



THE REASON

stone^{co.}



MAR / 2019

4Q18 EARNINGS
PRESENTATION

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To supplement the financial measures presented in this press release and related conference call, presentation, or webcast in accordance with IFRS, Stone also presents the following non-IFRS measures of financial performance: Adjusted Net Income, Adjusted Net Cash Provided by / (Used in) Operating Activities, Adjusted Free Cash Flow and Adjusted Net Cash. A "non-IFRS financial measure" refers to a numerical measure of Stone's historical or future financial performance or financial position that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with IFRS in Stone's financial statements. Stone provides certain non-IFRS measures as additional information relating to its operating results as a complement to results provided in accordance with IFRS. The non-IFRS financial information presented herein should be considered in conjunction with, and not as a substitute for or superior to, the financial information presented in accordance with IFRS. There are significant limitations associated with the use of non-IFRS financial measures. Further, these measures may differ from the non-IFRS information, even where similarly titled, used by other companies and therefore should not be used to compare Stone's performance to that of other companies. Stone has presented Adjusted Net Income to eliminate the effect of items from Net Income that it does not consider indicative of its core operating performance within the period presented. Stone defines Adjusted Net Income as Net Income (Loss) for the Period, adjusted for (1) non-cash expenses related to the grant of share-based compensation and the fair value (mark-to-market) adjustment for share-based compensation classified as a liability, (2) amortization of intangibles related to acquisitions, (3) one-time impairment charges, (4) one-off gains and (5) tax expense relating to the foregoing adjustments. Stone has presented Adjusted Free Cash Flow metric, which has limitations as it omits certain components of the overall Cash Flow Statement and does not represent the residual cash flow available for discretionary expenditures. For example, this metric does not incorporate the portion of payments representing principal reductions of debt or cash payments for business acquisitions. Therefore, we believe it is important to view Free Cash Flows measures only as a complement to our entire consolidated Statements of Cash Flows. Stone has presented Adjusted Net Cash / (Debt) metric in order to adjust its Net Cash / (Debt) by the balances of Accounts Receivable from Card Issuers and Accounts Payable to Clients, since these lines vary according to the Company's funding source together with the lines of (i) Cash and Cash Equivalents, (ii) Short-term Investments, and (iii) Debt balances, due to the nature of Stone's business and prepayment operation.

As certain of these measures are estimates of, or objectives targeting, future financial performance ("Estimates"), they are unable to be reconciled to their most directly comparable financial measures calculated in accordance with IFRS. There can be no assurance that the Estimates or the underlying assumptions will be realized and that actual results of operations or future events will not be materially different from the Estimates. Under no circumstances should the inclusion of the Estimates be regarded as a representation, undertaking, warranty or prediction by the Company, or any other person with respect to the accuracy thereof or the accuracy of the underlying assumptions, or that the Company will achieve or is likely to achieve any particular results.

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Main Highlights

Performance update

- **267.9 thousand active clients**, more than double the previous year
- **Total revenue and income** of R\$529 million in 4Q18, up **114% year over year**, and of R\$1,579 million in 2018, up **106% year over year**
- **Adjusted net income**¹ of R\$343 million in 2018, **up 660% year over year**
- **Adjusted net margin**¹ of **29.5% in 4Q18**
- **245 hubs** accross Brazil as of Feb/19
- **Adjusted free cash flow**² generation of **R\$304 million** in 2018
- **Highest NPS in the merchant acquiring industry** among the main players, with 65³ NPS compared to 4⁴ from the competition
- New solutions: (i) early beginning of **software – approximately 14 thousand clients**⁵; (ii) investment in **Collact**, CRM software; (iii) started to **pilot the banking solution**, with nearly **2,500 open accounts**

Notes:

(1) Adjusted net income is a non-IFRS financial measure. Please see the appendix for the reconciliation of this non-IFRS financial measure to the most directly comparable IFRS financial measure.

(2) Adjusted free cash flow is a non-IFRS financial measure. Please see “Adjusted Free Cash Flow” page for the reconciliation of this non-IFRS financial measure to the most directly comparable IFRS financial measure.

(3) According to research by IBOPE in August 2018.

(4) NPS weighted by TPV for the top five largest players in Brazil, excluding Stone (IBOPE in August 2018).

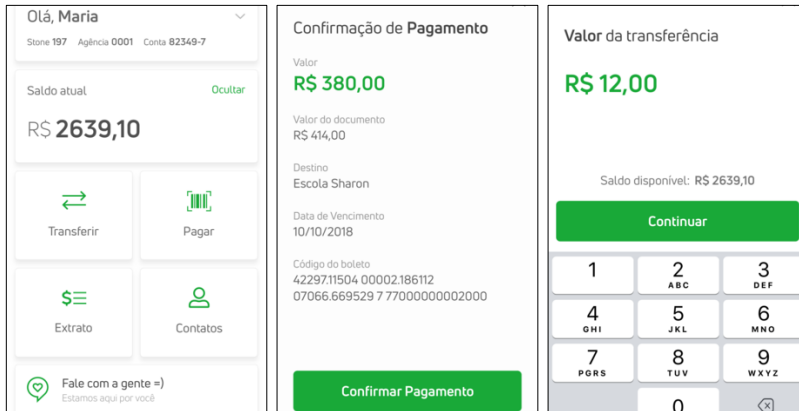
(5) Includes online and offline gateways, reconciliation, POS/ERP and CRM software.

