take rate and payments profitability. Excluding PagBank Revenues and Transaction Costs, **acquiring take rate** increased **17 basis points** in comparison to the previous quarter, reaching **2.23%**.

SLIDE 9

Moving to slide 9.

Here we present some new acquiring initiatives we have been exploring.

First, our **online TPV** which has been growing much faster than previous year. In the 1Q21, our **online volumes** grew **140%** versus 13% in 2020. The acquisition of MoIP, the digitalization process boosted by the pandemic and our several initiatives to incentivize online payments and omnichannel solutions were the main drivers. Also, we are happy to announce Card-not-present transaction during this quarter increased 116% y/y.

Moving to our **SMB Hubs strategy**, our 2021 volume' trends indicate we will be in the top of the range our current guidance, which was 11% of acquiring TPV. Our forecast is to have 250 to 300 hubs up running in several cities and regions until the end of 2021, reaching 83% of Brazilian GDP coverage. Finally, **software subscribers** reached **621 thousand**, **8.5%** of PAGES' active merchants. We plan to provide additional disclosure of our hub's strategy in the coming quarters.

SLIDE 10

Now moving to slide 10, we will share some PagBank figures.

Starting with the strong growth of **PagBank TPV** – once again a triple-digit growth, totaling **31 billion**, accelerating the growth in comparison to 2020. In the top right, we have our **PagBank Active Clients** figures, which was **9.1 million**, being 38% composed by **Consumers**. **Net Adds** were **1.3 million**, with Consumers representing 58% of the first quarter's net additions. These figures show our strength to serve both merchants and consumers with our two-sided ecosystem.

Bottom left, we share our product per user ratio. In the Q1-21, our **products per user ratio** reached **2.7**, 0.2 higher than the same period of 2020, reinforcing client's stickiness to our ecosystem.

PagBank Revenues totaled **149 million reais**, up **48% year over year** and accelerating in April 2021 to above 80% when compared to April 2020, although April 2020 was the worst pandemic month in Brazil impacted by the lockdowns, which drove down withdrawals and cards spending. Additionally, for those clients with higher engagement, such as merchants active in PagBank and consumers with payroll portability, we offer some free ATM withdrawals per month, exchanging short-term revenues for higher engagement and future monetization.

In 1Q21 **PagBank Adjusted EBITDA** totaled a loss of **78 million reais**, driven by headcount increase, marketing expenses and transaction costs. Also, in the first quarter, we had a one-time event related to **digital account losses**, not related to loans provisions or credit risk management, amounting **73 million reais**. The massive data leak in Brazil which happened in January 2021 did not affect any of our systems, data or infrastructure. However, it provided information to fraudster activities in online transactions and bill payments. As we identified these transactions, we immediately block them. Again, this is a one-time event.

SLIDE 11

Moving to slide 11, we present some additional data about PagBank and PagInvest.

The number of **Active Cards** increased **3 times** in comparison to the first quarter of 2019. In May, we launched New Home marketing campaign in partnership with Visa to foster cards payments. In this campaign, PagBank clients will receive cash prizes and one of them will get a house.

Day to day banking, the number of **PagBank App Logins** was **549 million** in the first quarter of the year, while **bill payments transactions** has been gaining a lot of traction. This is a very good sign, since usually, clients elect their main banks to centralize bill payments.

Finally, **PagInvest** assets under custody reached **4.2 billion reais**, up **127% year over year**, with **PagBank CDs** almost doubling the size quarter over quarter. Worth to say all this AUC is based in PagBank CDs and a few investments funds. We plan to have equities and treasury bonds in the following weeks, which we expect to help increase assets under our custody. Recently, we allowed our investments platform to receive orders 24 hours, 7 days a week and we also launched new **third party investments funds** managed by well-known investments firms in Brazil, such as **Western Asset, Alaska, HashDex, BNP Paribas, Journey** and **AZ Quest**

Now, I would like to turn the conference over to Artur, our CFO, who will talk about our credit portfolio and our financial results for the quarter. Artur, please go ahead.

ARTUR SCHUNCK | CHIEF FINANCIAL OFFICER

Thanks Ricardo, and good evening everyone.

SLIDE 12

In the slide 12, we show our Credit Portfolio where the performance is improving every day based on credit models result. We ended the month of March with a **Total Credit Portfolio** of **773 million** reais, being **53%** of **working capital loans**, **43%** **credit cards** and **3%** of **other credit products**.

As we have been tracking very close the NPLs by cohorts for working capital loans and for credit cards, trends are getting better since August 2020 showing very healthy numbers. Our confidence has been increasing and encouraging us to reach the highest level of credit disbursements in May. We expect to increase credit originations going forward, mainly in the second half of this year.

Our **Cash Position** remains very strong with a positive balance of **8.1 billion reais**, reinforced by the issuance of **PagBank CDs to fund the credit disbursements**. **Loans to Deposits ratio** was **53%** guaranteeing stamina to grow our credit portfolio in a healthy and sustainable way.

