Stone Co 4Q21 Earnings Conference Call

March 17, 2022

Operator:

Good evening, ladies and gentlemen. Thank you for standing by. Welcome to the StoneCo fourth quarter 2021 earnings conference call. By now everyone should have access to our earnings release. The Company also posted a presentation to go along with its call. All material can be found at www.Stone.co on the Investor Relations section.

Throughout this conference call the Company will be presenting non-IFRS financial information including adjusted net income and adjusted free cash flow. These are important financial measures for the Company but are not financial measures as defined by IFRS. Reconciliations of the Company's non-IFRS financial information to the IFRS financial information appear in today's press release.

Finally, before we begin our formal remarks, I would like to remind everyone that today's discussion might include forward-looking statements. These forward-looking statements are not guarantees of future performance and therefore you should not put undue reliance on them. These statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from the Company's expectations. Please refer to the forward-looking statements disclosure in the Company's earnings press release.

In addition, many of the risks regarding the business are disclosed in the Company's Form 20-F filed with the Securities and Exchange Commission, which is available at www.SEC.gov. I would now like to turn the conference over to your host, Rafael Martins, VP of Finance and Investor Relations Officer at StoneCo. Please proceed.

Rafael Martins - VP of Finance and Investor Relations Officer

Thank you, operator, and good evening everyone. Joining us here today we have Thiago Piau, our CEO, Lia Matos, Chief Strategy Officer, and Marcelo Baldin, our CFO.

Today, we will present our fourth quarter 2021 results, discuss some recent trends and provide an updated outlook for the business. I will now pass it over to Thiago so he can share some key messages and highlights of our performance. Thiago?

Thiago Piau – CEO

Thank you Rafa, and good evening everyone.

I want to start today’s call by taking a moment to reflect on our performance in 2021, the challenges we encountered and what we learned from them.

Then I want to discuss the core strengths in our business that have enabled us to continue to grow fast and take market share, despite all the problems we faced last year.

And finally, I will review some recent trends we’re seeing in the business, why I have such confidence in our outlook, and why I think Stone is poised to benefit in 2022 and beyond.

So, let’s start by reflecting on 2021…

This past year was unsatisfying for Stone. We executed well in some areas, but we certainly made some mistakes.

We took an aggressive approach…this is how we built the company…and how we helped lead the FinTech revolution in Brazil. But I think at the end of the day we tried to do a lot last year, and we simply did not execute as well as we would have liked.

We ramped up our **credit offering** quickly, but we did not manage this expansion well. Our execution challenges were magnified by the problems of the national registry system, which we were ALSO not well prepared to deal with. So, in mid-2021 we decided to pause our credit operations, regroup, learn from our mistakes and go back to the drawing board.

In prepayment, we delayed re-pricing our solutions when interest rates in Brazil began to rise. We didn't want to hurt our customers with higher costs – which we felt we could absorb for a while, but in the end, the impact was too much on our bottom line and so we began re-pricing in November.

Despite these issues, we did not want to slow down our expansion plans…so we continued making significant investments in the business, which increased our operating costs. In the fourth quarter, we almost doubled our selling expenses, excluding Linx, and continued to invest in building our TON product, banking ecosystem, software solutions and enhancing our technology and customer service, which remain a key competitive advantage for Stone.

In hindsight, we should have spread out some of these investments to ease the near-term pressure on our bottom line – but I think overall it was the right strategy for Stone to lay the groundwork for strong growth and market share gains over the next few years and I am already encouraged by the early results.

Ultimately, I think we lost some of our focus and execution precision as we managed all of these issues, while at the same time also integrating Linx, an entirely new part of our business. As a result, our performance suffered and our profitability declined, so 2021 was not our best year.

However, to be fair, we also did some pretty good things last year. We learned a lot from our mistakes, corrected our course, and despite all of our problems, we still produced very strong top line growth.

In the fourth quarter, we generated 87% revenue growth year over year (60% excluding Linx), which was our best performance since the third quarter of 2019. During the quarter we also:

- Produced a record number of new client wins
- Accelerated our TPV growth
- Executed well in the MSMB segment, with a big win in the micro merchant space, which is new for us
- Continued to expand our banking ecosystem, and
- Generated double-digit organic growth in our software solutions

So the core growth engine of our business remains quite strong. We are winning clients, taking market share and expanding our footprint to lay the foundation for future top-line and bottom-line growth.