New Solutions

Helping our clients to manage and grow their businesses

Banking

In-house built technology with direct integration with Central Bank's backbone



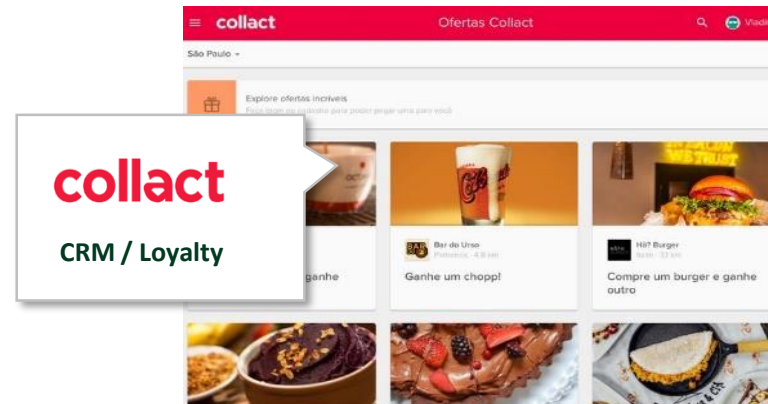
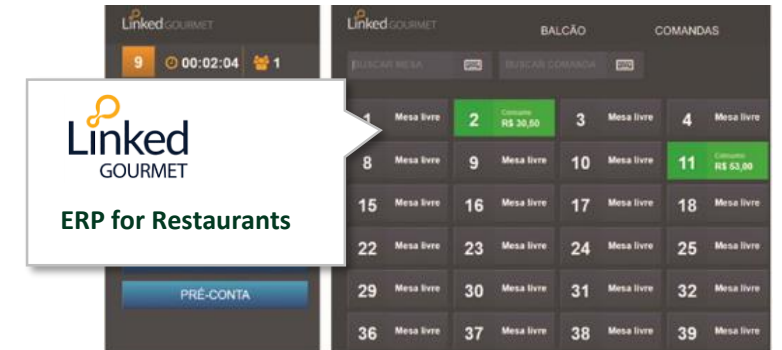
Credit

*Selectively provide credit to clients leveraging on data and proximity, with **factoring out of credit risk to a partner***



Software

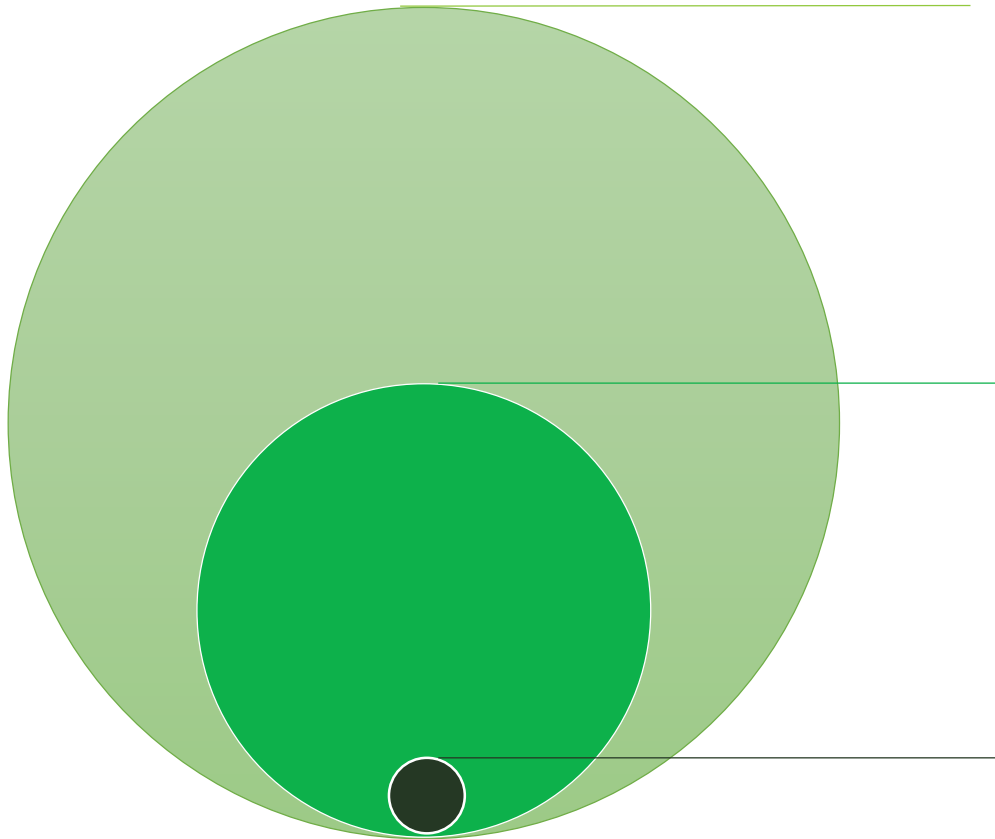
Solutions to help our clients become more productive and increase their life-time-value



- **Equals:** streamlines process of reconciling payments transactions and managing cash flows
- **Linked Gourmet:** POS software and full suite of integrated tools to empower SMBs in the foodservice market
- **Collect:** Customer engagement and CRM solution to help clients grow more by increasing recurrence and attracting new clients through a simple and customizable software solution

Huge Headroom to Grow in Payments

The Brazilian merchant acquiring industry



R\$3.1tn TPV potential for Brazil ¹

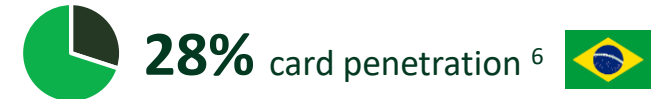
R\$41bn+ Revenue pool potential for Brazil ²

(Assumes UK card payment penetration) 

R\$1.5tn TPV for Brazil ³

R\$20bn+ Revenue pool for Brazil ⁴

4 NPS ex-StoneCo (Weighted average for the industry) ⁵



R\$83.4bn TPV for StoneCo

R\$1.5bn Revenue for StoneCo ⁸

65 NPS for StoneCo ⁹



1. Estimated TPV for Brazilian industry in 2018 (note 3 below) multiplied by the ratio between card penetration in UK and card penetration in Brazil (Source: BIS)
2. TPV potential for Brazil multiplied by the average take-rate of the Brazilian merchant acquiring industry.
3. Brazilian industry TPV estimated for 2018, based on ABECS card brands data for the nine months ended September 2018 and Stone internal estimates for 4Q18. Considers expenses from foreigners in Brazil and excludes expenses from Brazilians outside the country.
4. Stone internal estimate for all merchant acquirers' total revenue for 2018
5. NPS weighted by TPV for the top five largest players in Brazil, excluding Stone (IBOPE in August 2018).