SLIDE 13

Moving to slide 13, we present our quarterly financial results.

In the top left, our **consolidated net take rate** reached **2.41%**, representing an increase of 11 basis points in comparison to Q420 and 6 basis points versus Q320 driven by better TPV mix with more credit and lower debit transactions and a longer duration for credit cards receivables in installments.

In the top right graphic, we share our **non-GAAP Total Costs and Expenses** which totaled **1.6 billion reais** in the first quarter of 2021, up **51% year over year**. **Cost of Sales and Services** represented 70% of Total Costs and Expenses remained at the same level of Q120 and increased **49% year over year**. The main drivers were higher interchange and card scheme fees following the TPV growth, higher Depreciation and Amortization related to our solid active merchants' additions during the past quarters and expenses to new products and services developed to PagBank. **Selling Expenses** represented 23% of Total Costs and Expenses and increased **94% year over year** due to headcount expansion for our hubs and the one-time digital account losses of 73 million reais, previously explained by Dutra. If we exclude the digital account losses this line increased 56% vs the same period of last year.

In the bottom left chart, our Adjusted EBITDA was **573 million reais**. Excluding the negative effect of **73 million reais** related to one-time digital account losses, not related to loans provisions or credit risk management, and the positive effect of **29 million reais** related to tax provision reversal, the recurrent **Adjusted EBITDA** was **618 million reais** with a margin of **30%**.

Finally, in the bottom right, we share our capital allocation strategy. During the first quarter of the year, we invested almost **393 million reais**, being **62%** in **POS acquisitions** and **38%** in other initiatives, mainly related to product and software developments. As a percentage of Revenues, capex decreased **4 percentage points**, reaching 19% versus 23% in the first quarter of 2020.

Thank you all to join us tonight. Now, I pass the word back to Dutra to conclude the presentation.

RICARDO DUTRA | CHIEF EXECUTIVE OFFICER

SLIDE 14

Thank you, Artur. Moving to slide 14 we present **PagPhone**.

During the last quarters, we were working very hard to launch the first device in the world which combines acquiring, banking, and smartphone, everything in one single device, creating the real one-stop-shopping solution for our merchants, reinforcing our leadership in the longtail market, and continuing to be a company driven by innovation.

SLIDE 15

Finally, in the slide 15, our last slide, we present **Moderninha ProFit**.

This is the smallest POS with integrated printer. Initiatives like this help us to offer a better customer experience and to allocate capital more efficiently, consequently improving our LTV per CAC ratios.

With that, we end our presentation, and we can start the Q&A session.

Thank you! Operator please.

Q&A

Mr. Jorge Kuri, Morgan Stanley

Hi, good evening everyone and congrats on the numbers. I have two questions please, the first one is on your TPV guidance of 40%. I think that the chart on **page 7** is quite telling. I think you are running at, significantly above that and hopefully with past the worst of this year is it possible that the number is just significantly above that?

It would not be surprising given the current trends that you end up at 55 to 60% growth; and what stops you from updating that guidance or where do things could potentially go wrong and we do end up in 40%, which would be a big deceleration from the first five months of this year?

And my second question is on NPLs. I am not sure if this is related to the digital losses, I am not sure that I understood properly what that is; but anyway my question is on NPLs going to your **slide number 12**, where you have the pre-pandemic cohorts and the post-August 2020 cohorts. Can you maybe explain how loan losses are trending over the last few months, particularly given the difficulties of 1Q? And just if you can explain what those digital losses are and it is indeed those are part of the NPLs, thank you.

Mr. Ricardo Dutra, Chief Executive Officer

Hi Jorge Kuri, good to hear you, thank you for the question, thank you for the compliments as well, this is Ricardo.

I will start with TPV and then begin answering your question number two and then Artur can complement. But talking about TPV you are right, we are running above the 40% guidance. We are confident with this guidance and the reason that we do not update is because we are still in the middle of the pandemic in Brazil, I mean we have some uncertainty looking forward. We have tougher comps in 2H 20 because the government had 300 billion BRL in corona vouchers last year in 2H, so we have tougher comps and we need to wait and see how is going to be the economic recovery in Brazil. So that is why we do not update at this point. As time passes by we will be more than happy to update that. So that is why we are confident with this 40% at this time.

Talking about the digital losses, just to be clear here there is no relation with credit, no relation with loans. That happened because we were, I would say, more aggressive than what we should in terms of authorizing some bill payments transactions, and then what we had is people coming here paying bills, some of them with credit cards and then we had chargebacks afterwards.

So we had this, we are seeing here 1Q; but actually it was in February, March. We already adjusted that, we did not have any impact in April and May, so it is really a one-off. It is really a thing that happened in February and March and that is it, there is nothing that is going to happen in 2Q regarding to that - and again there is no relationship with NPLs or things like that.

Just to be clear here I want to reinforce that we did not have any problems with our infrastructure, with our data or data leak; what we had was a massive data leak in Brazil in January 2021, it was in the news; and probably we were aggressive in authorizing some bill payments transactions to credit cards. So that is it. We already adjusted that, and it is not happening in 2Q.

