Stone Co 1Q20 Earnings Conference Call
May 26, 2020

Operator:

Good evening, ladies and gentlemen. Thank you for standing by. Welcome to the StoneCo first quarter 2020 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, Investor Relations Executive Officer at Stone. Please proceed.

Rafael Martins - *Investor Relations Executive Officer*

Good evening, everyone, and thank you for participating in the call and I hope all of you are safe. We have today in our call Thiago Piau, our CEO; Lia Matos, Chief Strategy Officer and Marcelo Baldin, CFO.

On this call, we'll present our operational and financial results for the first quarter 2020, as well as some updates regarding operating metrics of our business in the beginning of the second quarter. I will pass it over to Thiago so he can share with you the main highlights of our performance. Thiago?

Thiago Piau – *Chief Executive Officer*

Thank you Rafael and good evening everyone. Thank you for joining us today.

As we are facing unprecedented times with the outbreak of COVID-19 globally, I hope that all of you and your loved ones are safe and healthy.

Before we start, I would like to highlight that we continue to be extremely confident in our business, as it remains financially very strong and continues to grow double digits year over year with healthy profitability. We believe the tactical and strategic steps we have taken puts us in the right direction to generate long term value.

In mid-March, when the severity of the COVID-19 crisis became clear, we took quick actions:

1. To protect the health and safety of our team and clients;
2. To help SMBs navigate this crisis and continue conducting their businesses by providing financial reliefs and additional tools to help them sell online;
3. To contribute to our community by funding public health initiatives and developing tools to support local businesses;
4. And, to keep our business financially strong, improving operational efficiency and allocating capital wisely

Despite some short term impact in our P&L, we believe we did the right thing supporting our clients and community in tough times, which is consistent with our culture and beliefs, and will strengthen our relationship with them over the long term. We have taken these actions during COVID-19 while maintaining our management diligence to make sure that this crisis will not compromise investments to support our future growth and long-term strategy.

Now, moving to the presentation, I would like to start on slide 3 by providing you some highlights in 4 main areas: 1) growth levels and financial position, 2) measures we've taken to help our clients and community, 3) important advancements in our financial platform and software strategies and, finally, some updates on the second quarter trends.

The first quarter had two clear phases: before the crisis, which has intensified in Brazil over the course of March; and a second phase after the outbreak, with its worst days in the second half of March, in which social distancing and store lockdown policies have significantly impacted retail activity, and consequently our transactional volumes, followed by a gradual but significant recovery in the months of April and May.

Before the outbreak, we were investing heavily in our operations and our investments were yielding great results, with an acceleration in TPV growth. TPV in the first quarter up to March 15th was growing 52% year over year, higher than fourth quarter levels, with the first half of March accelerating to 63% growth.

In the worst moment of economic activity, which happened over the course of March, we've seen a sharp deceleration of our volumes, with a 36% drop in the second half of March compared to the first half of the month and a decline of 4% compared to last year.

Even though this situation has caused many of our clients to interrupt their operations, either partially or completely, as I said before, we already see a gradual recovery, with TPV in April growing 9% year over year and up to May 23rd this has improved to 23% year over year growth.

Overall, in the first quarter we had a TPV growth of 42% year over year and take rate remained stable at 1.81%, even with approximately 6 basis points of impacts related to COVID-19. Impacts from COVID in our take rate are related to effects from a conservative approach to our credit product provisions, which we will talk in more detail, and to financial relief provided to our clients in the form of temporary subscription exemption and lower prepayment prices.

Regarding addition of new clients, despite our pace of growth being also significantly impacted in March by the lockdown dynamic, we still had a very healthy client base growth in the quarter, adding over 50 thousand clients, excluding micro merchants, reaching a client base of more than 530 thousand. It is important to note that from now on we will report separately the number of clients at Stone and TON, our brand of micro-merchants. Although we ended up the quarter with 50 thousand net addition of clients, prior to the COVID outbreak we were on track to grow net adds quarter over quarter as we have said before.

Our Adjusted Net Income reached R$162mm, with an adjusted net margin of 22.6%. This result already incorporates approximately R$61 million of one-off impacts associated with COVID-19, about which we will give you more color during this call.