6. ABECS and BIS for 2016.
7. ABECS and Stone estimates for 4Q18, considering expenses from foreigners in Brazil and excluding expenses from Brazilians outside the country.
8. Total revenue excluding other financial income for 2018.
9. According to research by IBOPE in August 2018.

Expanding our Addressable Market

Huge TAM Still to be Conquered

Merchant Acquiring

R\$20bn+¹

Software

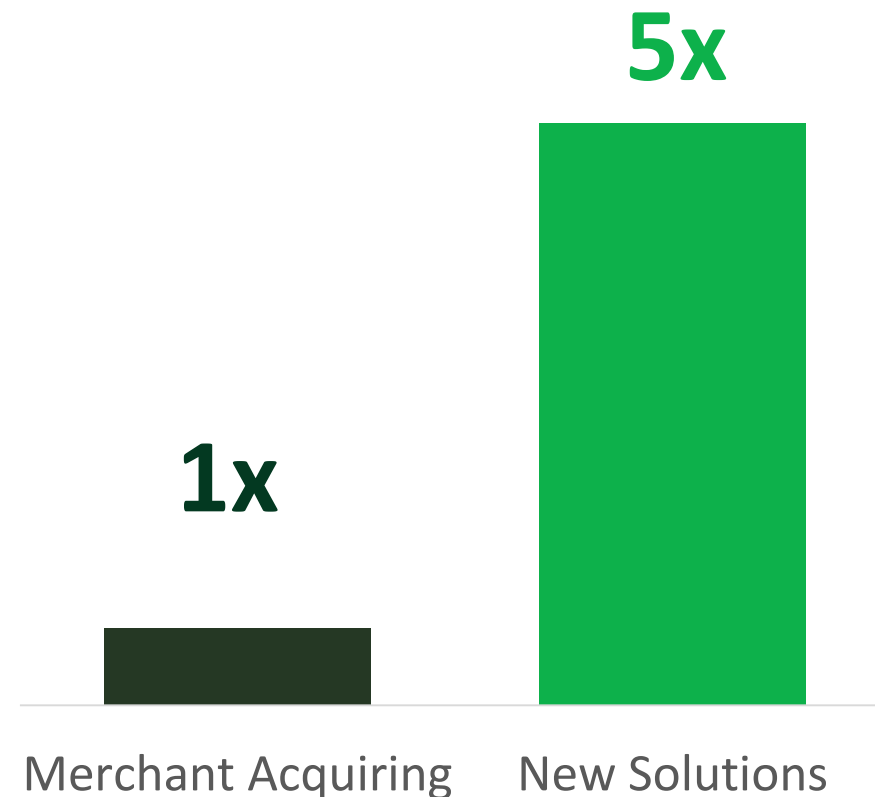
R\$9.5bn³

Credit

R\$75bn²

Banking

~R\$10bn⁴



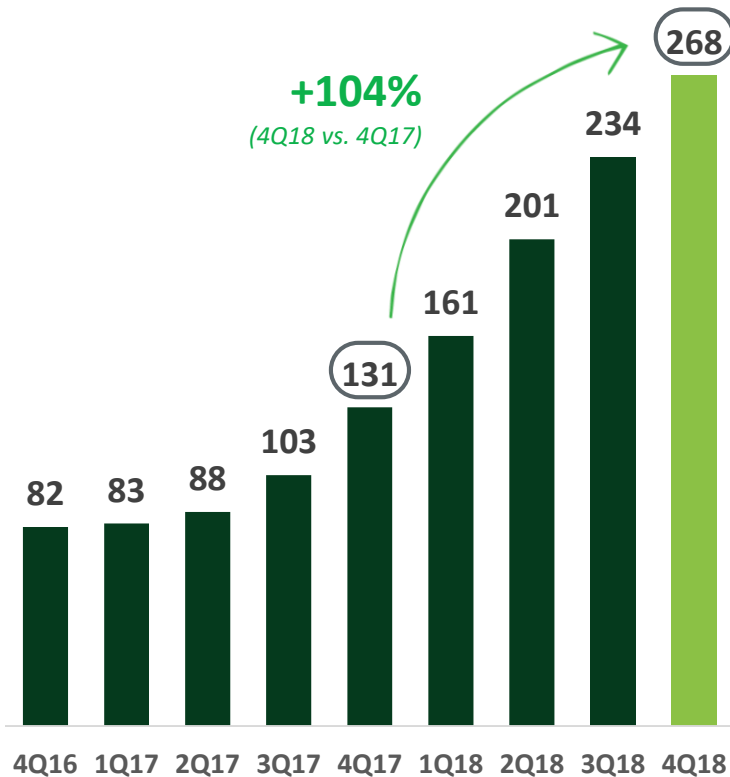
Notes:
(1) Stone internal estimate for all merchant acquirers' total revenue for 2018.
(2) Stone internal estimate using total non-targeted loans for SMB companies in Brazil multiplied by the average spread discounted the default rate. Data from Brazilian Central Bank as of December of 2018. The % of non-targeted loans for SMBs and average spread was calculated based on management's assumptions using market data.
(3) Total addressable market in Brazil for retail management software in 2017, according to Goldman Sachs research.
(4) Stone internal estimate for the SMB segment using total revenue generated by the Brazilian top five banks in 2018 on checkings account services.

