



# IMS Capital

Stone Pagamentos

*Constellation Challenge 2020*

# Investment Thesis

## Company

stone

Ticker  
*STNE*

Current Price  
\$25,16

## Outcome

**BUY**

Target Price

**\$48,94**

Upside

**94,61%**

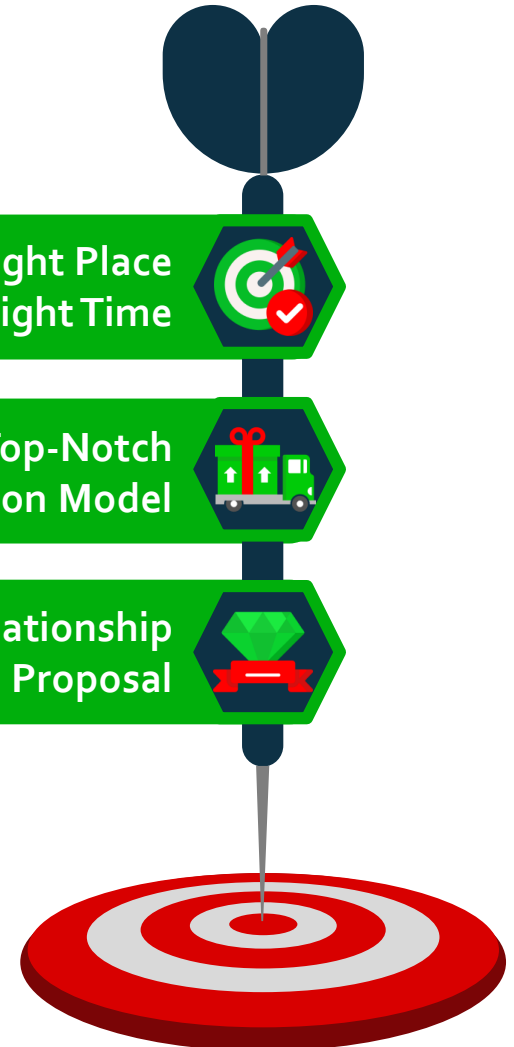
Right Place  
at the Right Time



Top-Notch  
Distribution Model



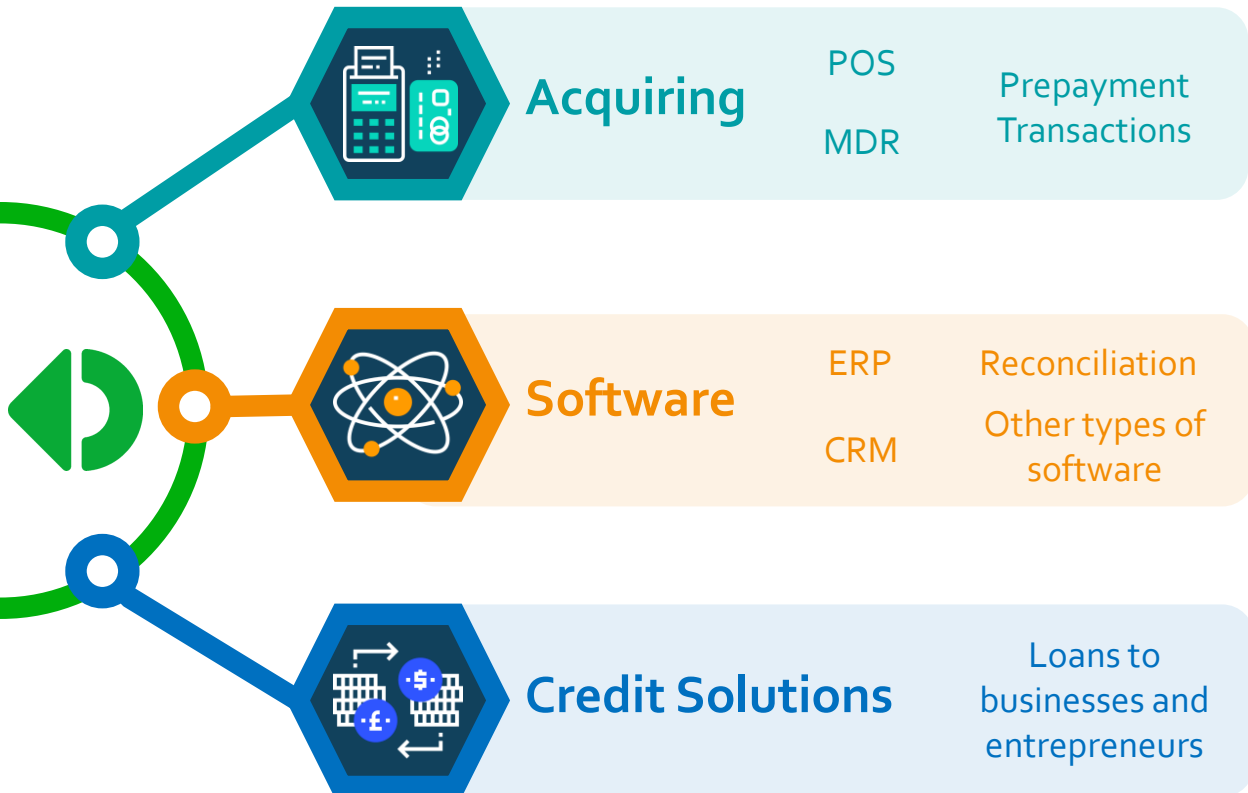
Strong Relationship  
out of Value Proposal