And talking about the NPLs in **slide 12** I will ask Artur to help us here - and again Jorge, thank you very much for the question.

Mr. Artur Schunck, Chief Financial Officer

Hey Jorge, it is Artur speaking and thank you so much for your question and it is a pleasure to talk to you. I think the idea of this graph is show you that when we started to offer credits again in August 20, our NPLs are much better than we had before, because we learned a lot during the pandemic period.

And so you know that in March 20 we stopped our originations and we were learning a lot, adjusted our models, hired new people more experienced to that and so now we are having better results than we had before.

And the idea is just give you more color about it because we do not know, we do not give the number. So it is important to you to understand that we have a better performance right now than before, and that is it. So we are very happy with the numbers and encouraging us to accelerate the originations going forward.

Mr. Jorge Kuri, Morgan Stanley

All right thanks Ricardo and Artur for that, thanks again.

OPERATOR

Our next question comes from Mariana Taddeo with UBS. Please Ms. Taddeo go ahead.

Ms. Mariana Taddeo, UBS.

Hi, hello everyone, thanks for the opportunity of asking a question, it is regarding the SME segment. You mentioned that it should represent 7 to 11% of your total TPV this year; but could you share how much it represents today?

Also if you could give us some color where are the merchants in the segment coming from; are from the incumbents, from Stone or any other player? I do know if you could share that.

And also in the presentation you mentioned the penetration of the software within the SME clients. I want to understand if you are offering the banking credit products to them and how is this penetration, thank you.

Mr. Ricardo Dutra, Chief Executive Officer

Hi Mariana, this is Ricardo, thank you for the question. So we are not disclosing the exact number of hubs TPV and the total TPV at this point, Mariana. As we said at the presentation, we tried to give him more color as time passes by. Just we do not want to give this information at this point for strategic and competitive reasons.

Regarding the players that we are getting in the segment it varies; but usually it follows the market share in SMBs. So the majority of them we are getting from incumbents and then we have some others coming from new players; but it follows a little bit the market share of the segment.

We are the, let us say, the newcomer here, we are the company that is competing with the other ones, being the aggressive here; so that is why we are getting all these new merchants and TPV grew 410% YoY.

Regarding the software, the 8.5%, we actually use the information we have from software to put in our models, in our credit models, because we have more information from the ones who use the software versus the others that do not use it. I do not have here in the top of my mind how is the penetration of credit for these clients, to be sincere; but it is only variable of the models, not the main one; but it helps us to improve our models. I do not know if I answered your question?

Ms. Mariana Taddeo, UBS.

On this second part of the question in terms of banking and credit I just wanted to understand if you are offering, if they have the credit product or, I do know, credit cards, something like this?

Mr. Ricardo Dutra, Chief Executive Officer

Yes, yes, we are offering credit for SMBs as well. We are growing our credit portfolio 160 million BRL in this quarter. Almost 100% of these 160 we focused on the merchants, a very small part of that is focused on consumers; for small pilots here and there, but the majority of that is for the merchants and yes, we are offering credit for SMBs as well.

Ms. Mariana Taddeo, UBS.

Thank you.

OPERATOR

Our next question comes from Bryan Keane with Deutsche Bank. Please Mr. Kean go ahead.

Mr. Bryan Keane, Deutsche Bank

Hi guys, congratulations on the results, especially given the tough economic environment. Two questions, I guess I would be interested in some more color on the increase in the TPV per merchant. I think it was up 18% YoY versus 3% looking at last year's increase. So I am just trying to understand how much of that is stimulus versus what is driving, what has been the driving factor there.

And then my second question on the margins. Obviously you guys are making a lot of investments and the margins were impacted by those investments. I just was hoping you guys could give us some color on what the net income margin might look like going forward for the rest of the year and how much to expect for the investments in the hubs, in PagBank etc., thanks.

Mr. Ricardo Dutra, Chief Executive Officer

Hi Bryan, thank you for the question and thank you for the compliment. Talking about the average TPV per merchant, there are some drivers here. If you look in Brazil, we are seeing the penetration of cards in PCE is increasing. It used to be I guess 40% and now it is close to 44, so we see more adoption of electronic payments and we are also increasing our participation of online and hubs in our total TPV.

So as we go up a little bit in the pyramid the average TPV per merchant will grow as well. So I guess those are the two main drivers here: people using more cards, less cash; and also we are having more TPV coming from online and from hubs.

Mr. Artur Schunck, Chief Financial Officer

Bryan it is Artur speaking, thank you so much for your question, it is a pleasure to talk to you again. And so regarding to margins, as you said we invested a lot during the last months, and also in this quarter we invested a lot in PagBank to hire more headcount and product development to develop products like PagInvest, insurance, credit; and also we are investing in hubs with salesforce, facilities, rentals and also marketing to promoting our new products and services.