Rapidly Scaling the Business

Rapid growth across financial and operating metrics

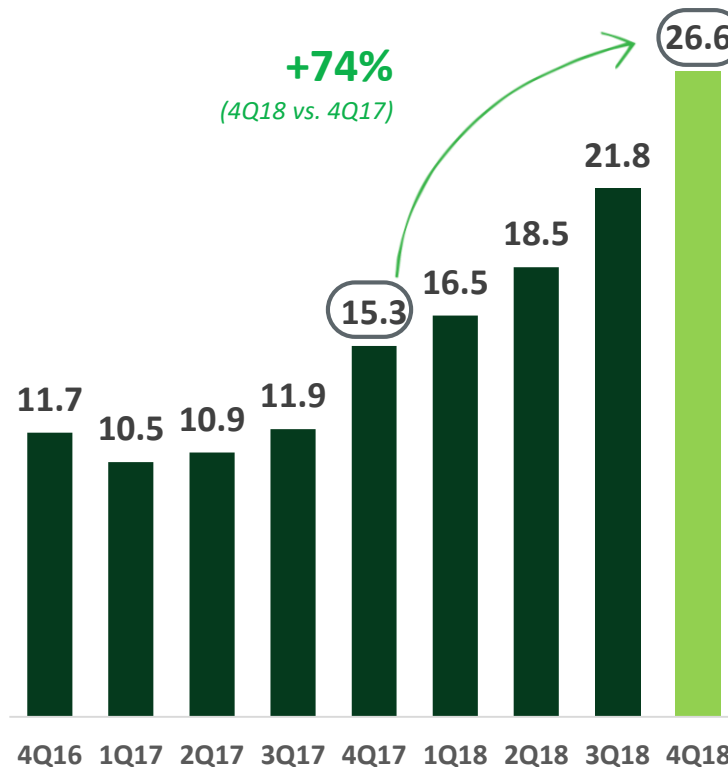
ACTIVE CLIENTS ⁽¹⁾

(Thousands)



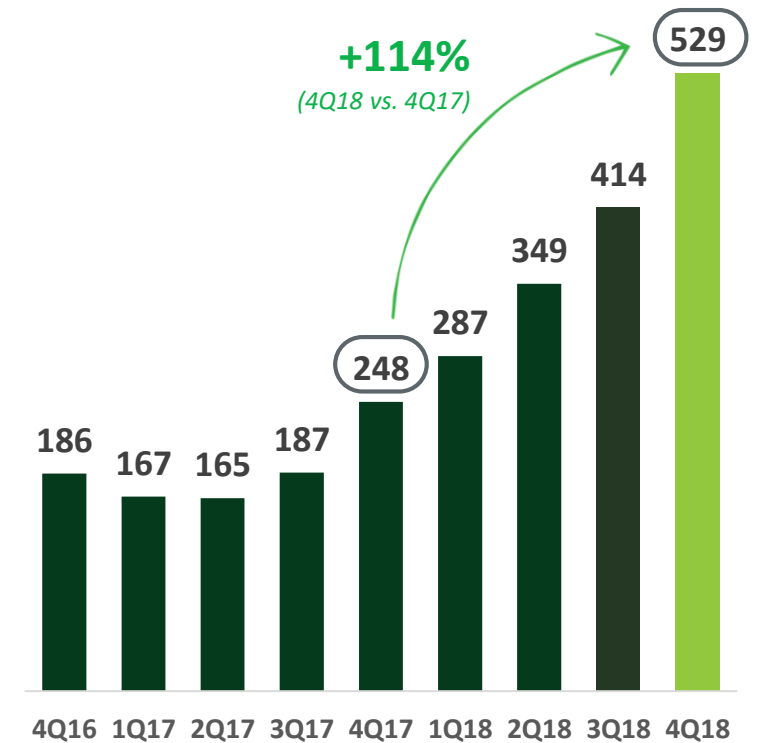
TOTAL PAYMENT VOLUME

(R\$ in billions)



TOTAL REVENUE AND INCOME

(R\$ in millions)



Notes:

(1) "Active Clients" are merchants that have completed at least one electronic payment transaction with Stone within the preceding 90 days.