We learned a lot from last year's challenges, and we have also made some important changes in our structure and management team to strengthen our execution capabilities.

We are reorganizing the company into two operating segments – Financial Services and Software, which we will begin to report in 2022.

The Financial Service segment is the Stone Payments, Digital Banking and Credit business. The Software segment will bring together Linx and all our other portfolio companies. We think this will provide greater transparency. As Lia will explain later, Software is a strategic priority for us, and we will continue to drive growth and expansion in this area as well.

Now let me shift to our outlook for this year, which is quite positive, with strong growth and improving margins.

I think we are well positioned for 2022. The investments we made in our products and operations will continue to help us drive growth on top of our strong core business which keeps taking market share. In addition, the lessons we learned and the changes we made last year have positioned us to improve profitability this year. Looking at both top-line and bottom-line performance, I feel that 2022 will be a good year for Stone.

I will discuss more of our outlook toward the end of our call.

I will now pass it over to Lia who will provide more detail about our fourth quarter performance and strategic direction. Lia?

Lia Matos – Chief Strategy Officer

Thank you, Thiago, and good evening everyone.

I will start on slide 5 with key performance highlights. In the fourth quarter, we had very strong top-line growth, with weaker profitability driven by the increase in funding costs resulting from the challenging macro scenario.

On the top-line, growth pro-forma for Linx accelerated to 51% year over year in the quarter, compared with 26% growth in the 3Q21. This performance was largely driven by 87% year over year TPV growth in MSMB and by growth in our payments client base, which more than doubled to 1.8 million active clients, compared with our previous guidance of between 1.4 and 1.5 million clients.

Pro-forma for Linx, software revenue grew 15.7%, driven by 26% growth in our core software business of POS/ERP solutions, offset by lower Linx sub acquirer revenues, a result of client migration to the Stone Platform.

Regarding profitability, adjusted Net Income was R$34 million in the quarter, which, as Thiago mentioned, was negatively affected by higher financial expenses resulting from a spike in CDI rates and our delay in repricing of clients, which we started in November and scaled in December and January. As we will highlight in the end of the presentation, we expect profitability to begin to recover in the first quarter.

Let’s now take a deeper diver into each of our two businesses. I’ll talk first about the Financial Services business, on pages 6 to 11, and then move to Software on slide 12.

In our Financial Services business, we serve both MSMBs (micro, small and medium businesses) as well as Key Accounts, which we separate into sub acquirers and platform businesses.

On slide 6, we show the evolution of our payments client base in the MSMB segment. Last year, we changed our approach to serving this segment. Previously, our sales strategy was to offer TON products to micromerchants *only*, and to offer Stone and Pagar.me solutions to our larger SMB clients. However, we discovered that some clients prefer a different mix of solutions or even a combination of solutions, regardless of their size. So, we changed our approach to better meet their needs. We now focus on the *offering* sold into the client base, rather than just on the size of the client’s volume.

During the quarter we reached 1.7 million MSMB clients, by achieving record net client additions of 367 thousand, compared with 290 thousand in Q3. Of these new additions, 312 thousand are using our TON solution and 56.7 thousand are using Stone and Pagar.me products.

As a result, we grew the average TPV of TON in the quarter almost threefold last year, and we increased average Stone and Pagar.me TPV by 22% over the same period. We believe that this new balance between TON and Stone products yields a better value proposition for our clients and better returns for our company.

On slide 7 we show that the TPV for MSMBs has grown 87% year over year, reaching R$66.7 billion, accelerating over the third quarter, when it grew 81%. TON continued accelerated growth, roughly in line with last quarter at a 21-fold year over year increase, while growth accelerated in Stone and Pagar.me, with TPV growing almost 72% year over year, compared to roughly 70% in the third quarter. Although our competitors don’t disclose their main growth metrics broken down by segment, we believe we had strong market share gains within the MSMB segment in the fourth quarter.

On the right side of the page, we show that we have been increasing Take Rates in MSMBs, from 1.66% in the third quarter to 1.71% in the fourth quarter and 2.02% in January 2022. January take rate figures reflect the positive results from scaling the waves of client repricing that started in November. Combined with the repricing, MSMB TPV growth both in January and February remained very strong, above 80%.