And also right now we are, in terms of nominal we are slightly better in the bottom line in 2021 - even though our focus is to reach the best balance between growth and profitability looking for a bigger company in the future, gaining scale to leverage expenses. So we are much more focused right now in the growth of the company to leverage expenses in the future, and improve margin as well in 2022, 2023 in a more mid-to-long-term.

Mr. Bryan Keane, Deutsche Bank

Got it, and any guidance on where we should set our models in terms of the net income margin going forward for this year, just given those investments you talked about?

Mr. Ricardo Dutra, Chief Executive Officer

Yes Brian, we gave the guidance for TPV, for CapEx. What we can say here is that in absolute terms our net income this year will be better than last year. We do not have the exact number here; but as Artur said we are looking for more growth this year than profitability - but in absolute terms we are going to see a better net income this year versus 2020, even with this challenge we are seeing in 1Q with lockdowns and so on, and more debit transactions and so on. So that is a better guidance I can give you at this point.

Mr. Bryan Keane, Deutsche Bank

Got it great, thanks so much.

Mr. Ricardo Dutra, Chief Executive Officer

Thank you.

OPERATOR

Our next question comes from Craig Maurer with Autonomous Research. Please Mr. Maurer go ahead.

Mr. Craig Maurer, Autonomous Research

Hi, thanks again for taking the time, I appreciated. I was wondering just some housekeeping items. You provided TPV growth for the acquiring channel through April and May; could you provide what the total consolidated TPV growth was for April and May?

Second, I wanted to return to the noncredit digital account losses, just some additional clarification. I mean it sounds like you are authorizing bill pay on credit cards; but did something went arraign you end up with a lot of chargebacks. Were these fraudulent bill payments for these? I am trying to understand what went wrong in that. I know it is one-time; but what went wrong in that authorization process that might be a learning experience for you?

And lastly, in the SMB hub business are you seeing a strong degree of software uptake? And to what degree are you seeing perhaps an omnichannel opportunity in the SMB software, in the SMB business and can you bring MoIP to address some of that? Thanks.

Mr. Ricardo Dutra, Chief Executive Officer

Hi Craig, this is Ricardo, thank you for the question. We must discuss here internally how it is going to be if you can give the TPV for PagBank. We did not give in this call, we just need to see what is the best way to give this disclosure. Of course it is growing a lot. We just closed May, but I mean we can discuss if we can make it public before next call. I do not have the answer to you at this point.

Talking about the digital account losses that you asked, we were aggressive in authorizing some transactions. The models for bill payments authorized more transactions than it should. So it is not credit-related, it is not NPLs related to loans or things like that; it is just that people came here to pay bills to credit card - that is the majority of the chargebacks - and we authorized some of the transactions that after we reviewed we should not have authorized. I mean, we were aggressive in doing that.

So that is what happened. There is no data leak, there is not like that; just people came here, decided to pay a bill and then we had these chargebacks. That is as simple as that.

Regarding SMB and hubs yes, they are using our softwares although we know that our software at some point they are very complete; but to some type of merchants they require something more sophisticated; but at the end of the day what we are looking here, we are bringing the merchants that are 4 to 5x larger than longtail. So they are still small, they are not very sophisticated; part of them could be omnichannel.

But we know that part of them will not be omnichannel because of their business. It is just the guy from the restaurant sometimes he is going to find a new platform to make delivery and PagBank will not provide that for him, although we have a small platform. Just to give an example here. The guy that has an auto parts probably will not sell, will not fix cars and reach these customers through online.

So we see some opportunity for omnichannels. For those who we think that is feasible we can offer solutions, link of payments and things like that; but I would say you the majority of them still today they are not omnichannel; they are more physical stores, because we are going in the bottom of the pyramid of SMBs. So they are not well sophisticated for softwares and part of them are not ready for omnichannels - and that is fine.

At the end of the day what we want is to bring them for acquiring and make them to use PagBank, get the data at some point, increase the relationship, strength the relationship with them. We could offer credit and credit cards and so on. So our idea is much more to have the financial services embedded with our solution than other solutions at this point.

Craig Maurer, *Autonomous Research*

Thanks. And are you seeing any change in behavior around PIX? Any P2M transactions or is it still mainly a P2P channel?

Mr. Ricardo Dutra, *Chief Executive Officer*

Well Craig, we do not see PIX hurting our acquiring business or people using PIX to make payments. What we see is PIX replacing wire transfers. So let us say if you had a bill that you used to pay through wire transfer, so people did not use cards, now they are using PIX because PIX is free and is instantaneous and the on; but we do not see PIX cannibalizing our acquiring business, as you could see in our growth 58% YoY.

So that is the thesis that we have, the hypothesis that we have from the beginning since when started talking about PIX in the beginning of last year: PIX is much more to replace wired transfers, at some point replace cash and help digitization of some people in Brazil - and then we can take advantage by offering PagBank and you could see that we are growing more than 1 million PagBank clients per quarter.

Craig Maurer, *Autonomous Research*

Thank you.

