

**Stone Co 1Q21 Earnings Conference Call**  
**June 1, 2021**

**Operator:**

Good evening, ladies and gentlemen. Thank you for standing by. Welcome to the StoneCo first 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](http://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. Besides, we would like to remind you that the Linx acquisition is pending regulatory approval by the Brazilian Antitrust Authority, and management comments are based only on publicly available information. 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](http://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, our COO and Chief Strategy Officer, and Marcelo Baldin, our CFO.

Today, we will present our operational and financial metrics for the 1Q21 results and discuss some trends that we are observing in the 2Q21. I will pass it over to Thiago so he can share with you the key messages regarding the quarter and future outlook.. Thiago?

**Thiago Piau** – *CEO*

Thank you Rafa and good evening everyone.

While Brazil faced a challenging situation with the second wave of Covid in the first quarter, we continued to work hard to stay close to our clients and bring to them the best service and solutions we envision. We monitored our client's activity closely, as well as how vaccinations and economic activity evolved in Brazil and in other countries. Based on our experience with lockdowns last year, recent client transactional data and learnings from the dynamics of countries where vaccines are widespread, we expect that once vaccination scale (which we expect in the second half of 2021), the economic recovery will be fast and - although delayed – looks like Brazil is moving in the right direction. In order to be the fastest player when our economy comes back to normal levels, in the first quarter we decided to increase investments in our operation.

We have a high quality and solid core business in terms of growth, profitability and cash flow generation that continues to scale both in client base and TPV while also increasing engagement of clients with new solutions.

Our core SMB business presented strong growth metrics in the quarter and to date: as Lia will detail shortly, our active payments clients in SMBs grew 67% in the quarter versus last year, achieving 857.8 thousand active clients. 257 thousand clients are active in our digital account and of those, 188 thousand use it as their banking domicile, settling all of their transactions in the Stone Account. Overall SMB TPV grew 45% in the first quarter versus last year, with strong acceleration in the second quarter to date: TPV grew 121.6% in April and 111.2% in May up to May 20th. While April and May compare to weaker comps due to lockdowns in the second quarter of 2020, we still see strong growth acceleration when looking at a two-year CAGR, of 42.5% and 50.2% annual growth respectively in April and May to date.

In terms of revenue and profitability in our core SMB operation, our Take Rates decreased from 2.20% in the 1Q20 to 1.9% in the 1Q21, due to additional provisions on our credit product caused by commerce restrictions. Excluding these effects, we believe our Take Rates would have been 2.22%. Even though we have experienced R\$116 million impact in revenue reduction, our credit portfolio grew and remains healthy, reaching a risk adjusted return net of funding costs between 1.5% and 1.9% on a monthly basis, despite the short-term impact from Covid. We continue to evolve in our strategy to fund our product with third party capital and thus limit our exposure to credit risk. We have recently concluded another issuance of FIDC, raising additionally R\$ 340mm in third party capital. In total, we now have available R\$833mm in third party funding to be disbursed in our credit operation.

Regarding our vision and product evolution, we are building a Complete Financial Operating System for SMBs. In the past, we took the approach of building separate solutions as it was the best way to grow fast, learn about the market and gather client feedback. We have now decided to integrate our solution set and we have already migrated approximately 70% of Stone SMB client base to our new platform.

Regarding our software strategy, we will continue to invest in and acquire brick and mortar POS/ERP solutions built by great people and focused on strategic verticals where we have

great chances of (i) integrating our financial operating system and (ii) executing on the digitization of commerce in order to help our clients to sell online. The acquisition of Linx, which is still pending anti-trust approval, is a big step towards our vision and will broaden our vertical coverage as well as expand our set of digital solutions. With this acquisition we would reach R\$1.1 billion annualized pro-forma revenue in software.

By executing both on the Stone SMB core business and our software strategy we believe that we will be in a much stronger position to capture the evolution of the approximately BRL 4.7 trillion GMV of household consumption. We seek to be the player that can best help our merchants to do business and reach consumers. To that extent, our investment in Banco Inter and the commercial partnerships we are building will be very accretive in terms of learning and new experiences.

