Stone Co 2Q20 Earnings Conference Call
August 12, 2020

Operator:

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the StoneCo second 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*

Thank you operator and good morning everyone. I have here with me today Thiago Piau, our CEO, Lia Matos, our Chief Strategy Officer, and Marcelo Baldin, our CFO.

During this call we will discuss our financial and operational results for the second quarter 2020, provide you some updates on recent trends during the quarter and finally, talk a little bit about the M&A transaction we have just announced yesterday with Linx. We will be available for Q&A after our prepared remarks.

With that, I will pass it over to Thiago, so he can share his view on the main performance highlights and the strategic direction we are heading to. Thiago?

Thiago Piau – *Chief Executive Officer*

Thank you Rafa and thank you all for joining us today. Before we start the earnings presentation, I would like to give you some messages. I believe we all agree to say that 2020 will be one of the most disruptive years in our generation. The global pandemic's health and economic impacts led to many changes in our daily lives, behaviors, and perspectives but still, we have a great chance to learn and become better.

In the recent months, we saw remarkably positive trends in our business, with a strong record in the TPV and a sharp acceleration in secular trends that are beneficial to us, as the increase in electronic payments, the digitization of commerce and acceleration in the usage of digital banking and other technological tools.

Due to the investments made in the past and our company's capabilities and people, we have been able to seize the opportunities that arose amid the crisis to accelerate our business. Let me share three examples of that. First, we saw TPV growing 130% last month as a combination of a faster than expected economic recovery and by volumes brought by the Coronavouchers, a temporary government relief program on which we participate directly through our POS terminals and indirectly by leveraging on our end-to-end proprietary payments platform to process the volumes from our integrated partners.

Second, our proprietary and API driven digital banking platform is experiencing accelerated growth in recent months, with record of new accounts being opened, high engagement and record revenues coming from the platform, with a strong contribution from the beginning of our Banking as a Service offering to integrated partners.

Third, we provide different tools to help merchants sell online and digitize their businesses. With that, we saw revenue coming from our SMB digital clients more than doubling in the year and strong engagement trends in our software solutions, with some of them accelerating their growth during the recent times.

We are working hard to keep providing our merchants with the best service level in the industry while expanding our product offering. I am very proud of our team's dedication during these very challenging times and due to the recent improvements in the economic scenario and higher visibility of the near future, we are expanding back the team to meet the current demand, heavily investing in our future growth by acquiring new talents to join our operational and technology teams.

In order to keep providing the best service level to our clients, more than 40% of hubs personnel are back to the front line, observing all of the recommended procedures by the health authorities. Our client-centricity was again reflected in our customer support numbers in the quarter, with 87% of the calls rated as “excellent,” and 87% first call resolution.

And finally, I am extremely happy that we have reached an agreement to acquire Linx. This acquisition is a big step forward for us in the strategy to become the one stop shop for merchants of all sizes, supporting them in the online as well as in the offline world. Linx is a market leader in the retail management software market, having a strong presence in different retail verticals with 300 billion GMV and it also has strong presence in ecommerce software solutions. With hard work, investments in technology and focus on the clients´ needs, we are confident we will generate a lot of value for merchants in Brazil, as well as for our shareholders and the overall society. We will discuss this landmark transaction in more detail shortly.

Now, moving to the presentation, I would like to start on slide 3 with some highlights. Despite COVID-19 impacts, we saw TPV grow 28% in the second quarter, with a monthly acceleration within the quarter, reaching over 42% growth in July excluding Coronavoucher volumes.

Our take-rate excluding Coronavouchers volumes and financial relief provided to clients due to the COVID-19 outbreak, was 1.77%, roughly flat compared to the previous quarter, even though we had a higher mix of Digital and Integrated Partners, who have lower take rates, which was partially offset by higher take rate in the hubs. The reported take rate, considering the COVID-19 just mentioned effect was 1.67%.

We reported a 14% revenue growth and an adjusted pre-tax margin of nearly 30%, beating the adjusted pre-tax margin guidance of 20 to 24% that we have provided in our previous earnings call. Those results reflect both a stronger recovery in our clients’ businesses than previously anticipated as well as our execution capabilities and client diversification effects.