On slide 8 we show in more detail the initial recovery from higher interest rates after we started making pricing adjustments. As you can see, average monthly interest rates increased fast during 2021, raising our funding costs, especially in our prepayment business. As Thiago mentioned, we decided not to pass along those higher costs to clients right away and started to do so in November. With that, in the first quarter of 2022, we already see positive results and expect higher take rates, combined with better margins. Given the still expected CDI increase along 2022, we will have a more dynamic pricing strategy throughout the year to achieve a healthy balance between growth and profitability.

Moving to slide 9, we have continued to drive the expansion of our banking ecosystem, which is an important part of our strategy. Banking services for small businesses in Brazil are still largely dominated by incumbent banks, and we see a huge opportunity to offer those merchants a one-stop solution for all their financial needs in an affordable way. The number of clients that actively use our banking solutions has increased almost 3-fold year over year to 492 thousand clients. The usage of our card as well as the total outstanding deposits that clients have with us have also increased significantly both year-over-year and sequentially from last quarter. Most importantly, we have been growing our banking client base while also increasing ARPU, which reached R$25 in the fourth quarter, growing 39% sequentially, driven by increased outstanding volume of deposits, card TPV growth and the initial scaling of our insurance solutions.

On slide 10, I want to update you on our credit business and where we are in terms of resuming disbursements to our clients. We are implementing five major fixes and improvements.

- First, we have completely revamped the product UX to a more simplified experience based on monthly installments paid through automatic retention using the Stone account’s cash-in. We believe this revamped UX preserves the strength of our original product through auto-retention, but improves client’s understanding of their payment schedules, more in line with a traditional credit product.

- Second, to decrease our reliance on the registry system, we have added personal guarantees to enhance protection against bad borrowers, with focus on maintaining a simple and frictionless onboarding process.
- Third, we will implement a new sale process and scoring system based on enhanced data ingestion from multiple sources, including a more rigorous assessment and detailed data input from our Hub sales personnel;
- Fourth, so that we can improve client lifecycle management and enhance recovery, we are rebuilding systems to improve client communication, have more flexible renegotiation analysis and agreements, improve the execution of warranties and better integrate with collection partners
- Lastly, as effective risk monitoring is one of the cornerstones of a successful credit business, we are implementing an improved Risk Monitoring System to effectively resume disbursements with a more robust risk management.

We will begin testing these improvements with clients in the second quarter of 2022. We will take a conservative approach to scale in order to observe client behavior in more detail. In addition, we also expect to launch a business credit card for SMBs in the 2H22. Despite the initial challenges we faced with the legacy credit portfolio and operation, we are committed to resuming credit offering to our best SMB clients, as this is such an important solution for them. The opportunity is huge, and we are confident we will be better prepared to have a compelling offer that is great for our clients and at the same time profitable for us.

Our legacy credit portfolio is performing in line with our expectations. This quarter we had a cash inflow of R$430 million from clients paying us back, and we are close to receiving all the amounts we have disbursed since inception, de-risking principal capital. Given this performance in collections, the portfolio decreased to R$1.2 billion by December from roughly R$1.6 billion at the end of the third quarter and is recognized at a fair value of R$511 million in our balance sheet. Our coverage ratio decreased slightly to 98% in December, which is a natural evolution for a portfolio being phased out. In January we sold a distressed portion of the portfolio to a third party for R$12 million, above its fair value. We continued to collect payments on the remaining portfolio and have reduced its size to R$850 million at the end of January 2022.

Finally, moving to slide 11, we show some KPIs for our Key Accounts business within Financial Services. TPV excluding Coronavoucher was roughly stable in the quarter compared to last year at R$22 billion. There are two different dynamics in our Key Accounts business: we continue to de-prioritize sub-acquirers, in which we had a volume decline of 28% year over year, while our platform services business continues to grow fast, up 93% year over year. Our sub-acquirer volumes should continue to decline significantly in 2022 with a very limited impact on our bottom line. As we penetrate the pool of TPV within the Linx client base, we expect this to drive overall TPV growth in Key Accounts. Take rate for Key Accounts was 0.82% in the quarter, higher than third quarter levels mainly as a result of higher prepayment rates and mix shift towards platform services, which have higher take rates as compared to sub-acquirers.