Summary Income Statement

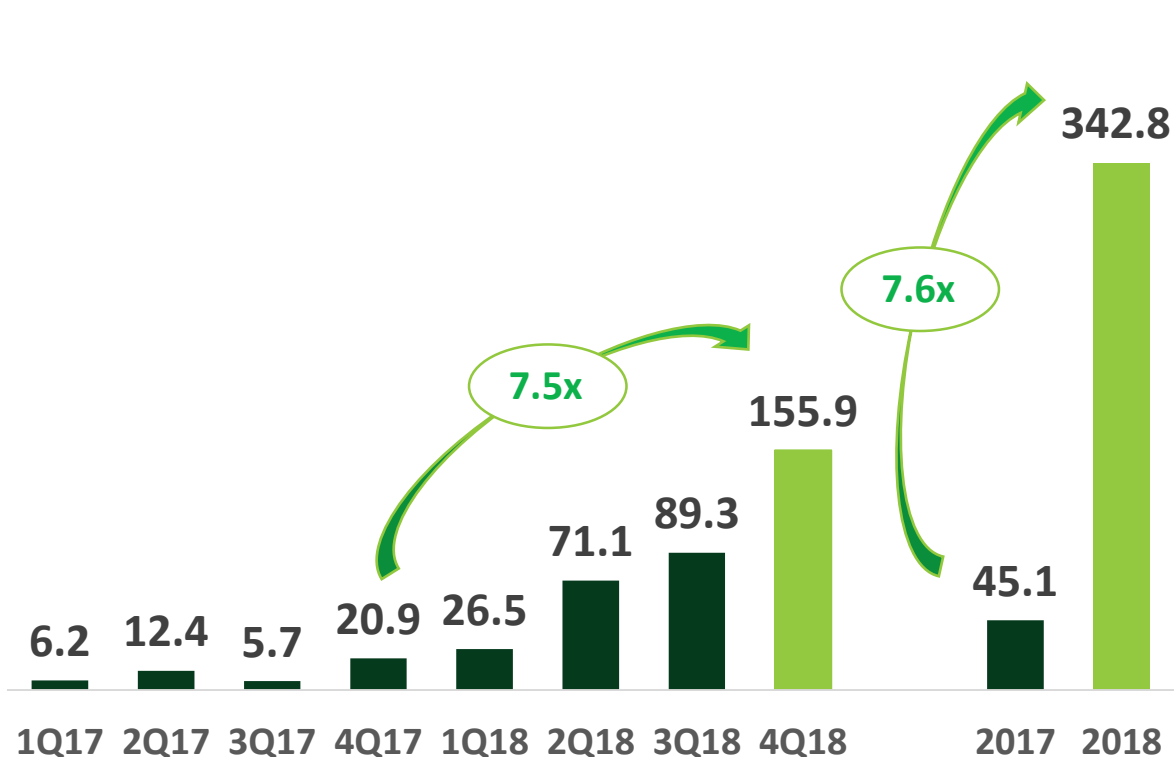
Income Statement (R\$ in millions)	4Q18	% Rev.	4Q17	% Rev.	Δ %	2018	% Rev.	2017	% Rev.	Δ %
Net revenue from transaction activities and other services	174.4	32.9%	83.4	33.6%	109.2%	514.6	32.6%	224.2	29.2%	129.5%
Net revenue from subscription services and equipment rental	69.5	13.1%	29.2	11.8%	138.3%	213.7	13.5%	105.0	13.7%	103.6%
Financial income	255.8	48.3%	129.0	52.1%	98.4%	801.3	50.7%	412.2	53.8%	94.4%
Other financial income	29.6	5.6%	6.3	2.5%	371.8%	49.6	3.1%	25.3	3.3%	96.2%
Total net revenue and income	529.4	100.0%	247.8	100.0%	113.7%	1,579.2	100.0%	766.6	100.0%	106.0%
Cost of services	(101.3)	(19.1%)	(73.5)	(29.7%)	37.7%	(323.0)	(20.5%)	(224.1)	(29.2%)	44.1%
Administrative expenses	(73.4)	(13.9%)	(62.6)	(25.3%)	17.2%	(252.9)	(16.0%)	(174.6)	(22.8%)	44.8%
Selling expenses	(58.7)	(11.1%)	(33.7)	(13.6%)	74.2%	(190.2)	(12.0%)	(92.0)	(12.0%)	106.7%
Financial expenses, net	(75.1)	(14.2%)	(61.4)	(24.8%)	22.2%	(301.1)	(19.1%)	(237.1)	(30.9%)	27.0%
Other operating income (expense), net	(41.6)	(7.9%)	(30.3)	(12.2%)	37.4%	(69.3)	(4.4%)	(134.2)	(17.5%)	(48.4%)
(Loss) income from investment in associates	(0.1)	(0.0%)	(0.1)	(0.0%)	61.3%	(0.4)	(0.0%)	(0.3)	(0.0%)	43.5%
Profit (loss) before income taxes	179.3	33.9%	(13.8)	(5.6%)	n.m	442.3	28.0%	(95.7)	(12.5%)	n.m
Income tax and social contribution	(52.2)	(9.9%)	(0.5)	(0.2%)	10824.3%	(137.1)	(8.7%)	(9.3)	(1.2%)	1373.7%
Net income (loss) for the period	127.1	24.0%	(14.3)	(5.8%)	n.m	305.2	19.3%	(105.0)	(13.7%)	n.m
Adjusted Net Income	155.9	29.5%	20.9	8.4%	646.3%	342.8	21.7%	45.1	5.9%	659.6%

Notes:

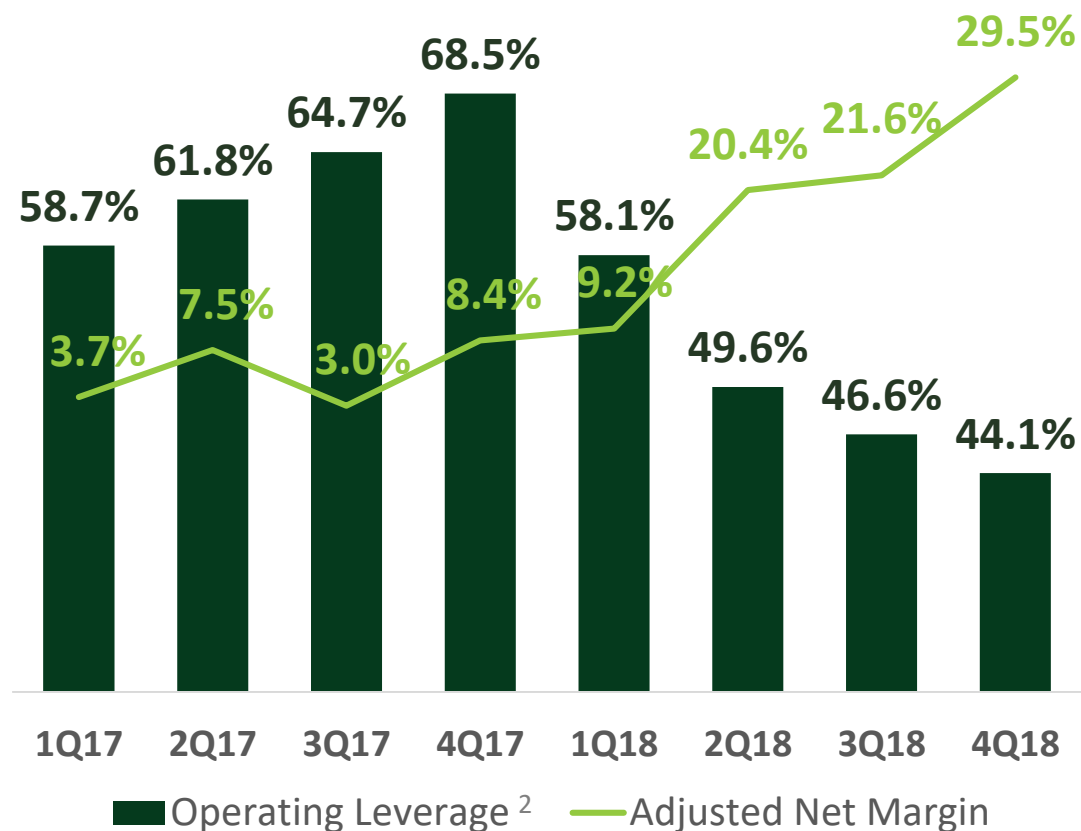
(1) Adjusted net income is a non-IFRS financial measure. Please see the appendix for the reconciliation of this non-IFRS financial measure to the most directly comparable IFRS financial measure.

Operating Leverage and Profitability

Adjusted Net Income (R\$ in millions)¹



Operating Leverage and Adjusted Net Margin



Notes:

(1) Total costs and expenses as % of total revenue and income. Includes Cost of Services, Administrative Expenses and Selling Expenses.

(2) Adjusted net income is a non-IFRS financial measure. Please see the appendix for a reconciliation of this non-IFRS financial measure to the most directly comparable IFRS financial measure.

Strong Operating Leverage in the Hubs

Leverage of salespeople in same-hubs

- When we set up a new Hub, we incur upfront expenses from setting up our sales team
- However, as the hub matures, our sales team achieves significant scalability, with increasing revenue per sales person on a consistent basis
- As can be seen in the exhibits below, for all hubs already active as of October 2017 (beginning of 4Q17), the total revenue has consistently grown while the number of salespeople has remained relatively constant (exhibit 1), resulting in consistent increase in revenue per salesperson in those same hubs (exhibit 2)

Exhibit 1: Sample (same-hubs analysis): only hubs that were already active in Oct/17