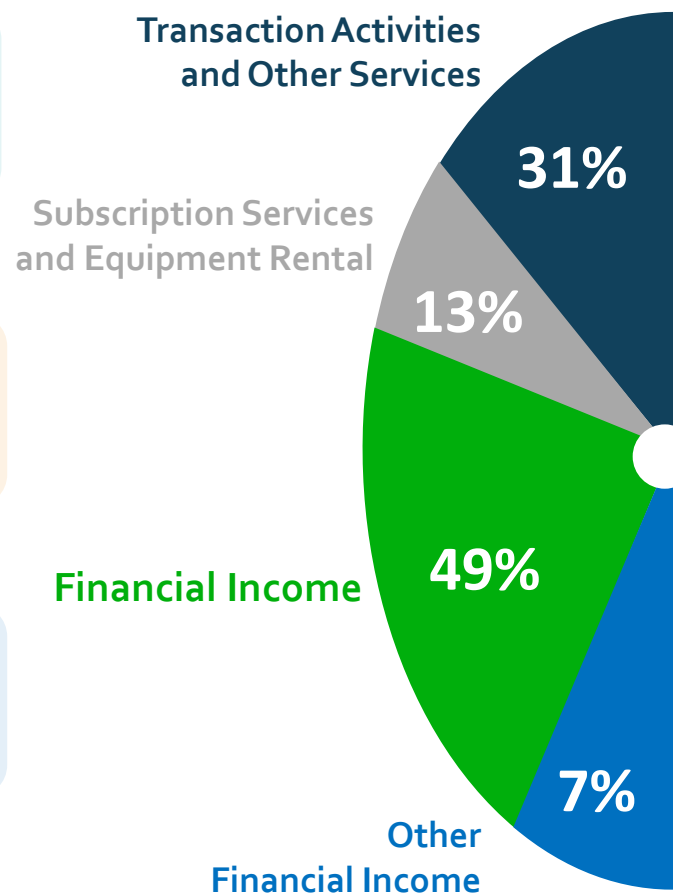
What is Stone?