Mr. Ricardo Dutra, *Chief Executive Officer*

Thank you.

OPERATOR

Our next question comes from Mario Pierry with Bank of America. Please Mr. Pierry, go ahead.

Mr. Mario Pierry, *Bank of America*

Good afternoon everybody, congratulations on the results. Let me ask you two questions as well, primarily related to revenue generation. How should we think about the direction of your take rate on the acquiring business, taking into consideration the expansion, the hub expansion and also taking into consideration that the economy is opening up? So we should see a better mix of credit versus debit?

And also when we think about the take rate on PagBank I think it is fair to say that PagBank is growing much faster than we anticipated, so I was wondering if you think that you can achieve your target, your soft target of 30% of revenues coming from PagBank three years from now, if maybe you could anticipate that? Thank you.

Mr. Ricardo Dutra, *Chief Executive Officer*

Hi Mario, this is Ricardo, thank you for the question. Regarding acquiring take rates as you could see we grew 17 bps in 1Q versus 4Q, even with more TPV coming from SMBs, which has a lower net take rate because they are a little bit larger merchants. So looking forward what we expect from the

acquiring take rates to be stable; there is going to be some variation here and there, but to be stable because we are going to have more clients coming from hubs, would put some pressure in the net take rate coming down.

On the other hand, we have the tailwind that is the mix of payments, more credit. So what we can, looking forward here this year we expect to be stable or improve a little bit - but let us see how it is going to be. In Brazil we have a lot of ups and downs and lockdowns suddenly, unfortunately the rate of vaccination is not going pretty fast as we see in other countries, some people talking about third wave, some cities making lockdowns, some other opening. So it is still a lot of uncertainty; but to give a soft guidance here let us consider it stable, even with the pressure coming from the hubs, which in our opinion is a very good performance.

The other question about the 30% PagBank it is hard to say if we are going to be able to make it earlier than that, Mario. We prefer to keep the 2024, let us follow the following quarters and then we can update. What we saw in April is a good level of revenues in April, much better than in 1Q. Let us wait a little bit and then we can update it - but it is feasible to have before that; I just do not want to affirm that at this point.

Mr. Éric Oliveira, Head of Investor Relations

Hi Mario, this is Éric. I would just like to reinforce here that we will reach 30% in one of the quarters in 2024. This is not an easy task, right? Because we have seen payments grow very fast and solidly, right? And even our new verticals such as hubs and the online. So it is a hard task here; but we continue to be committed to these 30% in one of the quarters in 2024, thank you.

Mr. Mario Pierry, Bank of America

Okay. Let me follow up then here on PagBank. Even if we add back these losses that you booked of 73 million BRL, we are calculating revenues per clients of about 24 BRL; is that about right? And when we look in 1Q we had around 27 and one year ago at around 27. Any reason why revenues per client are coming down at PagBank?

Mr. Ricardo Dutra, Chief Executive Officer

Well Mario, we should make the math here just to be at the same numbers that you have; but usually the dynamics for PagBank monetization are the following: we bring the clients, they stay here for a while, they start using, engaging with this solution and then we see monetization afterwards. So there is some lag between bringing the client and having the revenue. So that is why at some point we see the number of clients coming to 9.1, but the revenue is not coming at the same pace because it takes a while.

And that is even more true if we think about consumers, because the consumers do not have the automatic cash out that we have from the acquiring clients. So even if the client loves our app and it is easy to use, very good UX and so on, if he does not have any money there we cannot do anything. So that is why we see some lag between bringing the client and then the revenue. So that is the main explanation of that.

We also said in the presentation, for some of the clients we decided to give free ATM withdrawals, which should bring revenues a little bit down. It is not material; but of course it does not help. So those are the main reasons here; but the main reason, the main driver is the lag between bringing in the client and having the revenue from this client.

Mr. Mario Pierry, Bank of America

Very clear and just a final follow-up then on PagBank here. I think in the past you had thought about maybe breaking even at PagBank in 2H NY; is that still your view?

Mr. Ricardo Dutra, Chief Executive Officer

Yes, that is our view, that is our view.

Mr. Mario Pierry, Bank of America

Thank you, thank you.

OPERATOR

Our next question comes from Jeff Cantwell with Guggenheim. Please Mr. Cantwell go ahead.

Mr. Jeff Cantwell, Guggenheim

Hi, thanks for taking my question. Can you hear me?

Mr. Ricardo Dutra, Chief Executive Officer

Yes.

Mr. Jeff Cantwell, Guggenheim

Great, great. I wanted to ask you one quick question on PagBank. Your earlier PagBank clients amounted 1 million over the course of two years, which is impressive, and the active current basis increased by over 3x, while you also lay in new products and clearly they are seeing, taking more and more adoption.

I think that all suggests that your average revenue per user should continue to increase, perhaps continue to normalize. Do you agree with that idea? And the reason I ask this is because we see other banks, some in Brazil, with fairly high average revenue per user numbers.