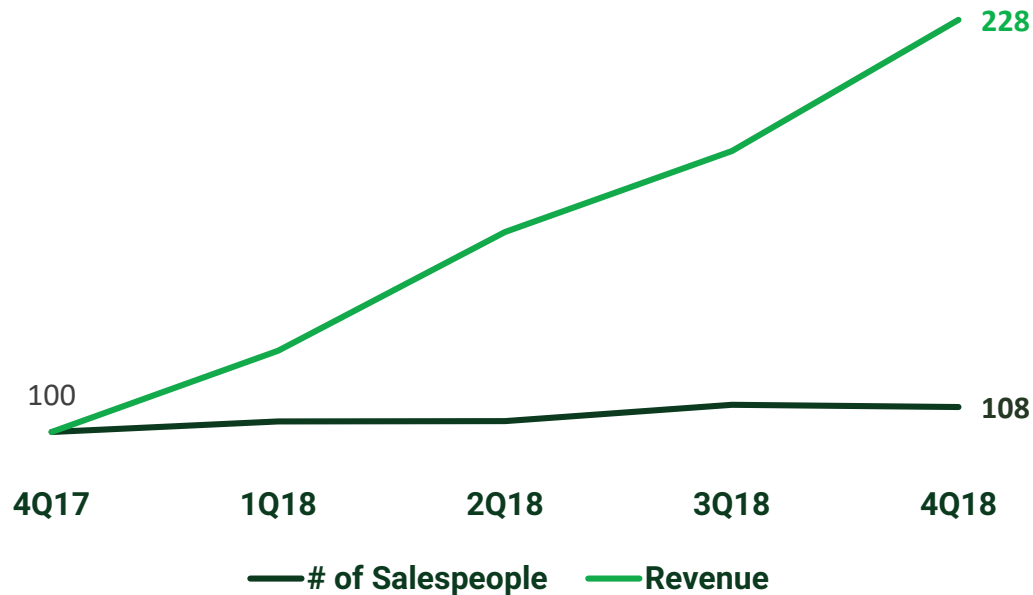
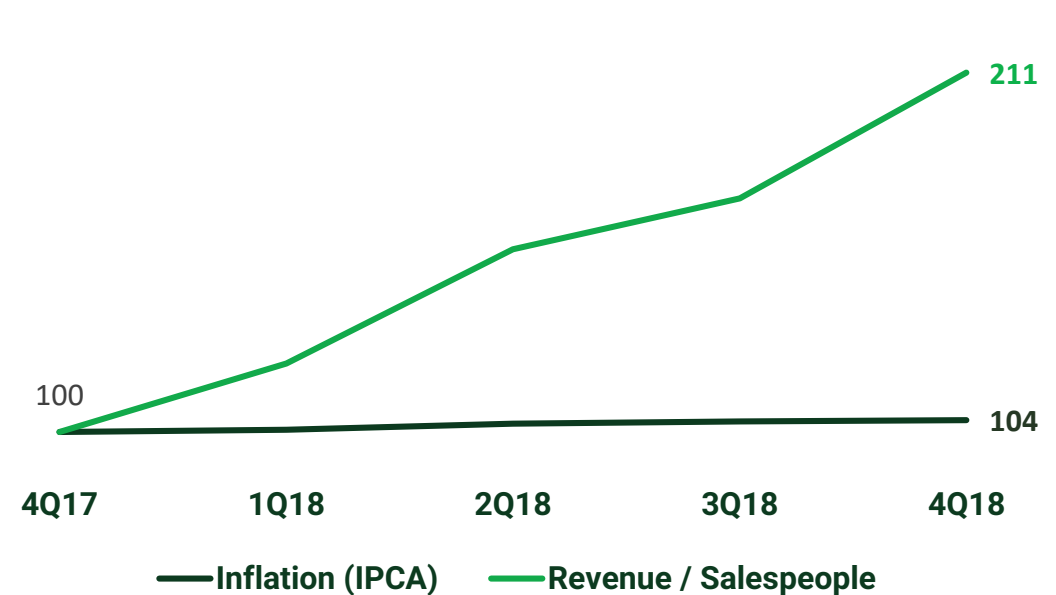
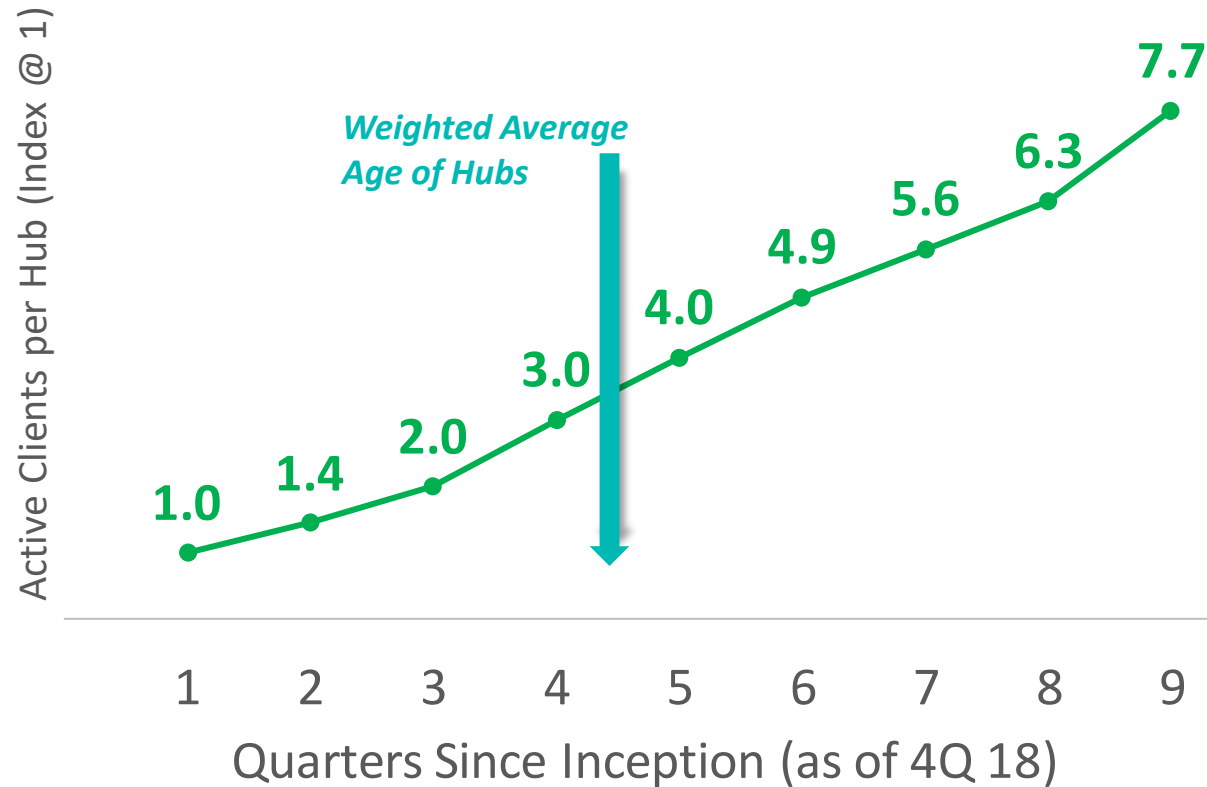


Exhibit 2: Sample (same-hubs analysis): only hubs that were already active in Oct/17