Our financial platform accelerated its growth rate with digital banking open accounts reaching 285,000 clients in July and with banking services revenue growing nearly three and a half times in just one month, between June and July, mainly due to the initial traction of our banking-as-a-service strategy.

We are seeing declining delinquency rates in our credit offering, which counted with more than 56,000 clients in July, with an improved ROA of 2.8% per month for the portfolio in Jul-20.

Our digital business has experienced strong growth during recent months, with online TPV growing nearly 9 times year over year in July, with a significant impact from coronavouchers. However, even excluding all volumes related to the government program, online TPV grew nearly 95% year over year during the month of July.

In our software front, we reached more than 300,000 subscribed clients in July, with over 100 million reais in total annualized Pro-forma software revenue. Pro-forma revenue means 100% of the revenue from the software companies we have invested in, even though we do not own 100% of all of them and therefore do not fully consolidate all their revenue in our top line yet.

Now, by joining our forces with Linx, we expect to accelerate the disruption of the commerce industry in Brazil, making high-quality software tools available to all merchants, combining it with a full financial platform and creating an integrated one-stop-shop powerful platform to merchants.

TPV in our bricks and mortar SMBs in the Hubs was already 9% higher in the 2nd half of Jul-20 compared to the first half of Mar-20, a period before the COVID-19 outbreak. Considering digital and integrated partners as well, the company´s overall TPV is already 11% above pre-COVID levels, even not considering Coronavouchers volumes.

Even though we have experienced a small decrease in our payments active client base in the second quarter, mainly driven by COVID-19 effects, the trends observed in the recent months already indicate we are resuming our trajectory of client base growth in the third quarter, in line with the growth of first quarter.

On top of Stone´s client base, we now count with TON´s client base. Our solution to micro-merchants presented over 50% growth quarter over quarter, reaching more than 35,000 clients in the 2Q. We are resuming investments in this new venture with discipline, and recent trends are encouraging.

Lastly, we expect operating leverage and margins improvement already in the 3Q20, with a combination of a more robust top line and our diligence in costs and expenses.

Now, moving to slide 4, we show that even with the 2nd quarter being the most impacted by the COVID-19 effects, we were able to keep our adjusted net margin flat and grow our TPV when compared to the previous quarter while increasing our cash flow generation.

These numbers show the strength and resilience of our business. Even during the most challenging time in our history, we were able to keep margins virtually flat and above 20% and with TPV not only growing versus last quarter but accelerating every month.

On the right side of the slide, we show our recent dynamics for TPV. To help the population during the COVID-19 outbreak, the Brazilian government is distributing a temporary financial aid, named "Coronavouchers" targeting the most vulnerable part of the population as autonomous, informal workers and people without income.

As an acquirer, Stone can participate in Coronavouchers transactions mainly through its Integrated Partners, benefitting from this acceleration in payments digitization. Even though these are debit-like transactions with lower take rates, they generate good incremental revenues for the company. Stone processed around R$2.0 billion in Coronavouchers in the second quarter of 2020 and R$9.3 billion in July only. However, it is important to notice that even excluding this relevant contribution, Stone's TPV grew 21.1% year over year in the second quarter, with increased growth every month through July, when it reached more than 42% growth, above first quarter 2020 levels.

On slide 5 we give a double click on overall TPV, hub operations and client base performance. Our total TPV in the 2nd half of July was 46% above the 1st half of March, which we consider here as the pre-COVID levels. Even excluding the coronavouchers effect, volumes are already 11% above those levels.

Besides, as shown in the graph, TPV in the Hubs is 9% above pre-COVID levels, benefiting from our growth investments, geographic diversification, and commerce reopening trend.

On the right side of the page, we show the positive trend in our client base. Since we report our active client base as clients that have transacted over the preceding 90 days, we saw the lockdowns that started in March having a direct impact in the second quarter numbers. However, we expect a significant client base growth for 3Q20.