# Stone at a Glance



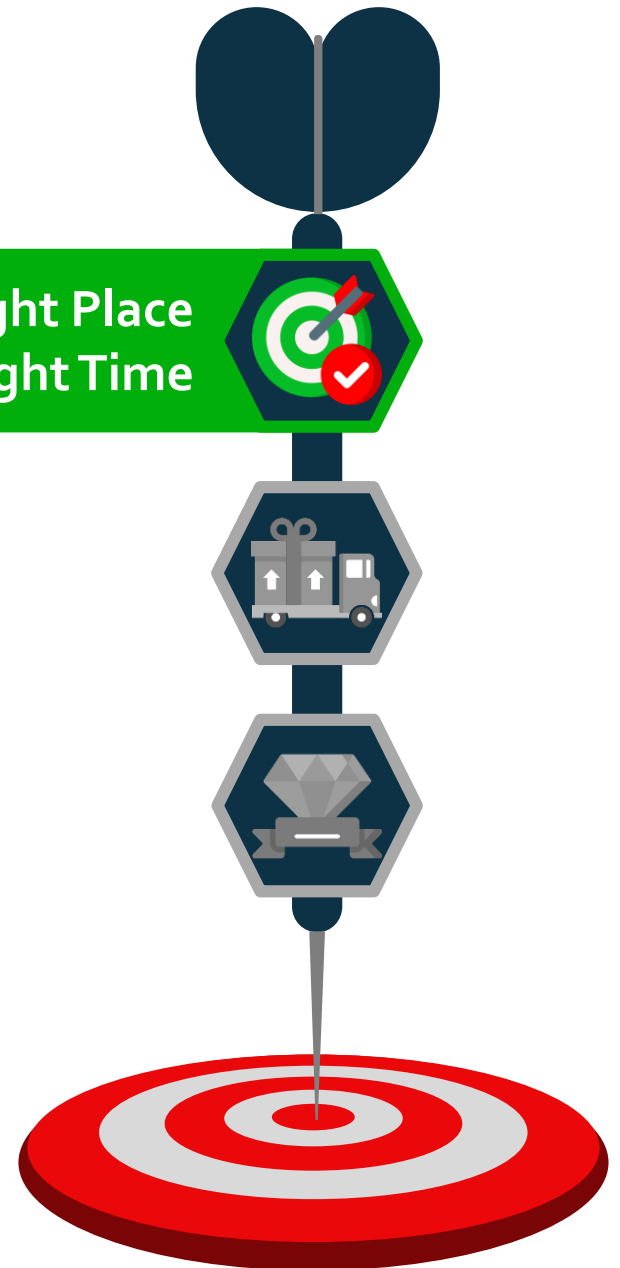
Revenue Breakdown 2019



Sources: Company Data

# Investment Thesis

Right Place  
at the Right Time



# Underserved Market

## Credit Card: Growth Potential

## SMB: The Golden Mine

## Long Tail: Catching The Gap

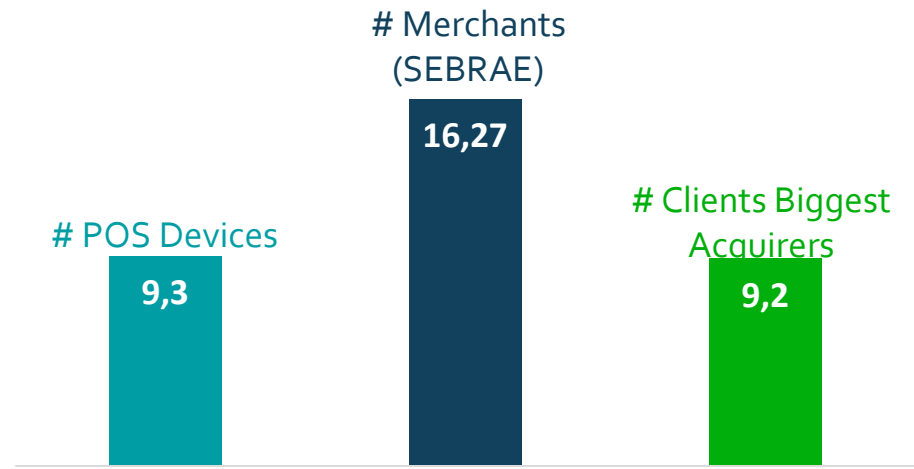
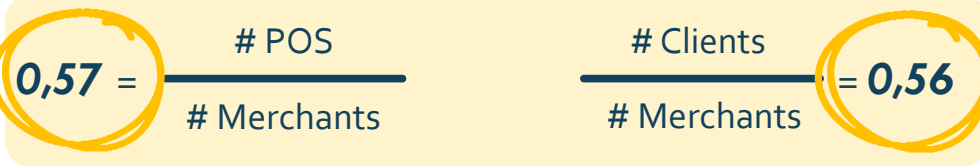