We will keep reporting our adjusted net income in the same way as previous quarters so we have not adjusted our result for the one-off effects mentioned above and we will give you color on one-off effects separately as we think this is useful information.

Given the uncertain scenario, during the first quarter we decided to strengthen our balance sheet, which affected financial expenses. Our current liquidity ratio has improved to 1.7 in the first quarter, with our cash position increasing 43% year over year and a little over R$20 million compared to last quarter, reaching almost 4 billion reais at the end of March. This has enabled us to maintain our working capital solutions to our clients and become a liquidity safe harbor to them.

Unfortunately, we have also made the very tough decision to reduce our workforce by 20% in early May. We've conducted this difficult process with the same transparency, meritocracy and empathy to our team as always. We not only provided a generous package to those who left but we dedicated a team of Human Resource to help them find another good job through partnerships with other companies we admire. We will always treat with care those who dedicates their lives to the purpose of serving our clients with excellence.

Now, I want to highlight the <u>measures we've taken to help our clients and our community</u>. As I said before, supporting our clients, team and overall community are among our main priorities. Since the end of March, more than 90% of our team has been working from home. Also, we provided R$30 million in financial incentives to our merchants, committed 100 million reais in microlending, reprioritized our product pipeline and launched marketing and social commerce tools to help clients sell online.

We created a national campaign and a platform to encourage the public to buy locally and help small and medium businesses. The campaign, called "Compre Local", which means "buy local" in Portuguese, reached over 29 million views on YouTube.

We donated 8 thousand tests to a public hospital in São Paulo. Finally, we donated 5 million reais to finance the construction of a temporary hospital in Rio de Janeiro, which is the city where Stone was founded eight years ago, and is among the hardest-hit locations in Brazil.

While supporting our communities and clients during this unprecedented times, we made significant advancements with our integrated financial platform and the ecosystem of solutions to merchants.

In this moment of crisis, due to social distancing, online has become an important lever for businesses to continue to operate. We were born as an online payments company and we have many years of experience in the ecommerce space in previous companies, before even forming Stone. Since the beginning, we have developed a complete set of online solutions from Gateway and PSPs to processing and acquiring, focused on improving speed of transactions, availability, conversion rates, as well as providing settlement flexibility to adapt to different digital business model such as marketplaces.

As a result of our continued efforts in the online space, we estimate, based on eBit data, that during the beginning of COVID-19 outbreak in Brazil, from Mid-March to end of April, approximately 50% of all transactions in ecommerce in Brazil went through our platforms, either through our online acquiring solutions or through our agnostic gateway and PSP solutions.

Regarding digital banking, in April we had our record number of accounts being opened, with 35 thousand new accounts in the month, reaching close to 160 thousand accounts, as well as increasing level of transactional activity from our clients.

Moving to our credit product, we reached more than 386 million in total outstanding balance in the end of April, presenting a Return on Assets of 2.7% per month even after a conservative increase in provisions for potential COVID impacts. In fact, we are seeing our April cohort performing very well, which demonstrates our ability to adapt our credit policy to a new riskier environment.

Talking about our software initiatives, on top of the organic growth we presented, we've made four new investments to help SMBs manage and grow their businesses: MLabs, a leading social media platform for SMBs in Brazil; Delivery Much, a food delivery marketplace focused on small and medium cities; Vitta, a health plan management and Electronic Medical Records software company; and MVarandas, an ERP and POS software for food services with a strong presence in the Northeast of Brazil.

These inorganic investments, combined with our organic client base growth in software, will make the number of subscribed clients jump significantly. We will discuss a little more about those investments later in the presentation.

Given the unprecedented levels of uncertainty society is facing, this time we decided to exceptionally bring you the latest update on trends in our business and also share our view about the second quarter adjusted pre-tax margin.

Regarding transactional volumes, our TPV growth in the 2Q until May 23rd was up 15% year over year. When we double-click in May alone, until the 23rd, we were up 23% year over year. Additionally, we were able to improve service levels in the 2Q while working from home.

Two factors are helping our growth: one is the strength of our online business, which grew TPV 42% in April, when compared to January levels, with strong growth in our online SMB client base; the second, is the geographic diversification of our hubs, with 2/3 of hub volume being spread in cities outside the 27 state capitals, where 50% of COVID cases in Brazil are concentrated.