Moving to page 6, we have a detailed explanation of our reported take rate. The decreases from the 1Q figures were mostly explained by a 10 bps decrease from Coronavouchers volumes and COVID-related financial relief offered to clients. Thus, our take rate excluding these effects was 1.77%, 4 bps lower than the previous quarter, explained mostly by the strong volumes from integrated partners and digital key accounts. However, as we show in the graph on the right, take-rate in the hubs, which was virtually flat since the beginning of 2019, is increasing even in the current environment, with the upsell of new solutions to our client base.

Finally, we are receiving many questions from our investors about our perspectives on the regulatory changes that the Brazilian Central Bank is promoting to improve the financial system and on page 7 we share with you some of our views.

The Brazilian Central Bank set November this year as the expected date for the beginning of two new initiatives that I will highlight, and Stone is uniquely positioned to compete in this scenario, leveraging on our differentiated technology and proximity with clients.

First, PIX's launch, the instant payments infrastructure promoted by the Central Bank and operated by market participants. This movement tends to accelerate the secular trend of payments digitization, increasing our addressable market. Years ago, we decided to build a proprietary API-driven banking platform that will enable us to offer PIX solutions to SMBs and digital clients and provide our banking-as-a-service infrastructure to integrated partners, such as software companies, wallets, among others. We will help merchants with technology and security to capture transactions through PIX QR codes, enable e-commerce transactions, and help disrupt Boletos. We can then monetize on these transactions, made without intermediaries such as issuers and brand fees, offering a value proposition to our clients, which will accept and use a faster and cheaper payment method.

Second, the receivables registration platform serves as an opportunity to expand our working capital addressable market by leveraging our hyperlocal distribution to prepay receivables from all merchants, including clients currently outside Stone ecosystem. Besides, it gives us more flexibility and security to offer credit to all merchants, significantly reducing risks, regardless of the payment method that they use.

As a company created to make merchants happier with great services, to help them sell more through different channels and manage their businesses better, we will continue investing in our technology, distribution and customer service to sustain our long-term competitive advantages and evolve our business according to the regulatory environment. Every time we have changes that level the playing field and enable more competition, users tend to experience significant benefits, favoring offers based on value proposition.

With all that said, I will pass it over to Lia to discuss updates on our strategic roadmap. Lia?

Lia Matos – *Chief Strategy Officer*

Thanks, Thiago and good morning, everyone. Thanks for joining us today.

I want to start on page 8 talking about our Digital and Integrated Partners Business. As Thiago mentioned, the impacts of the COVID brought many changes to society and one of them was the acceleration of consumers buying online. We saw our online TPV growing over 130% in the second quarter and, even when we exclude coronavoucher impact, we were able to grow close to 80%. Our year over year growth accelerated every month, with growth rates jumping to nearly 200% and 760% in June and July respectively. Again, excluding coronavoucher volumes, we still saw strong growth rates, close to 95% in both months.

As we observed in our last earnings call, our digital payment platform serves clients of all sizes and different business models, from social sellers to large marketplaces. One exciting trend that we saw during the quarter was a significant evolution in our digital SMB clients, who grew monthly revenues more than two-fold in the year, as shown in the graph on the right side of the page.

Page 9 brings an update of our banking platform, which, as we explained in previous calls, is offered in two ways. First, through our digital account to SMBs, which was launched last October. Second, through API integrations, which enable consumer-facing apps and other partners to offer banking services to their own clients.

We have invested over the years to build our banking platform from scratch, with the key elements of an open banking platform, which enables seamless API integrations to our own client facing solutions as well as our partners. Similar to how we did in payments, we are now scaling our banking platform to our client base of SMBs but also seeing a lot of interest from integrated partners to offer banking services by integrating to our platform, and we have started to scale that as well.

We have intensified technology investments in this business and now have a proven, stable and scalable platform, ready to take advantage of the increasing demand from partners looking to integrate transactional banking services on to their offerings.

We are seeing solid traction with both the Stone digital account and the Banking as a Service platform. First, we had a record increase in new clients in the quarter, reaching 248,000 clients in June and 285,000 clients in July, with engagement metrics as pre-paid card TPV and number of transactions growing strongly. Second, revenues are sharply accelerating bolstered by the successful integrations of partners through our public APIs. Although still at small scale, revenue coming from our banking platform in July was more than 3.4 times the revenue from June and eight times January levels.