On slide 12, I would like to recap important advancements we have made on the software front. Since the closing of the Linx acquisition, we have taken an important step to integrate Linx and the portfolio of Stone’s software investments into a unified software division. We will focus execution of our enhanced software strategy along three main fronts:

- **The first one is Core software,** which is the driving force of our software strategy. Our core software business comprises POS and ERP solutions for multiple retail and service verticals; our TEF and QR Code gateways, that enable payments and PIX integration to the POS and ERP; our reconciliation solution, which enables reconciliation of all payment methods within the POS and ERP; and our CRM solutions. Our focus in the core will be on driving organic growth through new locations and cross-sell, as well as inorganic growth through selected strategic acquisitions. In 2022, this front should represent approximately 85% of software revenues and should grow approximately 20%. We expect this part of the business to have 20% + EBITDA margin levels.

- **The second is Digital Solutions,** where we will focus on enabling our core clients to digitize. Digital comprises the OMS, our omni-channel solution for physical stores; our ecommerce platform, engagement tools that help retailers to better reach consumers online; our Marketplace Hub, that helps merchants sell in multiple marketplaces through a single integration; and our Ads solution. This part of the business should represent 15% of software revenue in 2022 and grow approximately 20%. We still expect negative margins in digital in 2022 as the business continues to mature.

- **The third front is the integration and cross-sell of Financial Services.** This used to be the Linx sub-acquiring business, which is nearly shut down because we have migrated the majority of clients to the Stone Platform. We will focus this strategy on cross-selling Stone Financial Services to our software client base. In 2022, we expect to have positive contribution margins, as we execute this cross-sell strategy.

Now let’s talk about performance of the Software business.

Our revenue from Software solutions reached R$328 million in the quarter, up 8x compared to last year or 15.7% pro-forma for Linx. When we look more closely on at the growth trends across the different software fronts, we see very different growth dynamics.

Core software had strong growth of **26% year over year**. As we show in more detail in our Earnings Release, the number of locations using Linx POS/ERP solutions increased **11.7%** year on year, reaching **109 thousand** locations. **Linx Digital** solutions grew revenue by 20% year over year and **Linx sub-acquiring** business had a revenue decline of 53%, as we discontinue this operation and transition it to Stone’s payments platform as I just described.

Overall, given the early stage of many of the software solutions and the work we still have to do in cost management, integration of companies, and synergies with our Financial Services business, software is still dilutive to margins. However, in 2022 we expect margins to improve as our business scales and we advance in these fronts.

Finally, on slide 14, we show some encouraging initial results of penetration of Stone’s financial services into the Linx client base. TPV from Linx’s clients processed by Stone has increased 116% year over year in the fourth quarter 2021 to R$5.9 billion. This was largely driven by the migration of Linx Pay volumes, but also by the cross-sell of Stone solutions in Linx client base, as well as natural overlap as Stone continues to grow organically. Compared to the second quarter, which was the latest quarter before the closing of the deal with Linx, volumes grew 47%. In the 4Q21, we estimate that our TPV represented approximately 13% of Linx client base, up from 8% in the fourth quarter 2020, and still with a big opportunity ahead.

Now I would like to pass it over to Rafael, so he can discuss in more detail some of our key financial metrics. Rafa?

Rafael Martins - VP of Finance and Investor Relations Officer

Thanks, Lia.

Starting on slide 16, I'll highlight some aspects of our 2021 performance. While our Adjusted Net Income decreased to R$203 million, our Adjusted Cash Flow from Operations increased by 40% compared with 2020, reaching R$1.1 billion. That increase is mainly because some of the factors that affected our P&L in 2021 are non-cash items, such as the fair value adjustments related to our credit business. Cash Net Income, which grew 20% year over year, was the main growth driver in our Cash Flow from Operations.

Our Adjusted Free Cash Flow for the year, was negative R$214 million, impacted by two decisions we made, that although very accretive to the business, generated additional cash outflows in the year.

- **First**, we decided to significantly increase our Capex in the fourth quarter to R$548 million compared with R$50 million last year to make advance purchases of POS terminals, de-risking 2022 growth amid supply chain uncertainty and microchip shortages. This proactive investment resulted in significant reductions in our POS lead time.
- **Second,** we prepaid R$230 million of marketing expenses in the first quarter 2021, which was fully funded by cash received from Grupo Globo and is still mostly available for us to use.