The number of **merchants using POS** to process transactions is **still very low**

There is room for growth in the number of POS Devices and Terminals in Brazil

The number of merchants is **still much higher than the number of clients served by the biggest acquirers**

#mn, POS Devices, Merchants, Total clients from biggest acquiring companies - 2018



Sources: ABECS, SEBRAE, Companies Data

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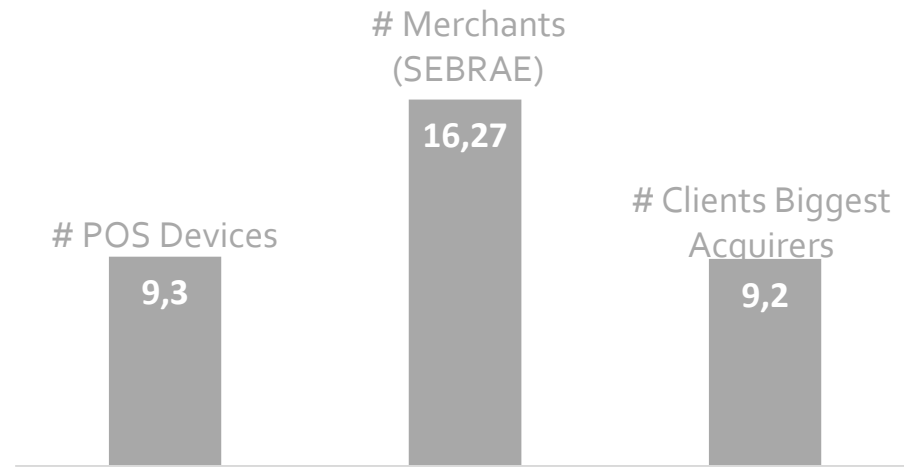
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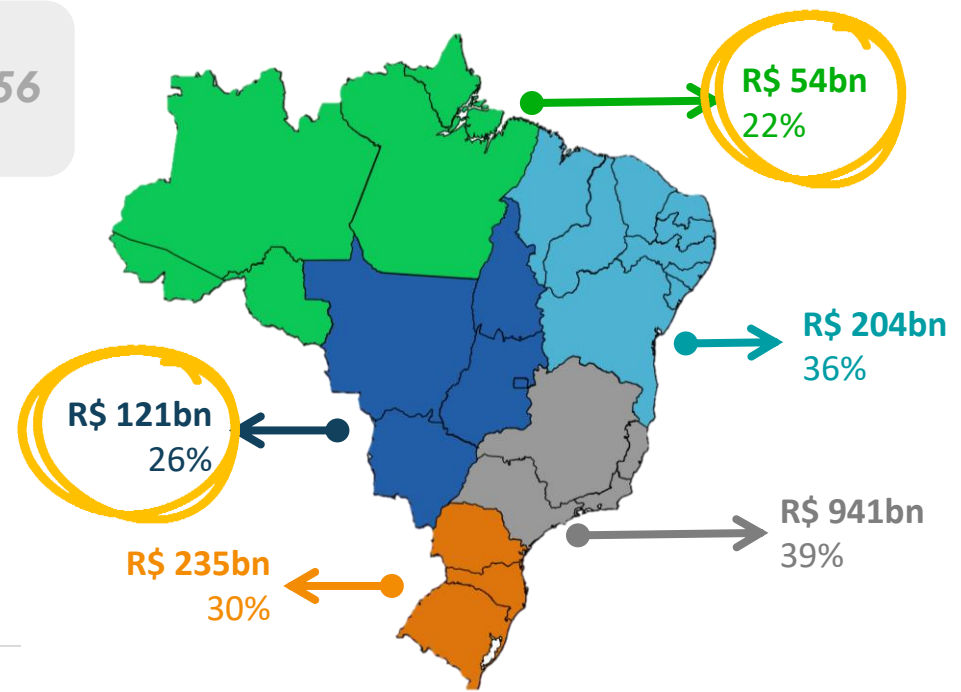
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$$0,57 = \frac{\# \text{ POS}}{\# \text{ Merchants}} \quad \frac{\# \text{ Clients}}{\# \text{ Merchants}} = 0,56$$