Regarding margins, despite the 2Q20 being the most affected by COVID-19, we expect an adjusted pre-tax margin between 20% and 24% in the quarter, already including one-off items such as severance costs related to our workforce reduction and incentives provided to clients, among other factors. So, to be clear, as we said, we will keep reporting our numbers the same way as always, with all costs and expenses included, and we will give you color on one-off effects in the second quarter separately as we see this as a useful information.

Before I pass it over to Rafael, I would like to summarize, as shown in slide 4:

- In the first quarter, we continued to invest heavily in our operations, producing strong top line growth and evolving fast to become the partner of choice of Brazilian SMBs, both in Brick and mortar and online operations
- When COVID-19 became a reality in Brazil, we took decisive actions to protect our team, clients and community. We increased operational efficiency through a redesign of processes and structure, rapidly reinforced our balance sheet and continued to wisely allocate capital in our strategic priorities
- Looking ahead, we keep focused on consolidating our presence in the SMB market, as well as in the online space, and we will continue to invest heavily to become the main financial platform for our clients, integrated with great solutions that helps SMBs better manage their businesses, grow and sell online. We manage our company for the long-term, aiming at a much bigger future and every day more Stone becomes a technology company with financial services embedded into its roots.

With all that said, I will pass it over to Rafael. Rafa?

Rafael Martins - *Investor Relations Executive Officer*

Thank you, Thiago. I want to start on page 5, by reinforcing what Thiago said that we started out the year seeing very strong growth in our core operation as well as initiating a new cycle of our company to solidify our position as the partner of choice to SMBs.

Up to mid-March we were accelerating growth and investing heavily on the evolution of our platform with record investments in our technology team, when COVID-19 caused on March 11th the first local commerce lockdown in Brazil.

On page 6 we highlight some of the initiatives towards our clients, team and community. I would like to give emphasis to our actions in the health front, in which we provided a 24/7 telemedicine support to our team, as well as protective equipment and instructions to those few that are still working on the streets, mainly logistic green angels. Additionally we put emphasis through our campaign "Cuide do Pequeno Negócio" to provide tools for our clients to better navigate this crisis environment, such as MLabs and Delivery Much, as Thiago just mentioned.

Moving on to page 7, I want to detail some aspects about how we maintained a strong financial position through the onset of the crisis.

We implemented different measures to manage costs and expenses and did a technical resizing of the organization to better balance revenue and investments through a redesign of processes.

Since the crisis started, we maintained constant access to liquidity lines and kept our prepayment operations at full speed, prepaying our clients around 11 billion reais through the months of March and April, while increasing our cash position by 43% year over year to almost 4 billion reais at the end of the quarter. Our adjusted net cash position increased to R$5.1 billion, demonstrating the strong financial profile of the business.

We take cash flow management very seriously and we were impressed to see the hard work of our treasury team, reflected in our strong financial position. In our earnings release we provide further details of our cash flow dynamics.

On slide 8 we show the performance of our TPV so far in the year. We were accelerating our TPV growth until mid-March, when COVID-19 hit Brazil. However, in April, we already started to see TPV resuming growth on a yearly basis and in May, up till the 23rd, this growth rate jumped to nearly 23%. The right chart shows the evolution of our TPV for each period of 15 days, starting in the first half of March, which is indexed to 100. As you can see, we have been able to consistently recover our TPV and we are seeing volumes in the first half of May being equivalent to 87% of the volumes in the first half of March.

As seen on slide 9, there are two main factors which contribute to the positive evolution of TPV. The first is our geographic footprint in the hubs, where more than 60% of our hub volumes are in areas less impacted by lockdowns. Additionally, approximately 41% of our volume comes from digital and integrated partners, with more than 180 clients transacting at least 1 million reais in TPV on a monthly basis as of april.

On the graphs on the right, we show the strong growth of our online volumes, which grew 42% in April compared to January, as well as the strong increase in the number of online SMB clients, which grew 29% in the same period and is a very profitable segment.