I think it is still early days for you guys; so I am just curious if you agree with that view and if you could give us some updated thoughts on what your (incomprehensible 53:00) in PagBank might go to overtime. Any color or thoughts there would be appreciated, thanks very much.

Mr. Ricardo Dutra, Chief Executive Officer

Hi Jeff, thank you for the question. I was trying to explain that as well for Mario; but yes, in the medium-to-long term we expect the revenues from PagBank users to go up. That is one of the drivers for us to reach the 30% of the revenues of the company coming from PagBank by 2024.

What we have here is that there is a longer time between opening the account and starting generating revenues - and this is even more true when we have the consumers, because the consumers

the consumers do not have the cash in. So it will open the account and then wait to receive the card and then they are going to receive some money here, some wired transfers from other banks or PIX or the payroll or so on.

But yes you are right, we are bringing these clients, that is the first; let us say we have this framework to bring the client, engage and then monetize. I would say we are between the first and seventh step today; we are still having lots of accounts, millions of accounts every quarter so bringing new clients. The engagement is increasing, monetization is happening; but it does not happen at the same pace, there is this lag between bringing the clients and then start monetizing - but looking in the medium term that is the idea.

I said before we are running some pilots with consumers, making some additional products to them, testing with them. We are going to have, in a few weeks we are going to have equities here, so people could buy stocks here; we are going to have treasury bonds; we have just launched two options of insurance: personal insurance and home insurance. So the idea is to make this cross-sell and increase the average revenue per user in PagBank. That is the idea, that is the dynamics that we expect to happen.

Mr. Jeff Cantwell, Guggenheim

Great, I appreciated that and then a quick follow-up on PagPhone. I was hoping you could give us some thoughts on why now? Just have a few hints to the strategy, and maybe just kind of consolidate your thinking on the acquiring side, why you are going one-stop shop some micro merchants, and how that might sort of be a driver for you guys maybe in terms of net adds, volumes etc., Thanks.

Mr. Ricardo Dutra, Chief Executive Officer

Yes. So you are right, that is exactly for the micro merchants or the longtail. We do not think that is a device for someone who has a lot of transactions every day, because POS is better for this type of volumes when you have a lot of transactions then when you have a few transactions per day.

So it is focused on the micro merchants. Everyone has a smartphone, some of the guys used to have smartphone and pair through Bluetooth with our mPOS, with Minizinha. So the idea here is to have everything is one device. They already receive the device with a PagBank account, because they create this account when they buy the device, they create the log-in and password, so they have the app there, they can order a card and so on. So the idea is to have an additional option for the longtail for the micro merchant.

The average ticket is much higher than other POS, so although we are selling better than we expected we do not have the same volume is that we have for a smaller POS and Minizinha Chip and things like that, because of the price - but it is doing well. The idea, as you said, is to have for the longtail one-stop shop, people can use it as a POS, acquiring digital account and as a smartphone - it is a very good smart phone by the way, with cameras and so on. So that is the idea.

Mr. Jeff Cantwell, Guggenheim

I appreciated all the color, thanks again and congrats on the results.

Mr. Ricardo Dutra, Chief Executive Officer

Thank you Jeff.

OPERATOR

Our next question comes from Rayna Kumar with Evercore. Please Ms. Kumar, go ahead.

Ms. Rayna Kumar, Evercore

Good evening, thanks for taking my question. Really good to see the Strong TPV coming out of PagBank, and of course your acquiring. I am just curious to understand if COVID-19 had any material impact on the prepaid card (incomprehensible 57:27) they make in, with PagBank.

Mr. Ricardo Dutra, Chief Executive Officer

Hi Rayna, thank you for the question. The reason that our revenues in PagBank were not even higher than what they were is because we did have some impact that people not using prepaid cards, because the cash in and even the corona voucher from the government did not happen in 1Q, and also people using less cash. We also make some revenues from people taking the money through ATMs, we charge some tariffs there; there was a decrease in that, people at home not using cash.

So that is part of the explanation why the revenues from PagBank in 1Q were not even higher. So it is not a big issue, it is good volumes; we are still the number one in the prepaid cards in the country by far, and we are sure that once the economy rebounds we are going to have the rebound as well.

And part of our investments - I did not mentioned before - but part of the investments that we have been doing since 2020 and 2021 is because we know the COVID, although it is a little bit longer in Brazil when compared to other countries, COVID is something temporary and the economy will rebound, and when the economy rebounds we just want to be ready to take advantage. That is what we did in 2020, that is what we did in 2021. That is why we were at the company with the highest growth in terms of TPV in our market taking share from others, creating this new market, bringing these new customers.

So but going back to your question yes, there was a little bit impact in the prepaid card because of a little lower spending in the prepaid cards in 1Q - but this is something temporary, it is not a big issue.

Ms. Rayna Kumar, Evercore

Got it, very helpful and then on your hub strategy you gave us some clues on your potential volume contribution from hubs in 2021. Can you help us understand what the potential of revenue and earnings contribution could be this year?