We are very confident in the growth of our core business and excited with the opportunities ahead. We will work hard as a protagonist in the financial and commerce revolution of our country, finding the best people we can and serving our client with maximum care and devotion.

With that said, I will pass it over to Lia. Lia?

**Lia Matos** – *COO and Chief Strategy Officer*

Thank you, Thiago, and good evening everyone. Thank you for joining us today.

I want to start on page 3 highlighting that Brazil went through a second wave of covid in the 1Q21, which imposed commerce restrictions in several cities throughout the country. Those restrictions were felt by our clients, with average TPV reaching a low in the end of March. But similar to the behavior we saw in the comeback from the first lockdown in 2020, we already observed significant and quick recovery, with average TPV in May achieving levels above January 2021. As Thiago mentioned, we expect that, once vaccinations scale, the economic recovery of the country will be fast.

In page 4, we show our decision to increase investments in the growth of our business. We want to be ready to accelerate growth when our economy comes back to normal levels. Indeed, when we compare to the previous quarter, we:

- Increased our sales team headcount by 24% and our marketing investments by 33%, to ramp up our distribution capacity;
- We expanded tech headcount by 20%, to further drive the evolution of our platform and solutions;
- And we increased our customer service and logistics teams by 32%, to continue to bring the best service to our clients as our operation continues to scale;

In page 5, I want to highlight the performance of our SMB business. From now on, when we refer to SMBs, we are referring to our Brick-and-mortar SMBs, SMBs that sell online through Pagar.me and TON, our micromerchant solution.

We continue expanding our SMB client base, which has increased 67% year over year, reaching close to 858 thousand clients in the first quarter of 2021 with quarterly net addition

of clients of 138 thousand. From those, (i) Over 62 thousand are coming from online and offline SMBs and (ii) close to 77 thousand are coming from TON, a strong acceleration when compared to last year. With a strong growth in TON we are excited with the opportunity to become a relevant player in the Micro merchant space.

The number of Open Digital Banking Accounts increased to over 658 thousand, 30% higher than the previous quarter and 5.4 times higher than first quarter 2020. Clients with an Active Digital Banking Account reached more than 237 thousand, demonstrating an increasing level of engagement. From now on, we will only disclose the number of active accounts. Also, within these accounts, more than 188 thousand clients are already using Stone as their main settlement account.

The number of clients using our working capital solutions also grew significantly. The number of clients using credit increased 3-fold year over year, reaching more than 102 thousand in first quarter 2021 and the percentage of clients with prepayment grew from 62% in the first quarter 2020 to 67% this quarter, a 5 percentage points increase.

Moving over to page 6, we show the TPV evolution of our SMB operation, which grew 45% year over year in the first quarter and has accelerated to 122% in April and 111% in May up to the 20<sup>th</sup> of the month. Looking at a two-year CAGR to normalize the effect from a weaker April and May in 2020, we see our SMB clients TPV accelerating growth in May to over 50% 2-year CAGR, even with the impact of Covid in 2020 and 2021.

In page 7, we highlight the performance of our credit operation in the quarter. Our take rates decreased as a result of an increase in our credit provisions and financial incentives to clients due to commerce restrictions imposed by Covid's second wave. This measure brought a negative impact in our results of R\$116 million or 35 bps in the SMB take rate. With that, our Take Rates in SMBs decreased from 2.20% in the 1Q20 to 1.87% in the 1Q21. If we were to exclude these effects, we believe our Take Rates would have been 2.22%.

Even though we have experienced this impact, our credit portfolio has grown and remains healthy, with monthly returns between 2.1% and 2.5%, or between 1.5% and 1.9% when we already discount the funding costs. The total credit portfolio grew from R\$1.5 Bn in 4Q20 to R\$1.9 Bn in 1Q21.