We believe that those two measures were appropriate and necessary decisions for our business, strengthening our value proposition and our ability to grow at a strong pace. And of course, when we look at Capex for the coming quarters, it should decrease substantially compared to the fourth quarter.

Excluding the cash outflow from those two pre-emptive investments, full year Adjusted Free Cash Flow would have been positive and at a similar level as full year 2020. Despite the negative headwinds and challenges we have highlighted throughout 2021, excluding these investments, we are continuing to generate solid Adjusted Free Cash Flow, while driving strong growth and investing in existing and new solutions.

In the following slides I will provide more detail about costs and expenses that drove our bottom-line result.

On **slides 17 and 18** we show our P&L for the quarter (as reported on page 17 and pro-forma for Linx on page 18). In order to provide more transparency and help investors better understand our results, we have included this quarter our Adjusted P&L, where we allocate the same adjustments we do for our Adjusted Net Income metric into each line item in our P&L.

As we provide a detailed analysis of each line item in our Earnings Release, including a discussion of the items excluding Linx, and have already talked extensively about top line, I will move directly to **slide 19** to focus on our **costs and expenses**, pro-forma for Linx.

Although we continue to increase investments in our business, we are implementing and will continue to implement in 2022 more measures to better rationalize costs and expenses. We believe this is healthy for the business and for our culture of ownership. Compared with last quarter, we realized operating leverage in cost of services, administrative and selling expenses, which were all lower as a percentage of revenue compared to the third quarter. Financial expenses as a percentage of revenues continued to increase this quarter, as a direct result of the substantial increase in CDI, while we only started our waves of repricing in November.

Starting with **Costs of Services**, we saw a 96% year over year increase in the fourth quarter, growing from R$329 million to R$646 million. As a percent of revenue, costs of services increased from 26.4% in the fourth quarter 2020 to 34.5% in the fourth quarter of 2021, an **8.1 percentage point** increase.

Within that increase, 3.7 percentage points was a result of the lack of credit revenue and 2.7 pp increase was driven by costs related to our registry business, which is a very early-stage business – it started operating in June 2021 – and therefore still negatively impacts our margins. We also increased investments in technology, customer service and logistics. Most of our costs tend to increase with the growth in our client base. We expect that, as our registry business matures in the coming quarters, it should breakeven and start contributing positively to our pre-tax earnings. Also, we believe we can improve efficiency in costs related to data center, cloud cost and other overall costs.

Looking at **Administrative expenses**, we have gained operational leverage both year over year and on a quarter over quarter basis. Administrative expenses grew 41.7% year over year to R$230.5 million, decreasing from 13.1% of revenue in the fourth quarter 2020 to 12.3% of revenue this quarter. Main drivers of growth in this line are personnel expenses and third-party services. Although we are already seeing operational leverage here, we will seek additional efficiency as the business scales and we rationalize back-office expenses both in Financial Services and Software.

Our **Selling expenses** increased 73.4% to R$318.4 million, going from 14.8% of revenue in the fourth quarter of 2020 to 17% this quarter. This increase was mainly due to higher marketing expenses and investments in salespeople. We have been expanding our sales team in the hubs with a focus on increasing coverage density in existing regions.

Compared with last quarter, selling expenses as a percent of revenue decreased 4 percentage points, mainly due to operating leverage and slightly lower marketing expenses. We are constantly measuring the unit economics and payback of our CAC, and selling expense is an important part of the calculation. Following the November and December repricing waves, our CAC payback of 8 to 13 months remains highly accretive and the reason why we continue to increase our selling investments compared to last year.

Financial Expenses were R$610.6 million in the quarter, roughly 8 times last year levels. This increase was mainly led by higher funding costs combined with strong growth of our prepayment operations. Higher cost of funds is the result of a combination of several factors:

- **First**, a higher base CDI rate in the country, which from 1.9% at the start of the year to over 9% by year end;
- **Also, there** was some change in our capital structure, with a higher percentage of third-party capital being used to fund our prepayment business;
- **Finally**, we had approximately R$90 million of financial expenses in the quarter arising from the sale of receivables to our new FIDC. As we assigned longer duration receivables to this fund, the result was a higher-than-usual impact in the fourth quarter.