Moving onto slide 10, we discuss our credit product. We had nearly 47,000 clients using our credit product in June and over 56,000 July, reaching a credit portfolio above 620mm reais in July. As shown on the graphs at the right side of the page, our portfolio delinquency is trending downwards at mid-single digit for the July cohort, with a consistent ROA of 2.8% per month. We have a diversified portfolio, both in terms of client concentration as well as geographically, with the largest 100 clients representing only 2% of the total outstanding and over 60% of the volume widespread among more than 1,600 cities in Brazil.

As we already mentioned in the beginning of the year, in 2020, we have a big challenge, which is a top priority for us: to become a complete financial platform for our clients. We aim to replace our clients' traditional banking relationships over time, and I think we are on the right track to do so. However, to serve as a real one-stop shop for merchants, on top of the financial platform, we want to help our merchants to manage their business with higher efficiency and generating more sales. Here is where the ecosystem of solutions that we are building in the software space plays a vital role.

On slide 11, we bring a quick update on the evolution of our software solutions. As we announced before, we made four new investments in our ecosystem during the second quarter, which, combined to our organic growth, resulted in an 83% q/q increase in our software client base, reaching more than 280,000 clients in June and over 300,000 clients in July.

Even though we still don´t see all of these numbers in our P&L due to the phase of some investments, our annualized Pro-forma software revenue in the 2Q was over 100mm reais, showing an opportunity to both use software as a tool to increase the lifetime value of our client base but also to monetize on them.

We saw significant client organic growth across different segments during the quarter, with the customer engagement vertical, core payments and marketplaces services being the main highlights.

Several of our solutions are contributing to the acceleration of the digitization of our offline native client base. As an example, we have mLabs, with the number of social media posts growing over 70% in July when compared to January and Delivery Much, with GMV growing over 100% during the year.

Finally. I want to highlight the advantages in integrating software solutions with our financial platform. VHSYS is an excellent example of that. In the second quarter, they became fully integrated to our acquiring and banking platforms and have started to scale their integrated offering through their distribution channels, with July numbers being more than four times higher than January. With that, clients will have a seamless experience to manage their stores, moving towards our vision to become an integrated one-stop-shop for our clients.

This is just one example of technology integration and synergies between our financial platform and software providers that we will continue to invest in over time. Now, with the agreement to acquire Linx, we open a new avenue of cross selling opportunities to explore, by providing Linx's clients with integrated software and payments solutions.

With this, I am going to pass it over to Rafael, who will discuss our financial results in detail. Rafa?

Rafael Martins - *Investor Relations Executive Officer*

Starting with slide 12, we present some financial and operating metrics for the company. As Thiago mentioned before, as we report our active client base on a 90-day basis, we are currently seeing in June numbers the effect of the lockdown measures that started to be enforced in many areas in the country in the second half of March. Even with this effect, we were able to post a 48% growth for our client base compared to the same period of last year. We already expect significant increase in our client base for the third quarter due the positive trends that we are observing over the month of July and beginning of August.

Our TPV grew 28% in 2Q20 compared to 2Q19, reaching 38.1 billion reais. This represents an addition of almost half a billion reais in TPV compared to last quarter, despite the second quarter being the one in which economy was hit the hardest due to COVID-19 effects.

Total Revenue and Income was R$667.4 million in the second quarter of 2020, an increase of 13.8%. Excluding Other Financial Income, which mainly comprises interest on cash, our Total Revenue and Income grew 15.5% to R$ 634.5 million in the second quarter. As we announced last quarter, we provided some of our clients that were most impacted by COVID-19 a financial relief in the form of limited-time exemption in subscription and lower prepayment rates. Those reliefs have had a negative impact of R$13.3 million in the quarter.

On slide 13, we show our consolidated P&L and on slide 14 the evolution of our operating leverage and profitability. We had a significant increase in our total costs and expenses as a percentage of revenues and our financial expenses, on the other hand, went through a significant decline, which we will go over in more detail. This led our adjusted net margin to stay flat compared to last quarter, at 22.5%.