We continue to evolve in our strategy to fund our product with third party capital and thus limit our exposure to credit risk. As of the 2Q21, we have concluded another issuance of FIDC, raising an additional R\$340mm in third party capital. We now have a total R\$833 million available in funding to be disbursed in our credit operation. This second FIDC was raised at a cost of CDI +3.76% vs CDI +4.88% in the first issuance, lowering our marginal cost of funds by 112 basis points.

As we show on page 8, the traction and engagement of our ABC platform continues to increase. The heavy users of the platform, defined as clients being active in payments, credit and banking products, reached 7.7% of the total in 1Q21, compared to 5.3% in the previous quarter and only 0.4% one year ago. Also, we saw more clients being active in at least two financial solutions, with the number growing from 34% in the fourth quarter to 41% in the first quarter 2021.

On page 9, we discuss our vision and product evolution. As Thiago mentioned, we are building a complete financial operating system for SMBs, online and offline. We have gotten

to where we are today by developing different solution sets to help our SMB clients with their financial needs:

- We built the ABC platform to help brick and mortar SMBs with an integrated payments, banking and working capital offering. This was an important step to drive the activation of new financial solutions beyond payments. We have already migrated ~70% of the SMB client base to this new platform and continue to see increased engagement.
- At the same time, we have enabled SMB clients to sell online through our Pagar.me platform.
- More recently, we launched our TON solution for micro merchants
- We have also acquired additional solutions to help our clients with value added services, such as reconciliation and loyalty.

As we have increased scale in those solutions, looking ahead, we have taken the challenge to integrate Pagar.me SMB and TON products into the unified experience of the ABC platform.

As shown on this page, I want to highlight the elements of this platform in four feature sets:

Money-In, in which we enable our clients to collect money from their sales in cards and other non-cash payment methods, such as PIX, wire transfers, *boletos* and vouchers. We are evolving to enable reconciliation of all payment methods and providers, as well as online sales, with risk management and chargeback disputes.

One of the most mission critical needs our clients is Working Capital and we address those needs both through pre-payments and loans.

Once our clients cash-in their sales using our platform and can take Working Capital solutions to help them grow their business, we want to help them with a complete set of Money-out features, such as bill, tax and *boleto* payments, wiretransfers, PIX and a card to pay other business-related expenses and withdraw cash. We are working hard to launch our payroll feature so our clients can pay their employees in a simple way.

As our solution evolves, we will offer value-added services integrated to our core platform such as loyalty and CRM.

Now, I want to show you some metrics to illustrate the evolution of these fronts. In pages 10 and 11, we show engagement metrics of the current users of the platform.

While our TPV grew 45% when compared to the previous year, banking money-in volumes, which includes mainly TED, PIX and *boletos*, grew 4.6-fold year over year to R\$2.6 billion. Finally, our total account balance grew 5 times, reaching nearly R\$614 million in the quarter.

In money out, prepaid card TPV grew close to 5 times year over year, reaching nearly R\$219 million in the first quarter, driven by increased penetration and adoption of cards within our overall client base. Banking money-out volumes, composed by TED, PIX, *boleto* and bill payments grew 5.7 times year over year, reaching close to R\$9 billion in the first quarter.

Our working capital solutions also continue to scale, with credit portfolio increasing to R\$1.9 billion, while we increase the percentage of the portfolio being funded with third party capital, up from 4% in 4Q20 to 17% in 1Q21 as I already mentioned. As of today, we have R\$833

million in third party funding for our credit solutions. Additionally, in prepayment, we were able to grow the total prepaid volume in the segment by 38% year over year, fulfilling all our clients working capital needs during this challenging environment.

Moving on to pages 12 and 13, we show how our vision for software has evolved. Back in the second quarter of 2019, we communicated our vision to investors and since then, we have taken several steps in the direction of helping merchants of all sizes with their workflow tools, to drive their digitization and grow.

As Thiago already mentioned, we have taken the approach to invest in and acquire POS and ERP software businesses with two main opportunities for value creation: (i) to upsell financial services, and (ii) select segments where we could help drive the digitization of commerce.