Regions like **North and Center-West** have a **lower TPV/Household-consumption ratio**

TPV and TPV / Household-consumption by state - 2018



Sources: ABCEC, SEBRAE, Companies Data, IBGE

# Underserved Market

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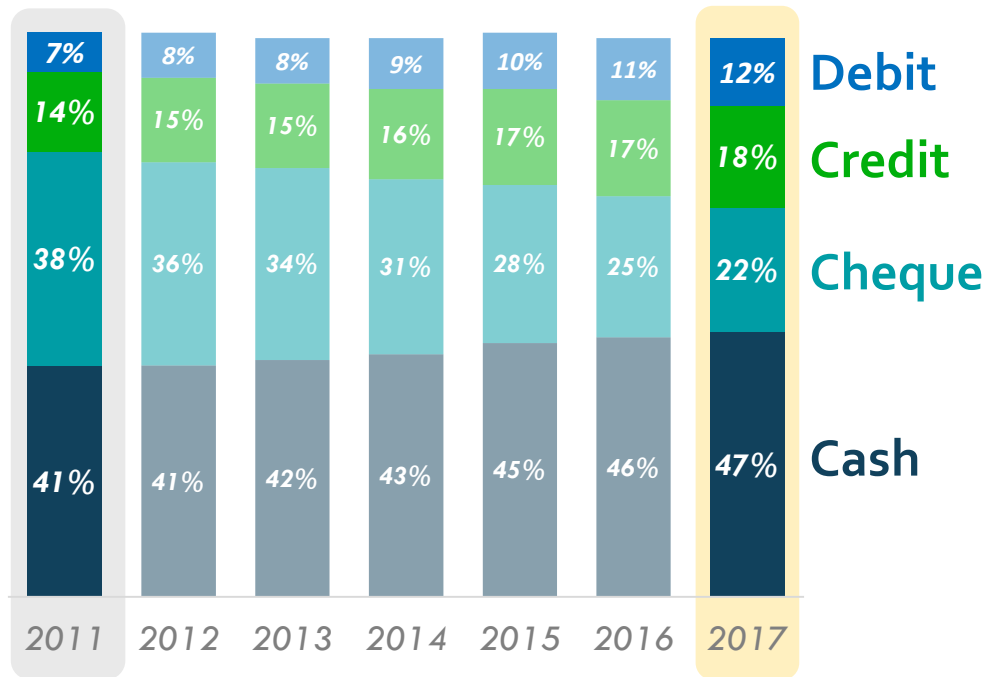


**Credit Card:** growth potential due to **low penetration** and **consumer culture**

Compared to other countries, Brazil's card industry is embryonic despite its potential