Going over to slide 15, we dig deeper into our operating deleverage in the quarter, as total costs and expenses as a percentage of revenues went from 46.8% in Q1 to 60.4% in the second quarter of 2020. We had a couple of factors impacting this increase, with two main non-recurring items: (i) severance costs related to the reduction of our workforce in May, which amounted to R$15.2 million and (ii) a one-time fine from a card scheme in the amount of R$14.0 million related to the non-usage of a specific product called 3DS, which was a discussion within the whole payments industry. These two effects combined contributed in 4.4 percentage points in our deleverage. Apart from that, we continued to invest in the growth and expansion of our new solutions, including banking, software, credit and TON. These higher investments added 2.7 percentage points in deleverage, which also includes marketing for our Compre Local campaign to help our SMB clients throughout the crisis. Also, 4.2 percentage points are explained by deleverage related to lower revenues amid COVID-19 and 2.3% comprise of other effects, such as facilities expenses related to the return of workplaces, third party services, among others.

With that, even though we will keep investing in the growth of our company and the evolution of our business, we expect significant improvement in our operating leverage throughout the rest of the year.

Now, going over in more detail on each P&L line item, our Cost of Services reached R$198.7 million or 29.8% of Total Revenue and Income in the quarter, an increase of 12.6 percentage points over the same period last year. This increase was mainly due to (i) higher investments in new solutions and technology, (ii) higher personnel expenses related to the severance costs from the reduction of our workforce in May, (iii) the just mentioned one-off item related to the card scheme fine and (iv) higher D&A as well as provisions and losses.

Administrative Expenses were R$89.9 million, or 13.5% of Total Revenue and Income, broadly in line with the prior-year period, despite the one-off expenses from severance costs. Compared to last quarter, Administrative Expenses increased from 10.3% of Total Revenue and Income to 13.5%, mainly due to (i) severance costs, (ii) expenses from new solutions, mainly new investees in software and (iii) higher third-party services.

Selling Expenses were R$114.7 million in the quarter, an increase of 31.4% versus last year, mainly explained by (i) marketing expenses related to TON and the Compre Local campaign and (ii) severance costs, which was partially offset by higher efficiency reflecting benefits from the resizing executed in May.

Compared with last quarter, Selling Expenses as a percentage of revenues increased by 1.6 percentage points, explained by the same factors from the year over year comparison.

Financial Expenses were R$62.6 million, a decrease of 20.5%, compared with the second quarter of 2019, mainly due to the lower CDI rate, which more than compensated the higher volumes in the quarter.

Compared to the previous quarter, Financial Expenses as a percentage of Total Revenue and Income decreased significantly, as pointed out previously, from 20.7% to 9.4%. This reduction is mainly explained by (i) the negative effect from COVID-19 in the first quarter when we took measures prioritizing short-term liquidity, (ii) lower

CDI rates and (iii) a higher proportion of own capital to fund our clients working capital solutions.

As we indicated, in the last quarter we took several measures to strengthen our balance sheet position and increase our liquidity, generating significant one-off impacts in our P&L. In the second quarter, we saw a much more stable market which enabled us to keep providing our clients with all the required working capital needs but with much lower costs.

As a result, our adjusted pre-tax margin was 29.9%, higher than management's perspective given at the last earnings result of between 20.0% to 24.0%, as the economic recovery from the COVID-19 pandemic is trending better than anticipated.

Our Adjusted Net Income for the quarter was R$150.3 million, with a margin of 22.5%, flat quarter over quarter and already factoring in COVID-related impacts as severance costs from the reduction of our workforce in May, financial relief given to clients and the construction of a temporary hospital, totaling R$33.5 million in the period.

Finally, on slide 16, we show our adjusted free cash flow, which was 141.4 million reais in the second quarter, 77.7% higher than the same period in 2019.

Now, we would like to share with you some details about the acquisition of Linx we have just announced. We have uploaded a separate presentation specifically about the transaction in our website. You should have access to it already.

Now, I will pass it over to Thiago so he can share more details about the transaction. Thiago?