Now, moving to slide 10, on the left we want to show you the evolution of the productivity levels of our salespeople in the hubs up to May 15th, indexed to a 100. When the crisis hit, as we could not be in the streets, our productivity dropped by around 40%. Once we better understood the demand dynamics, we decided to put a relevant part of our team on vacation, and we redesigned our lead generation and closing processes so we could better work through the phone and chat. With that, we brought our team back from vacation, tested the new processes and right sized our sales operation. After those improvements, we started to see the productivity of our team back on track.

Also, as shown on the charts on the right, we were able to increase our main KPI´s in our customer service amid the crisis, reaching a record 72 NPS in April. Our logistic operation was also able to keep its service standards.

With that, I will pass it over to Lia so she can talk about our strategic initiatives and the performance of our solutions beyond payments.

Lia Matos – *Chief Strategy Officer*

Thanks, Rafa, and good evening, everyone. I hope you are all safe and healthy.

I want to start on page 11 by highlighting the strategic differentiators of our digital business, starting from our foundation. In 2012, we started to build our proprietary payments platform first with the needs of digital businesses in mind, which assured the best conversion rates, availability, and speed.

Our end-to-end payments platform attend to businesses of all sizes, from SMBs to large enterprises, as well as different business models, such as marketplaces, recurring businesses, ecommerce and digital apps, all through simple API integrations. So, in summary, we are able to offer enterprise level solutions to SMBs. Our Mundipagg gateway serves some of Brazil's largest e-commerce merchants, improving conversion rates, which translates into more sales, providing data analytics, reporting, and auditing capabilities. Pagar.me, our PSP platform, serves clients of all sizes, including social sellers, SMBs, and large marketplaces, being a unique player in the segment, with very distinctive functionalities such as split payments.

To demonstrate our relevance in digital, we highlight on the right size of the page our market share in Brazilian ecommerce. As shown from eBit numbers, when we consider only our base of ecommerce clients, we saw that more than 50% of the ecommerce market transacted through our platforms during the initial phase of the pandemic.

In the pre-COVID-19 scenario, we were already experiencing two steady and powerful consumer trends that are now intensified in the new reality: first, an increasing volume in digital channels and second, the growing use of omnichannel commerce, with more Brick and Mortar merchants establishing digital channels as part of their growth strategies. Given the differentiating factors outlined above, we will continue to work hard to drive this evolution and be the platform of choice to businesses looking to accelerate their path to becoming more digital.

Moving onto slide 12, in March, we just completed one year from the first credit given to our merchants and we can see the resilience and huge potential of that product and how it positively impacts our relationship with our clients.

We ended the first quarter with nearly 31 thousand clients and an outstanding balance of 332 million reais. In April, we reached more than 34 thousand clients and the portfolio grew to an outstanding balance of over 386 million reais, mainly due to our decision to provide 100 million reais in microlending to help our clients to navigate through the crisis.

We have evolved our product within the quarter with the launch of a revolving credit feature, giving more flexibility and allowing clients to roll their outstanding balances as they mature.

Due to the current economic scenario and short-term perspectives, we expect higher delinquency rates in our credit portfolio, especially from older cohorts of clients. However, we have four key elements that help us keep healthy returns in that situation: first, we are very rigorous with selecting clients, avoiding both high risk or higher impacted sectors; second, we are investing heavily in our proprietary credit scoring model, which results in daily enhancements to our algorithms. Third, our merchant cash advance system provides a protection for us, as we receive immediately when they engage in electronic transactions, regardless of their payment provider. And finally, the fourth element, our pricing management provides a significant protection against delinquency.

Those elements combined have helped the return on assets of our portfolio to be at a healthy level of 2.7% per month, even after we conducted a revision on expected delinquency levels in March to account for the current crisis.

As you can see on the graph on the right side of the page, up to May 14th, all cohorts have already paid us more than we anticipated in our models, with the only exception being the March cohort, from which we have received 83% of the expected amount. In total, we have received 108% of the expected amounts within our consolidated credit portfolio, with the April cohort presenting down payments 50% above our expected levels.