**Brazilians are replacing other payments methods for debit and credit card**

Percentage of number of transactions per payment method



Sources: PwC, Total Retail Service



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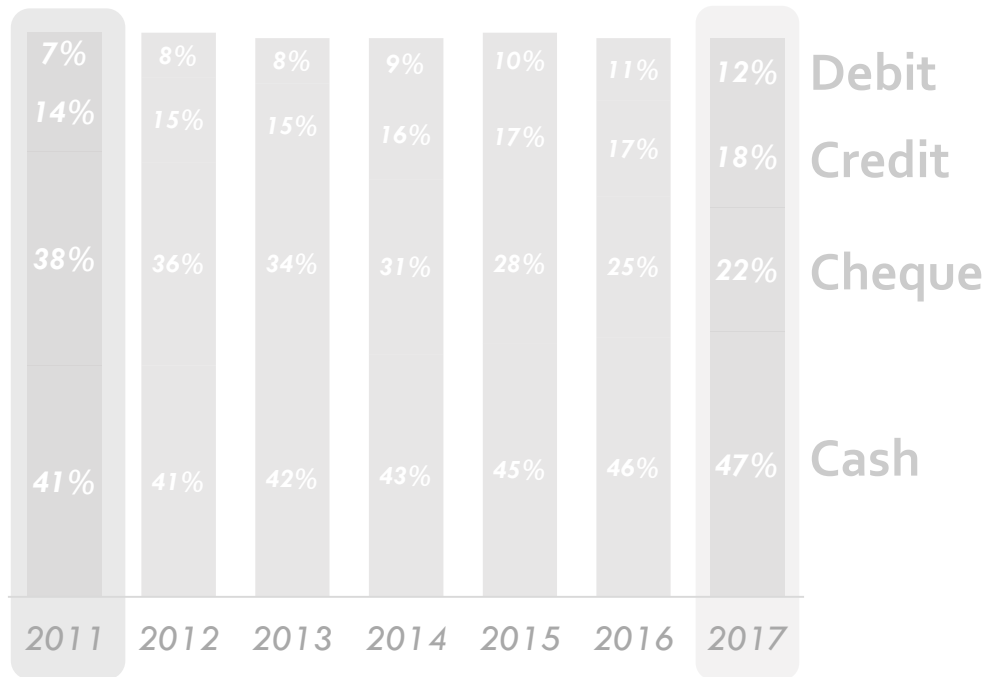


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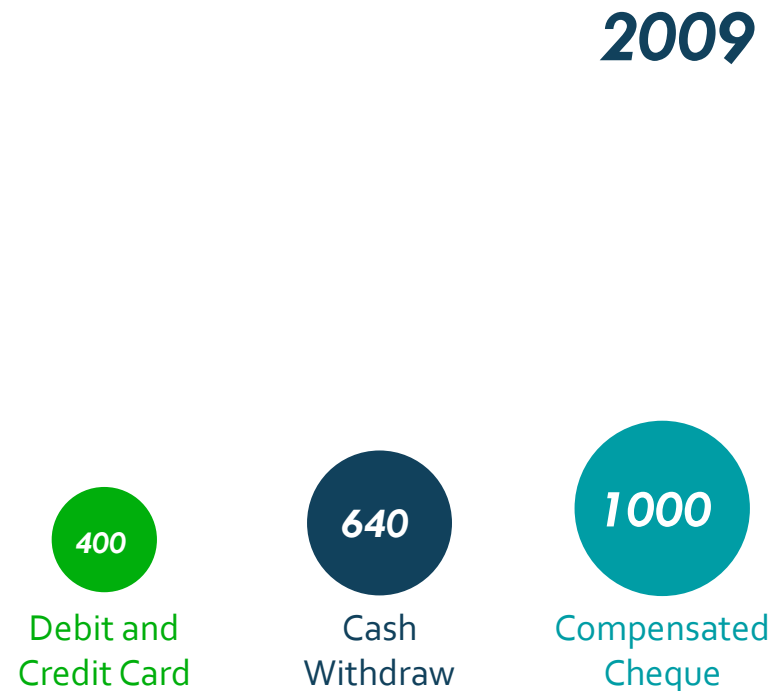
## Brazilians are replacing other payments methods for debit and credit card