The acquisition of Linx, which is still pending anti-trust approval, is a big step in achieving our vision and will broaden our vertical strategy as well as expand our set of digital solutions.

On page 13, we highlight where we are in the evolution of our vision and how the Linx acquisition will enhance our software ecosystem:

- In POS/ERP solutions, our current ecosystem covers retail, food and service verticals for SMBs. With Linx, we will expand to new verticals such as fashion, pharma and gas stations and gain strength in Mid/Large clients. Our strategy will continue to be driven by (i) expanding presence in strategic verticals through M&A and (ii) continuing to support organic growth within each vertical.
- Additionally, with Linx, we will enhance our presence in digital, by helping large brick and mortar merchants to go omnichannel through Linx's OMS, as well as SMB and mid/large retailers to sell directly to their consumers through eCommerce platform, marketplace gateway and food delivery apps.
- We help our clients engage with social media and with Linx Impulse products, we will expand the offering of engagement tools and help merchants better attract and engage with new consumers.

Moving on to page 14 we bring some numbers that show our evolution in software. Our pro-forma software revenue reached R\$55.2 million in the first quarter 2021, with organic growth of 43% year over year. If we include numbers from Linx, pro-forma revenue would have reached R\$285.8 million, growing 16% year over year. In annualized terms, our combined revenue would have reached over R\$1.1bn.

From this quarter onwards, we decided to exclude from our reported number of subscribed software clients the SMB clients using our reconciliation and loyalty tools, since those solutions are being integrated in the ABC platform and will be treated as value added services. With that, we have reached 133 thousand clients in the 1Q21. Combined with Linx, total client figures would have reached 202 thousand in the quarter.

On pages 15 and 16 we bring the evolution of our client base and pro-forma revenue by segment. From those, I would like to highlight two important data points:

- R\$174.7 million pro forma revenue in POS/ERP solutions with 47.9 thousand clients in SMBs.

- R\$ 1.6 Billion GMV in digital solutions considering both ecommerce platform, OMS and food delivery apps.

Finally, we seek to be the player that can best help our merchants to do business and reach consumers. Our investment in Banco Inter, that we discuss on page 17, and the commercial partnership that we intend to build with them will be an important step in that direction. For those not familiar with Banco Inter, it is a leading digital bank in Brazil, with a growing 10 million active client base and a complete suite of products and services to individuals including banking, marketplace, credit, insurance and investments.

We are investing up to R\$2.5 billion for a maximum of 4.99% stake in Inter. Also, we will have a seat on their board, and we will be entitled with a right of first refusal for a period of 6 years and according to certain price thresholds in case of a change of control.

We have already engaged with Inter's team regarding commercial partnerships, such as (i) to connect Stone merchants to InterShop, their fast-growing marketplace, driving the digitization of Stone merchant base and providing a multichannel journey for InterShop consumers, (ii) to enable a seamless mobile payments experience between Inter consumers and Stone merchants, both online and offline and (iii) to leverage Inter's funding capabilities to increase efficiency in Stone's working capital solutions as well as giving Inter clients access to new investment opportunities in fixed income, through the offering of FIDCs.

We are excited to work closely with Inter's team to drive the convergence of its consumers and Stone merchants and we will update you in the future about advancements in our commercial partnerships.

Lastly, on page 18, I want to give a quick update on Pagar.me Key Accounts, our Fintech as a Service business. We continue to see short term headwinds in TPV and revenues and expect this trend to continue in the short term. That said, we want to highlight that this is a more volatile business and the representativeness to our earnings is very small, despite being more relevant in TPV. Although we will continue to evolve our Pagar.me Key Account offering to a broader set of features, such as banking-as-a-service ("BaaS") and credit-as-a-service ("CaaS"), Pagar.me focus will be inclined towards digital native SMBs and the integration with the ABC platform.