On slide 13, we bring an update on our banking and integrated platform. In our digital banking solution, launched in October last year, the number of accounts jumped from 62 thousand to 122 thousand in just one quarter. In April, we posted our record high number of new clients in banking in a single month, reaching almost 160 thousand open accounts at the end of April. Important to mention that we continue to see strong traction in the level of activity in our digital account, with a substantial increase in the number of wire transfers, boletos paid, and average balance per account. As Thiago mentioned, becoming the primary financial platform for our clients is among our strategic priorities, and these numbers indicate to us that we are in the right track.

As we discussed before, we are evolving to become an integrated platform that brings together acquiring, banking, and credit. As of April, the ABC platform counted with nearly 45 thousand clients in its pilot program. As a client-centric company, we keep focused on working directly with merchants to develop the best products for them. This quarter, we launched some new features, including a cash-in alternative with the boleto issuance and started piloting our QR code payments. We also launched two initiatives to help merchants sell online and digitalize their businesses: the payments link and the Stone virtual Shop, which are both in pilot mode.

In slide 14 we bring an update on the evolution of our ecosystem of software solutions. As I have already explained in previous calls, our strategy in software is two-fold. On one hand, we have some solutions that can be deployed through our distribution and service model, integrating those offerings to our core SMB operation. We also invest and acquire software companies with great people and scalable technology, applying a management system to support them in their growth strategies and helping them expand their offerings into financial services by integrating to our platform. We usually provide incentives related to the penetration of financial services to their client base, to completely align interests over the long run.

In the graph we present the evolution of the number of subscribed clients in our software solutions. We ended the year with 135 thousand clients, most of them being distributed by Stone. In 2020, we were able to add over 40 thousand clients until mid-May organically.

We are very happy to invest in such great teams of entrepreneurs and bring to our ecosystem four great solutions:

i) Mlabs, a leading social media management platform that helps SMBs to digitalize their businesses and has the potential to evolve to a social commerce platform in the future,
ii) Delivery Much, a food delivery platform present already in more than 230 small and mid-sized cities with a similar and synergistic expansion approach to Stone´s
iii) Vitta, a health plan management and EMR software solution, which has a 15,000 doctors network and manages 100,000 lives and can become an important provider of health plans for SMBs; and finally
iv) MVarandas, a POS and ERP software for foodservice with a strong regional presence in the Northeast of Brazil and an expanding operation throughout the country.

We see a massive opportunity in the software space creating a comprehensive ecosystem of solutions to our clients, and we will continue to work on our two-fold strategy for that. We believe that the combination of great software solutions, integrated with a complete financial platform, direct distribution and an excellent service level in a single technology company like Stone, can transform the Brazilian SMB environment.

We define ourselves by the clients we serve, not by the products we offer. That is one reason why our vision is to become more and more a software company that embeds financial solutions and a financial services company that provides software and services to help merchants better manage their businesses and sell more. With this, I will pass it over to Rafael, who will discuss our financial results for the first quarter in detail.

Rafael Martins - IRO

Thank you, Lia.

As you can see on slide 15, we added more than 50 thousand clients, reaching a total of 531 thousand active clients in payments with a year-over-year growth of 72%.

Starting on the first quarter 2020, we are reporting clients under the TON brand separately, in order to provide more transparency about the dynamics in our core SMB market and in the micromerchant space. In addition, we have started reporting TON active clients considering those who have transacted over the past 12 months, which is in line with the methodology adopted by its peers. The rest of Stone's active client base, including SMBs, continues to refer to clients that have transacted at least once in the preceding 90 days.

Having said that, TON reported more than 23 thousand active clients in the first quarter, which are not included in the chart on page 15. In line with previous disclosures, past quarters include Stone Mais clients, which is our discontinued micromerchant brand.

In TPV, we grew 42% in 1Q20 compared to 1Q19, reaching 37.6 billion reais. This represents an addition of R$11.2 billion of TPV year over year, our highest historical figure for a first quarter. As Thiago mentioned before, we have seen some recovery in TPV during April and May compared to the second half of March levels, and this recovery can be seen both in SMBs from our Hubs as well as in Digital and Integrated Partner clients.

Our total Revenue and Income was R$717 million in the first quarter, an increase of 34% year-over-year, which was mostly a result of our operational revenue lines.

Excluding Other Financial Income, mostly related to yield on cash, our Total Revenue and Income grew 38% in the period.