Percentage of number of transactions per payment method



## Nowadays, cards are responsible for the highest volume of transactions

R\$ bn, Traded volume per payment method



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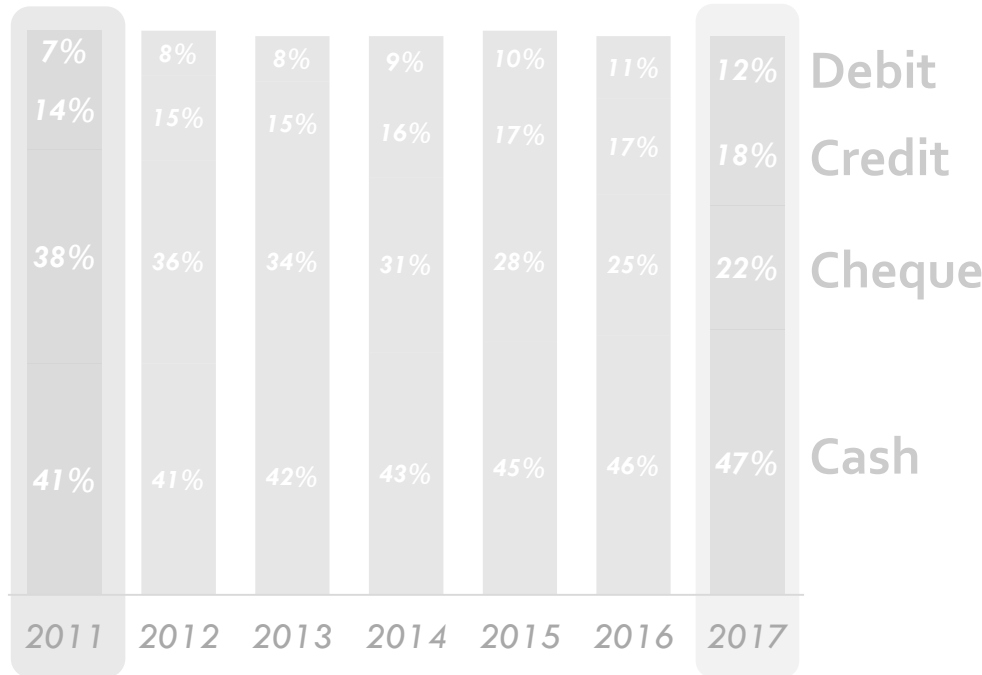


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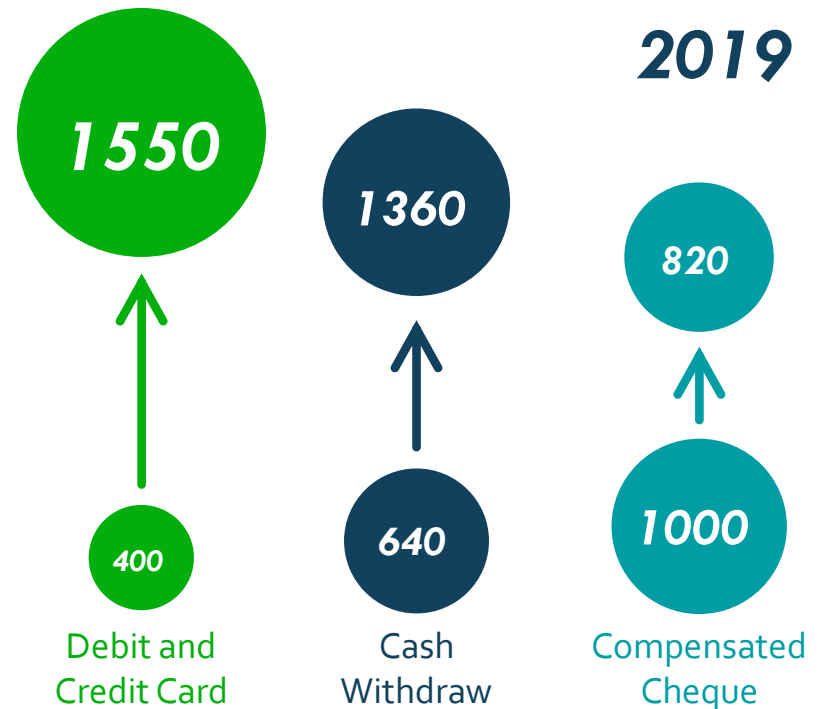
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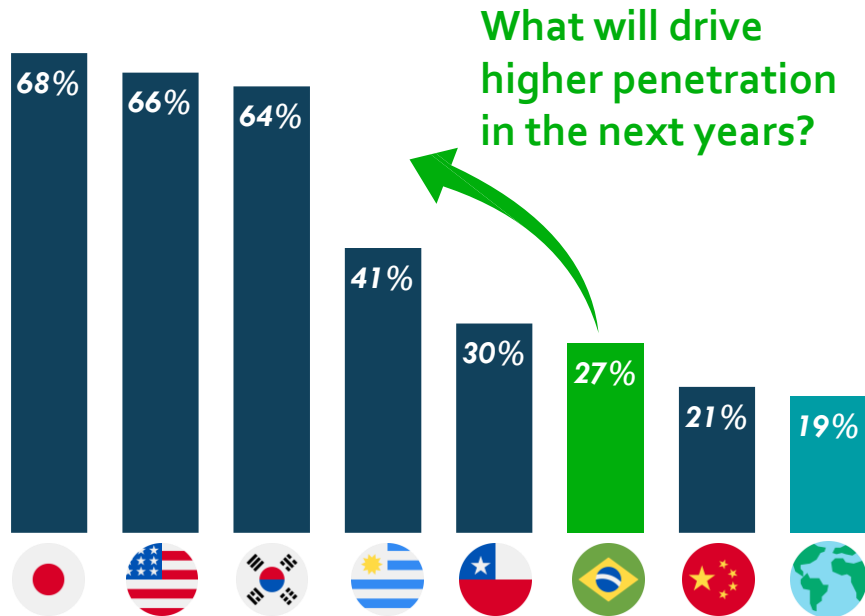