Mr. Ricardo Dutra, Chief Executive Officer

Rayna, we can give you more color about the hub strategy when we think it is appropriate. Of course we are having this operation here trying to beat other companies that are already there on the street. So we are here the challenger, so we just do not want to give too much information about our performance at this point. We gave the guidance about TPV, once we think it is feasible to give more color on that we can give you. It is not because I do not want it; it is just because of competitive reasons.

We just do not want to give too much information about it, and let us have this operation up and running and then we can, when it is more mature we can give more color, even with more confidence about the numbers and our performance - but so far we are doing very well. We are beating our

estimates, that is why we said that we expect to be in the top of the range of TPV, which was 11% that is the guidance. So we are doing well.

Ms. Rayna Kumar, Evercore

Understood, thank you.

Mr. Ricardo Dutra, Chief Executive Officer

Thank you.

OPERATOR

Our next question comes from Tito Labarta with Goldman Sachs. Please Mr. Labarta go ahead.

Mr. Tito Labarta, Goldman Sachs

Hi good evening, thanks for the call and taking my question also. Maybe just one quick follow-up on PagBank. In terms of the client additions PagBank remains pretty healthy. Do you think, and you kind of alluded to it; but about 1 million clients per quarter is sustainable like for how long is that sustainable? Or maybe another way to get to the 30% of revenues how many clients do you think you would need to have? I mean, at the pace you are going to meet the over 20 million clients in a few years; is that a reasonable assumption?

And maybe in terms of the products that they use, is a sort of the main catch is just like the prepaid cards or which products do you think are generating the most interest among the PagBank clients? Thank you.

Mr. Ricardo Dutra, Chief Executive Officer

Hi Tito, thank you for the question. Yes, we do think it is feasible to have 1 million new clients per quarter. Hard to say when it is going to be over. I remember - just make a quick parenthesis here - but we have gotten this question about acquiring merchants in the past three years, how it could be sustainable, if it could be sustainable for us to add 1 million merchants per year, or 250,000 per quarter - and we are doing this since 2018, since we became public.

So every year at some point we think it is going to be a challenging one; but we always beat our estimates because we are still playing in a huge market. So in terms of merchants we expect to have 30 million people in Brazil that work by themselves or they may need a POS. So there is still, according to our estimates here one third penetration at this point.

In terms of PagBank some estimates say that we have 25 to 30% of people without a bank account. Even after COVID, with all this utilization maybe it is a little bit lower than that - but it is still huge, and that is why we are recording 1 million, more than 1 million per quarter. We also said in the presentation here: we closed March with 9.1 and in May we already surpassed 10 million.

So we already added 900,000 in 2Q, in previous 2Q and we still have part of May and full June. So we think it is feasible to have this 1 million for a while. To be sincere, I do not have it on the top of my mind the number of clients in PagBank to give you a number; but you can imagine, we already have more than 10 million, I do not think it is impossible to have these 20 million that you mentioned.

And about why people come to us? I guess there are many reasons here: first, because of our brand, the strength of our brand; people know how we work, people know it is a company that you can have the confidence, you can put your money here; we have the distribution through UOL that covers more than 90% of eyeballs in Brazil, right after Google and Facebook; we invest in marketing; we have been investing in the account: we do a lot of research, how people use it, where they are having some difficulties trying to make it better, easy to use. It is very simple, just download the app and up to 3 min. you open an account, you send your picture and it is done.

And it is a full free account. People just come to us they know it is a free account, they can have interest in their balances and although we make it free for consumers or for the user, we are receiving money from the companies we are receiving the bills and so on.

So those are the main reasons: people come to us because it is free, the strength of the brand, the distribution, efficient distribution that we have an investment as well.

Mr. Tito Labarta, *Goldman Sachs*

Great, thank you very much.

Mr. Ricardo Dutra, *Chief Executive Officer*

Thank you.

OPERATOR

Our next question comes from Otavio Tanganelli with Bradesco BBI. Please Mr. Tanganelli, go ahead.

Mr. Otavio Tanganelli, *Bradesco BBI*

Hi, thanks for taking my question. I wanted to ask on PagBank as well. The credit portfolio increased a little over 200 million, or almost 200 million BRL QoQ. I wanted to understand if NPLs are behaving well and the economy is expected to improve in the coming quarters, why not accelerate loan originations, or when should we see, I would say, more aggressiveness in terms of the loan book here? Thank you.

Mr. Artur Schunck, *Chief Financial Officer*

Otavio, it is Artur speaking, thanks so much for your question, it is a pleasure to talk to you. So we are showing that we have better NPLs for credit; but we are conservative company, we have a lot of cautious about the uncertain of the market. As Dutra said, some people are saying that we could have a third wave here, or other issues related to COVID.