Also, Total Revenue and Income was negatively impacted in the amount of 25.2 million reais related to the combined effect of COVID-related incentives given to clients and higher provisions for delinquency in our credit solution. Those effects had a negative impact of approximately 6 basis points in our take rate in the quarter, which, despite this, was stable at 1.81%.

Now, slide 16 shows our consolidated P&L for the quarter. Going through our costs and expenses lines, we see that cost of services was nearly 150 million in the first quarter, 75% higher than in 1Q19 or 5 percentage points higher as percentage of revenues. This increase was mainly due to higher depreciation and amortization costs, higher provisions and losses as a percentage of Total Revenue and Income, investments in our customer service and last-mile logistics operations, as well as investments in our technology team.

Administrative Expenses were nearly R$74 million in the first quarter, or 10.3% of total revenue and income, showing mainly the dilution of our personnel expenses.

Selling expenses were close to R$112 million in the quarter, an increase of 78% year over year, mainly due to higher personnel and marketing expenses, in line with our growth strategy.

Financial Expenses jumped 123% in the year to more than 148 million reais. This is the result of a few factors. First, we saw higher prepayment volumes during the quarter. Second, we decided to improve the company's liquidity given the uncertain scenario, which translated into selling longer duration receivables and increasing the liquidity pool, in addition to incurring in higher cost of funding for spot lines. Finally, we had mark-to-market losses from some short-term investments in bonds as a result of stronger market volatility amid the crisis. We estimate that those items related to COVID-19 environment had a R$35.8 million negative impact in our Financial Expenses.

Combined with the R$25.2 million impact on revenue that I just mentioned, this impact in financial expenses lead to an estimated R$61 million of pre-tax impact for COVID-19 in our result this quarter. This does not include impact from lower TPV given the lower retail activity.

As a result of the factors above, our Adjusted Net Income for the quarter was R$162 million, with a margin of 22.6%, which includes the COVID-related impacts just mentioned.

As you can see on slide 17, our operating costs and expenses were 46.8% of revenue in the first quarter, compared to nearly 40% last quarter and our adjusted net margin was 22.6% in the quarter, compared to 35% in previous quarter and also last year. In our fourth quarter 2019 earnings call, prior to COVID-19 outbreak, we have mentioned we would continue to invest heavily in our operations and strategic initiatives, especially in the first half of 2020. Besides the effects related to the crisis, such investments are one of the reasons why we have seen higher operating costs and expenses this quarter.

Moving to slide 18, we show the main drivers for the decrease in our pre-tax margins year over year. A little over 50% of the margin decline, 7.1 percentage points, is related to pandemic effects as I have mentioned previously. And we do not incorporate here the effect from less operating leverage coming from lower TPV volumes. We also had a 3 percentage points margin reduction related to selling investments, especially hiring of new salespeople to support future growth and marketing, as well as a 1.7 percentage point reduction related to investments in new products such as banking, software and TON. We also had 2.7 percentage point reduction related to the optimization of capital structure, using more third-party capital to support growth of our prepayment operation, which tends to provide us higher return on equity.

As Thiago said before, for the second quarter, we expect an adjusted pre-tax margin between 20% and 24%, already including one-off items. So, the only adjustments that we are including in this outlook compared to IFRS metric of Profit before income taxes margin, is the share-based compensation and amortization of fair value adjustments related to acquisitions, just the same way we have been reporting.

Finally, on slide 19, we show our adjusted free cash flow, which was negative 122 million reais in the first quarter 2020. Excluding two items that we believe are exceptional, our adjusted free cash flow was positive R$30.7 million.

The three main items that have affected our free cash flow this quarter were the following. First, 100 million reais in prepaid marketing expenses from TON to Globo, in connection with a specific attractive media negotiation which dates pre-Covid and in which we have three years to use that amount. The amount was fully funded by the upfront cash contribution from Grupo Globo in TON, which is not accounted for in our free cash flow calculation and appears only in our cash from financing activities. The second component affecting our free cash flow was an 8-day undue temporary tax withholding of R$53 million which was released in the first week of April. Besides those two exceptional items, our free cash flow was also affected by higher capex, in line with our strategy to grow our base of clients.

With that said, operator, please open the call up to questions.