Thiago Piau – *Chief Executive Officer*

Thank you, Rafa. This day marks a significant milestone for our company. We were born in 2012 with a clear purpose: to help merchants to thrive through the offering of best-in-class service and products delivered by an amazing and talented team of hard-working people who always put our clients at the center of everything they do.

We are excited to join efforts with Linx in this journey and are looking forward to combining Linx's deep expertise in vertical software and omnichannel solutions with Stone's powerful technology and financial services capabilities, our strong culture and powerful distribution channels. I believe this will help us to become the one stop shop for merchants of all sizes, supporting them in the online as well as in the offline world. We will continue to focus on building solutions by applying best practices in technology, with constant client feedback and the use of data to drive product improvement roadmaps.

Stone has already established its positioning as a complete financial platform for brick and mortar SMBs and a full-stack digital payments solution for SMB digital clients, marketplaces, wallets, and subacquirers. More recently, Stone has advanced its strategy to become an integrated payments and software provider for SMBs by investing in a modern ecosystem of software solutions in different verticals and horizontals.

By investing in Linx, we will strengthen our offering by combining both companies assets and technology capabilities to create a go-to commerce enabling platform for clients of all sizes, capturing value from the digital commerce revolution in Brazil.

We are very happy with the chance to welcome Linx´s team to our Stone´s green culture, we know we have a lot to learn together and we have the opportunity to create an amazing value to both our clients, our team, our investors and the overall society.

Now moving to the presentation, we start on slide 3 with the deal overview. Linx is a leading software company which processes over R$300 billion GMV, counts with more than 70,000 retail clients and has a 99% retention rate. With this transaction we believe we will generate value in multiple ways.

First, we will combine the leading retail software solution with the best in class platform, which is the number one independent fintech in Brazil, to move towards a unified commerce platform, driving the integration between software and payments and exploring synergy opportunities.

Second, we will be able to provide Linx´s more than 70,000 clients with access to Stone´s payments and financial solutions.

Third, the deal expands Stone´s suite of software verticals & solutions, enabling the company to serve more businesses, more verticals and further penetrate its addressable market.

Finally, this transaction accelerates our strategic roadmap to become a “one-stop-shop” for merchants of all sizes and verticals.

Moving to slide 4, we highlight some numbers of the combined company. Excluding synergies, we will have a total LTM annualized revenue of R$3.6 billion and over R$800 million of adjusted net income. Also, Stone will have the opportunity to penetrate the over 300 billion GMV of Linx´s clients.

We are very happy to give this strategic big step in our evolution and it will be great to discuss in more details during the Q&A. First, I will pass over to Lia to discuss how Linx will help us to accelerate our strategic roadmap. Lia?

Lia Matos – *Chief Strategy Officer*

Thank you, Thiago and this is indeed a very exciting moment for us. Moving on to the presentation, on slide 5 we present how we view the strategic complementarity between Linx and Stone. We believe the acquisition will be a significant step forward in the direction of creating a complete omnichannel platform to accelerate the digitization of offline native commerce in Brazil. We want to achieve that by combining Stone´s financial service capabilities and the differentiated aspects of our business model with Linx´s strengths in software solutions and as an already comprehensive suite of digital enabling solutions.

On page 6, we describe the value drivers which will be unlocked by the acquisition, allowing Stone to progress on its strategic roadmap and create shareholder value through three main avenues: First, we expect to generate significant operational synergies and top-line growth by exploring cross-selling opportunities of financial services into Linx´s client base.

Second, we will help our merchants modernize and automate their core processes, providing them tools to adapt to an omnichannel world and increase their sales by bridging the gap between in-store and online and capturing a relevant share of the economics of the digital commerce market growth.

Third, we think we can further penetrate the software SMB market by “bringing into” Linx the operation and distribution core capabilities of Stone’s business model, namely its client service focus, hyperlocal distribution, and advanced technology, and combining that with Linx’s deep ERP and Omnichannel expertise to create tailor-made products for the SMBs. As a result of this combination, we believe we can further penetrate the software SMB market with integrated solutions.