In the first quarter of 2021, TPV increased by 21% to R\$ 18.2 billion. In the second quarter to date, up to May 20th, 2021, TPV has increased by 26% year over year. Take Rates have decreased from 1.10% in 1Q20 to 0.80% in 1Q21, a decrease of 30 basis points, mainly a result of lower prepayment rates, which were impacted by lower CDI rates in Brazil. Take Rate net of funding costs has decreased from 0.55% in 1Q20 to 0.45% in 1Q21, a decrease of 10 basis points.

With that, I will pass it over to Rafael, who will discuss our financial results in more detail. Rafa?

**Rafael Martins** – *VP of Finance and Investor Relations Officer*

Thanks, Lia. Starting on page 19, we show that, as Lia said, given the volatility in commerce activity as a result of the pandemic, we have decided to increase provisions for expected losses, which, together with financial incentives to our clients, has impacted negatively our

consolidated revenue in the first quarter of 2021 by almost R\$116 million and our adjusted net margins by 5.2 percentage points. Our consolidated Take Rates ex-coronavoucher decreased from 1.81% in the 1Q20 to 1.63% in the 1Q21, with a 23bps negative impact from the effect I just mentioned. This was a similar level of take rate compared to last quarter, when we reported a 1.64% take rate ex coronavoucher. Total revenue and income grew from R\$716.8 million in the first quarter 2020 to R\$867.7 million, a 21% increase year over year. In terms of margins, we had a 21.6% adjusted net margin this quarter. We are already seeing much better trends for our topline in the second quarter as indicated by Lia before.

Moving to slide 20, we show the evolution of the number of active payment clients, TPV and revenue. Despite the Covid impacts, our payment client base grew by 34.5% when compared to 1Q20, reaching 722.3 thousand clients excluding TON. TON has reached 190.3 thousand active clients, posting a record net adds in the quarter of 76.6 thousand clients.

Our consolidated TPV grew by 35.5% in the 1Q21. For the 2Q21, due to the strong performance in the first months of the period and easier comps, we expect a significant acceleration in the TPV growth.

On slide 21 we discuss our operating leverage and profitability. Our operating leverage was impacted by lower revenue due to the increase of credit provision and financial incentives to clients, headwinds from Covid-19 in our volumes and, as Thiago mentioned, our decision to keep investing in our business aiming to accelerate growth. Also, financial expenses increased as a % of total revenue and income due to the combination of a higher base rate in the country, mark-to-market from short term investments and the revenue impacts that I just mentioned. With that, our adjusted net margin was 21.6%, roughly in line with 1Q20.

Now, going over in more detail on each P&L line item on page 22, we see that we had stronger growth in our revenue from transaction activities, which grew 40% year on year and also in subscription services and equipment rental, which grew 50%. Both lines presented higher year over year growth than we saw last year in the first quarter of 2020. Our Financial Income revenue line grew 2.6% year over year, mainly due to the higher provisions in our credit business and declines in prepayment rates in Pagar.me Key Accounts, which were influenced by lower CDI rates in Brazil.

Our Cost of Services reached R\$239.7 million or 27.6% of Total Revenue and Income, an increase of 6.7 percentage points over the first quarter of 2020. This increase was mainly due to (i) higher investments in our technology and customer support teams, (ii) costs associated to our software solutions, (iii) higher datacenter costs to support our operation and (iv) the increase in the unit cost of chargebacks. When compared to the previous quarter, Cost of Services as a percentage of revenue increased 6.3 percentage points, primarily because of (i) operational deleverage from lower revenue, (ii) higher investments in new solutions; (iii) brand fees related to the increase in the unit cost of chargebacks, (iv) higher POS depreciation, mainly in TON, as a result of the significant increase in its client base and (v) higher investments in our customer support team.

Administrative Expenses were R\$117.6 million, or 13.6% of Total Revenue and Income, 3.2 percentage points higher than the prior-year period, mainly due to expenses associated with our software solutions. When compared to the previous quarter, Administrative Expenses increased from 12.2% of Total Revenue and Income to 13.6%, mainly due to the lower revenue.