As we started to reprice our clients in mid-November, we are already seeing a recovery in profitability, and in the first quarter of 2022 that will be translated into higher overall margins for the prepayment business when compared with the fourth quarter.

Now, I would like to pass it back to Thiago, so he can close the presentation with our 2022 priorities and outlook. Thiago, back to you.

Thiago Piau – CEO

Thank you Rafa.

As I mentioned earlier, and we announced today in a separate press release, we have taken important steps to reorganize the business and bring in new seasoned and talented people to strengthen our team. We believe these changes will help us simplify the management of our operations, enable our team to focus and manage our bigger and evolving mission more effectively, and create greater strength and depth of expertise across our management structure.

To highlight a few of these new appointments:

- **Caio Fiuza**, who was the head of our micro-merchant business TON, was appointed COO of our Financial Platform Division.
- **Gilsinei Hansen**, previously the Head of Linx Core, was appointed COO of our Software Division, which encompasses our Linx business and Stone's portfolio of software solutions.
- **João Bernartt**, former Board Member of several retail companies in Brazil and founder of Chaordic, has joined the Company as Chief Information Officer, leading our efforts in product, technology, and data, with greater focus in the Financial Platform Division.
- **Sandro Bassili,** former VP of People of Anheuser-Busch InBev, is our Chief People and Management Officer, leading a big part of our organizational and management system changes, as well as maintaining a focus on talent attraction, development and retention, a hallmark of the Stone culture.
- **Diego Salgado,** former Executive Director in the Latam Debt Capital Markets team at JP Morgan, has joined our team in 2021 as head of treasury.

In terms of the business reorganization, from the first quarter 2022 onwards, we will report our financial results in three reportable segments: (i) Financial Services, (ii) Software and (iii) Other Segments. We believe this will also provide more transparency to the market, helping investors better understand the drivers behind our performance.

Our 2022 priorities for each business are presented on Slide 20.

In Financial Services, given the expected ongoing increases in CDI in 2022, a key priority will be balancing profitability and growth through a more dynamic repricing strategy.

We will continue to execute on our product roadmap to become the one-stop shop financial services solution for our MSMB clients. And in this rising interest rate environment, the banking strategy becomes even more compelling, as shown in our recent ARPU evolution. For these reasons, evolving our banking offering will also be a key focus this year.

On top of this, we are obviously focused on re-launching our credit offering in 2022. We are certain that credit is one of the most pressing needs of our clients and a huge opportunity for us. We also believe that we are well positioned to win in this segment given the proximity with clients built into our business model and the experience we had through our over 100 thousand clients to whom we have previously extended credit. In addition to re-launching our working capital solution in the second half of 2022, we are also building a business credit card and an overdraft product for SMBs.

In Software, most efforts will be concentrated on driving organic growth and margin improvements in the core, and continuing to pursue selected strategic inorganic opportunities, an important part of our software growth playbook. We will also focus on digitizing the core client base. And, as Lia discussed, we see an attractive opportunity to increase penetration of financial services across our software client base, with our initial focus being on payments and banking. We will also begin to explore different models by which to leverage our distribution, scaling our software solutions to SMBs.

Finally, three elements will be key to a successful execution of those priorities:

- **First**, the evolution of our management structure and a strong team, which is underway, as I have mentioned;
- **Second**, our continued investments in technology to advance our multi-product strategy and,
- **Lastly**, the discipline to maintain a strong balance sheet and liquidity levels.

I would like to close with some specifics on our first quarter 2022 outlook for the business:

- We expect revenue growth to accelerate in the 1Q22, with Total Revenue and Income between **R$1.85 and R$1.90 billion**, representing year over year growth of between **113% and 119%,** or **67% and 72%,** proforma for Linx.
- We expect Revenue growth to be driven substantially by the growth of our MSMB business, projected to reach TPV between **R$58.5 and R$60.0 billion**, representing year over year growth between **79% and 83%**.
- A natural effect of the repricing waves initiated in the fourth quarter is expected to be a lower pace of net client additions in the first quarter.
- We expect to see an improvement in profitability, with **Adjusted Pre-Tax Earnings above R$ 140 million in the 1Q22**, coupled with ongoing heavy investments in our business.
- **In summary, for 2022**, we will continue to invest in our growth avenues and strategic priorities, while improving our margins.

With that said, operator, can you please open the call up to questions?