Moving on to slide 7, we highlight the evolution of our strategy to invest in and acquire great software solutions. Since 2016, we brought onto our ecosystem fantastic entrepreneurs that developed great solutions to help clients simplify and automate multiple parts of their workflow, as well as better engage their consumers and sell more. We invested in different verticals and horizontals such as POS/ERPs for food, general retail and beauty, food delivery, Loyalty and CRM, digital media platform, among others. Stone has over 300,000 subscribed software clients as of July 2020, growing twofold compared to the 1Q20, mainly driven by investments in new portfolio companies.

The acquisition of Linx will be a big step forward in our journey. Together, we will reach 375,000 clients, further penetrating the software segment. As shown in slide 8, Linx serves its merchants through an end-to-end platform comprised of three product lines:

The first is Linx Core, which provides integrated business management software, such as ERPs, CRMs and POS management solutions across more than ten industry verticals.

Second, Linx Digital, provides an e-commerce platform designed to improve the omnichannel shopping experience, enabling retailers from the core verticals to engage, interact and transact with their clients and manage their inventories across physical stores, mobile applications, and online channels.

Finally, Linx Pay Hub provides payment processing solutions integrated with its core and digital product lines and provides electronic payments and financial solutions, QR code aggregators, working capital solutions and digital accounts.

As shown on slide 9, Linx has a 99% retention rate in its diversified client base and over 900 stores use its omnichannel solution. More than 1.200 R&D employees are in charge of developing, operating and improving the solutions that give Linx more than 45% market share in retail management software and nearly 14% of market share of the e-commerce solutions market.

With nearly 85% of its gross operating revenue coming from subscription revenues, Linx generates more than 800 million reais in annual revenue with over 25% EBTIDA margin.

Now, moving on to slide 10, the combination of both companies capabilities will enable us to further penetrate our addressable market in two different ways. First, by establishing a leadership position in the software and payments retail space, strengthening Stone’s presence in Medium and Large clients with integrated software and payments solutions and creating significant monetization opportunities in financial services

Second, by strengthen our focus on helping merchants of all sizes to sell more through digital channels with a fully integrated platform, by combining our strength in digital payments with Linx’s leadership in the retail software market. With integrated solutions, Stone will be able to provide more compelling offerings, creating a significant competitive advantages. These two elements can unlock further penetration of a 120 billion reais revenue addressable market, comprised of acquiring, banking, credit and software, where the combined company today holds only around 3% market share.

With that said, I am going to pass on the word to Rafael who is going to talk more about synergies and the details of the transaction. Rafa?

Rafael Martins - *Investor Relations Executive Officer*

Moving to slide 11, we see many synergy opportunities arising from this transaction. On the revenue side, Stone has the opportunity to penetrate Linx´s clients with financial products, including its payments services through Stone’s proprietary end-to-end platform and banking services leveraging on Stone’s proprietary API driven banking platform. Besides, Stone will grasp on Linx´s know-how and existing software offering to develop new solutions to SMB clients, including omnichannel and O2O products to digitize these merchants.

In terms of cost synergies, we will leverage existing R&D to create combined solutions to merchants of all sizes, streamline overlapping G&A expenses and improve negotiation with suppliers and third-party providers.

Important to say that we expect this deal to be EPS accretive already in 2021.

Finally, I would like to give you some details about the transaction.

Total consideration to be paid to Linx shareholders is R$33.76 per share, with 90% paid in cash and 10% in Stone shares. For each Linx share (or ADR), Stone will offer a cash amount of R$30.39 per share, plus 0.012677 StoneCo Class A shares. The offer implies a premium of 41.6% over the volume weighted average price for the preceding 60 days and 28.3% premium over the average price over the last 30 days.

Regarding governance, after the merger, a new software business unit will be created and will be managed by Stone´s leadership and Linx management team.

An Advisory Board will be created to guide and monitor the key strategic priorities, integration process and capture of synergies. Alberto Menache, current Linx CEO, will be Chairman of the Advisory Board, which will also include Stone leadership.

Following this announcement and after appropriate filings are made, Linx will call a shareholders meeting to effectively approve the merger, subject to the approval of Brazilian anti-trust authority (CADE)

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