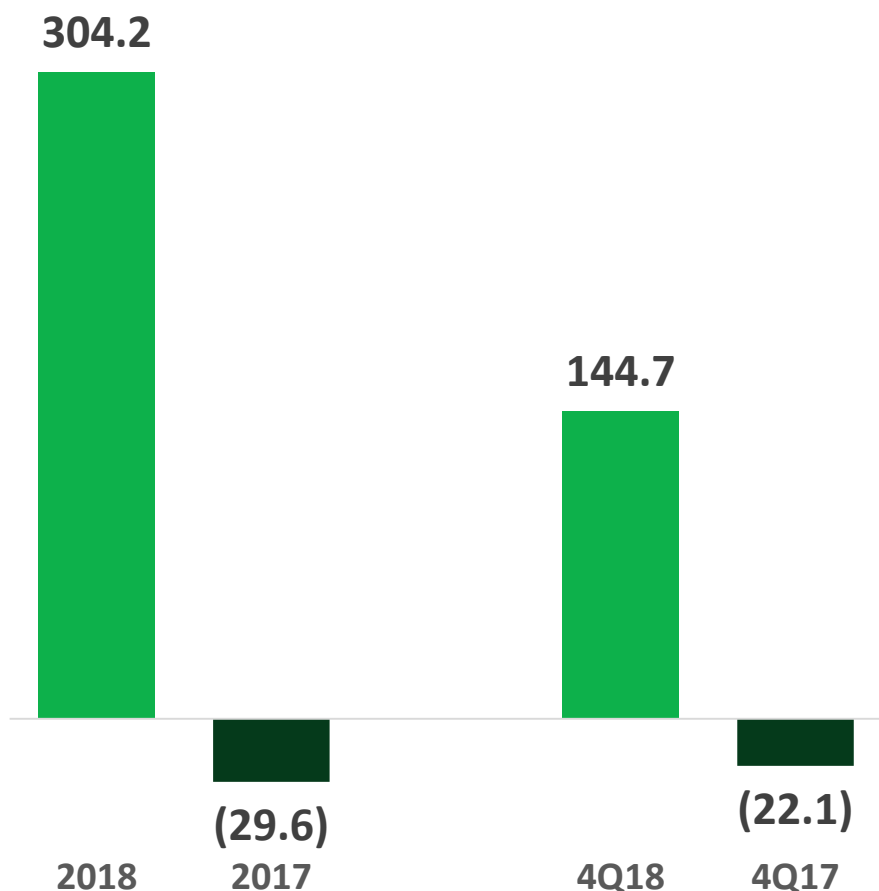
Ramp-up of Active Clients as Hubs Mature

Hubs' Indexed # of Active Clients per Vintage (1Q = Index 1)



- Hubs with 9 quarters have on average **7.7 x more clients** than hubs with 1 quarter
- We have seen **continued ramp-up in the number of clients** as our hubs get more mature
- Even our **older hubs continue to grow**

Adjusted Free Cash Flow



Adjusted Free Cash Flow Reconciliation (R\$ in millions)	2018	2017	4Q18	4Q17
Net cash used in operating activities	(2,415.6)	(1,283.9)	(2,125.6)	(507.3)
(-) Adjustments in Operating Activities:				
<i>Accounts receivable from card issuers</i>	3,990.4	1,774.3	2,629.3	1,336.2
<i>Accounts payable to clients</i>	(570.1)	(210.3)	(174.3)	(774.7)
<i>Interest income received, net of costs²</i>	(514.8)	(147.4)	(158.4)	(18.5)
Purchases of property and equipment	(140.9)	(141.0)	(15.6)	(53.0)
Purchases and development of intangible assets	(44.8)	(21.3)	(10.7)	(4.8)
Adjusted free cash flow¹	304.2	(29.6)	144.7	(22.1)

Notes:

(1) Adjusted free cash flow is a non-IFRS financial measure.

(2) Financial income from our prepayment activity, less the financial expenses related to the sale of receivables to financial institutions. The first item has direct influence in the level of accounts payable to clients in our balance sheet; the second item has direct influence in the amount of receivables from card issuers in our balance sheet.

APPENDIX



New Investment: Collact

Increasing the productivity of our clients and helping them to continuously sell more

collact

Collact provides CRM software for customer engagement, including loyalty program and marketing automation

- Customers are identified when they pay in a seamless way
- Data-driven marketing engine for growth
- Customer interface for relationship and services
- Conversion rate 3x higher than other media¹
- Proven customer engagement helping clients to continuously sell more²



Notes:

(1) Using as reference research made by Serasa Experian in Brazil (2012) with e-mail, social media and search engines.

(2) Research made by Collact with 28,000 customers in 2018 showed that customers increased their visits to the establishments consistently after they were fully engaged in the relationship program (5+ visits).

Non-IFRS Adjusted Net Income Reconciliation

(R\$ in millions)	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
Net income (loss) for the period	(75.8)	(0.1)	(14.8)	(14.3)	24.7	63.0	90.4	127.1
Share-based compensation expenses ⁽¹⁾	76.2	9.0	17.7	36.0	0.0	0.0	24.8	36.0
Amortization of fair value adjustment ⁽²⁾	5.8	3.5	2.7	2.8	2.7	2.8	2.8	4.3
Gain on previously held interest in associate ⁽³⁾	0.0	0.0	0.0	0.0	0.0	0.0	(21.4)	0.0
One-time impairment charges ⁽⁴⁾	0.0	0.0	0.0	0.0	0.0	8.4	0.0	0.0
Tax effect on adjustments	0.0	0.0	0.0	(3.6)	(0.9)	(3.1)	(7.3)	(11.5)
Adjusted net income (loss)	6.2	12.4	5.7	20.9	26.5	71.1	89.3	155.9

- (1) Consists of non-cash expenses related to the grant of share-based compensation, as well as fair value (mark-to-market) adjustments for share-based compensation expense classified as a liability in our consolidated financial statements. For 4Q18 represents a one-time share-based expense related to the IPO.
- (2) On intangibles related to acquisitions. Consists of expenses resulting from the amortization of the fair value adjustment on intangible assets and property and equipment as a result of the application of the acquisition method, a significant portion of which relate to the EdB acquisition.
- (3) Consists of the gain on re-measurement of our previously held equity interest in Equals to fair value upon the date control was acquired.
- (4) Consists of (i) impairment charges associated with certain processing system intangible assets acquired in the EdB acquisition that we no longer use, in an amount of R\$6.4 million in 2Q18 and (ii) impairment associated with improvements made to certain leased office space upon the termination of the lease, in an amount of R\$2.0 million for 2Q18

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