Selling Expenses were R\$162.8 million in the quarter, or 18.8% of revenue, 3.2 percentage points higher than in the prior year period, mostly explained by the higher marketing investments, mainly in TON. Compared to previous quarter, it increased 4.8 percentage points as a percentage of our revenue, mostly explained by the lower revenue, the increase in our salesforce headcount and higher marketing expenses.

Financial Expenses were R\$92.5 million, a decrease of 37.7% compared with the prior year, mainly explained by lower cost of funds, driven by both the lower base rate and higher use of own cash to fund the prepayment operation, which more than compensated the higher volumes in the quarter. When compared to the previous quarter, financial expenses as a percentage of total revenue and income increased from 6.4% to 10.7%, mainly explained by lower revenue and higher cost of funds explained by the higher Brazilian base interest rate.

Other Operating Expenses were R\$41.5 million in the quarter, compared to R\$3.5 million in the first quarter of 2020. This difference is mainly related to (i) unusually low share-based expense in the first quarter of 2020 related to lower tax and social charges provisions due to high depreciation of shares in that quarter and (ii) fair value adjustments of call options related to affiliates, labor contingencies and tax claims which together impacted other operating expenses in the 1Q21. When compared to the previous quarter, Other Operating Expenses were 54.0% or 4.2 percentage points lower as a percentage of our revenue. This lower figure is mostly related to (i) a higher share-based expense related to the tax and social charges provisions resulting from the appreciation of shares in the fourth quarter, (ii) the R\$10 million donation to help with the construction of a factory for the production of COVID-19 vaccines also in the last quarter and (iii) higher than usual POS losses due to the COVID-19 impact in SMBs in the fourth quarter.

Turning to cash flow on page 23, we reported negative Adjusted Free Cash Flow of R\$299.8 million in the first quarter of 2021, compared to a negative R\$122.3 million reported in the first quarter of 2020. The adjusted free cash flow figure of the 1Q21 was impacted by: (i) R\$230 million in prepaid marketing expenses as a result of the agreement with Grupo Globo, (ii) R\$160 million in prepaid POS purchases and (iii) R\$46 million in prepaid software licenses. Important to highlight that the prepaid capex in the quarter was motivated by the opportunity to realize attractive discounts with suppliers.

In addition to the 1Q21 adjusted free cash flow figures, I would like to highlight some important recent events regarding capital allocation:

- This year, we have completed our repurchase program as announced on May 20<sup>th</sup>, having purchased a total of 3.6 million shares at an average price of \$55.4. From this number of shares, 18% was executed in the 1Q21, totaling R\$232 million.
- Also, in the second quarter of 2021 we sold most of our minority stake in CloudWalk, a payments startup in Brazil, for R\$209 million, realizing a gain of approximately R\$200 million

On page 24 I would like to highlight some key messages of today's presentation:

- First, our core SMB business experienced strong growth in the 1Q21, despite short term impacts from covid. Based on transactional data from our clients and examples of economic comeback in countries where vaccination is more advanced, we have made an informed decision to increase investments in our business, so we will be ready to grow faster once our economy comes back to normal levels.
- Second, the strong signs of traction and engagement of current users of our ABC platform, coupled with digitization trends, have encouraged us to continue evolving our solutions to create a unified Financial Operating System for SMBs, online and offline.
- Third, we are excited with the increased breadth of our brick-and-mortar software solutions as well as the steps we have taken in helping clients go digital and with how the Linx acquisition will enhance our ecosystem.
- Finally, we are confident with the continued evolution of our business in 2021, both in terms of our growth and our team's ability to deliver a strong value proposition to our clients.

For these reasons, we have decided to provide you some additional outlook for the year of 2021, as shown on slide 25. Our outlook excludes any impact from Linx acquisition, as this transaction was not yet closed. For the full year 2021 we expect (i) between 1.4 and 1.5 million active clients in payments, including TON; (ii) approximately 950 thousand clients excluding TON; (iii) a take rate ex-Coronavoucher for the full year between 1.85% and 2.00%; and (iv) a significant acceleration in total revenue and income from 2020 growth level;

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