We do not know exactly when the economy will rebound; but we have all the conditions to accelerate. We are starting to do that in 2Q, and so you will see in the coming quarters better volumes, we will increase our portfolio in the right way. So we are understanding the models, understanding the NPLs, understanding the performance and growing the portfolio. We understand that this is the best way to do that, and so we have the conditions to accelerate more; but we are cautious related to the

economy, related to the moment that we are living in the country and so you will see in the future our portfolio growing.

Mr. Ricardo Dutra, Chief Executive Officer

And Otavio, this is Ricardo. Thank you for the question, good talking to you as well. We were ready to accelerate last year; but of course when you have the model and you have COVID with a lot of ups and downs and lockdowns there is a lot noise in data. So that is why we did not accelerate before, we just wanted to have the right moment to do. We are not in a hurry to do that; we know it is important, we just want to do it in the right way.

We see some other players in the market doing some aggressive growing in the portfolio and the NPLs will come; we know that and you know that, so that the NPLs will come if you do not give the right credit for the right person, and you do not have the collection processes and so on.

So we just want to be ready and be confident that it can accelerate a little bit. We are already with the 700, almost 800 million BRL, close to 1 billion. So we are growing; but step-by-step, not doing crazy movements here and we need step-by-step - but we will accelerate at some point that we think is feasible and we are confident to do so.

Mr. Otavio Tanganelli, Bradesco BBI

That is great guys, thank you.

Mr. Ricardo Dutra, Chief Executive Officer

Thank you.

OPERATOR

Our next question comes from Neha Agarwala with HSBC. Please Ms. Agarwala, go ahead.

Ms. Neha Agarwala, HSBC

Hi, thank you for taking my question and congratulations on the good results. Most of my questions are answered; but very quickly I know you can give more information on the hubs; but it seems like the hubs are doing quite well and exceeding the expectations. What do you think are the strengths of PagSeguro, which is helping you to gain clients in the small incumbents of the other peers? Is it the service quality, is the (incomprehensible 1:08:46) in it or are you doing something different on your distribution? So what are your strengths in that segment?

And my second question is on the monetization of the software opportunity. I mean you already have a good pace of (incomprehensible 1:08:58) you do software. So are you already monetizing it? Can you give us some (incomprehensible 1:09:07) comes from software and what is the opportunity that you see here? Thank you so much.

Mr. Ricardo Dutra, Chief Executive Officer

Thank you Neha for the question. Let us talk first about the hubs. We always said, and we made this, we mentioned that during the presentation, that our thesis is that it is easier to go up in the pyramid than to go down when you think about the size of the merchants in terms of TPV. So we started with longtail as you know, we had all this platform that is very scalable, easy-to-use, self-service. So we have all this online DNA here that that we can serve the small clients here.

When you go up in the pyramid it is just a matter of distribution. The platform is the same, the solution is the same; the easier the solution the better for the merchant, it does not matter how is the size of the merchant; but if it is easy to use every merchant will like it, it does not matter if it is a small one or a big one. So it is a matter of distribution here, and as I said before we have a strong brand.

We see a lot of unsatisfied merchants in the SMBs, so at some point they do not have the right service and that is why we come there, and we can bring these merchants to us.

We have good the devices here. We have a portfolio of seven devices, the merchants also like our devices. So there are some components here that we can use, some instruments that we can use to bring these merchants. It is not a matter of price and try just beating the price; at some point the merchant even wants to pay you more if they have a good service. So that is the dynamics behind going to SMB; but we are proving here the thesis that it is much easier to go up in the pyramid than to go down.

And talking about software, the 8.5%, a very small part of that we monetize. We are not charging the majority of them, we are giving this software for free. We think that today it is not a lot of money; our merchant is not sophisticated to pay for software, so we are making here for free. At some point if we see an opportunity that we can charge we will do it; but from all the softwares that we have we have some premium features from the loyalty software, and also premium features from the conciliation software. The other softwares that we have in the point-of-sale that you can use put some products, coffee, croissant and all this stuff and then you just can have a database of clients, database of products, we are giving this for free. So today we are not charging. To be sincere a very small part of that is paying for our software. It could be an opportunity in the future; but we do not have that in the short-term plan.

Ms. Neha Agarwala, HSBC

Very clear, thank you so much for that and congratulations once again.

Mr. Ricardo Dutra, Chief Executive Officer

Thank you again Neha, thank you very much.

OPERATOR

That concludes our Q&A session. I would like to turn the floor over to Mr. Ricardo Dutra for his final remarks. Please Mr. Dutra.

Mr. Ricardo Dutra, Chief Executive Officer

Hi everyone. Thank you very much for your time. As you could see the company is doing well, all the KPIs are growing, number of clients, TPV, we are seeing a lot of traction in PagBank. So it seems

the worst is over in terms of the pandemic. We are not 100% okay in Brazil, still waiting for the vaccination; but it seems the worst is over, what we had in 2Q and 3Q last year. So the future is bright and thank you very much again, see you next quarter, thank you very much.

OPERATOR

The PagSeguro PagBank's 1Q 21 results conference call is now concluded. Thank you for your participation, have a good night and thank you for using Chorus Call. You may now disconnect.