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Brazil's cards industry still has **lower credit card penetration** than other countries

Credit card penetration by country



Sources: World Bank

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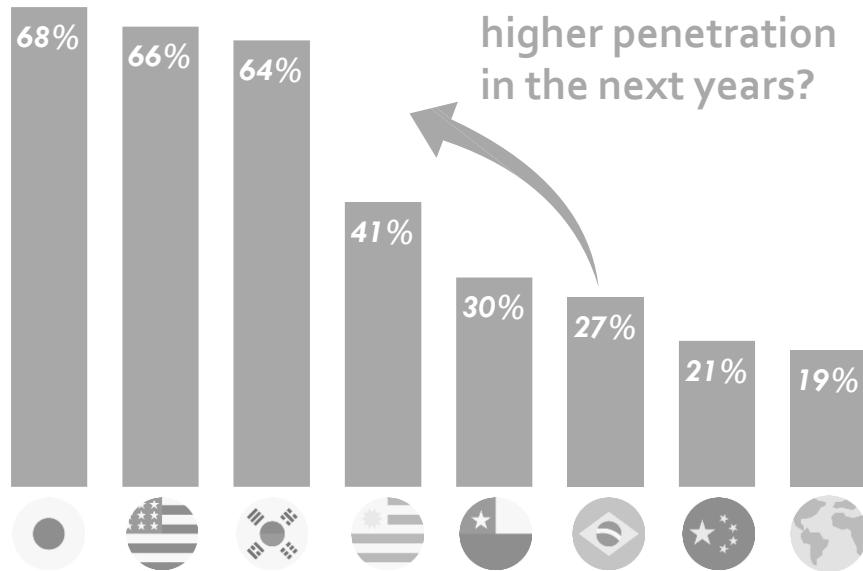


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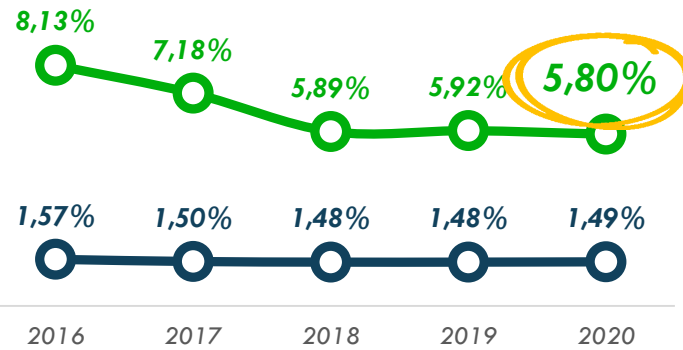
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Credit card penetration by country



What will drive higher penetration in the next years?



Delinquency Rates Falling

● Delinquency Rates      ● Delinquency Rates

Sources: World Bank, BCB, BCB-Deban

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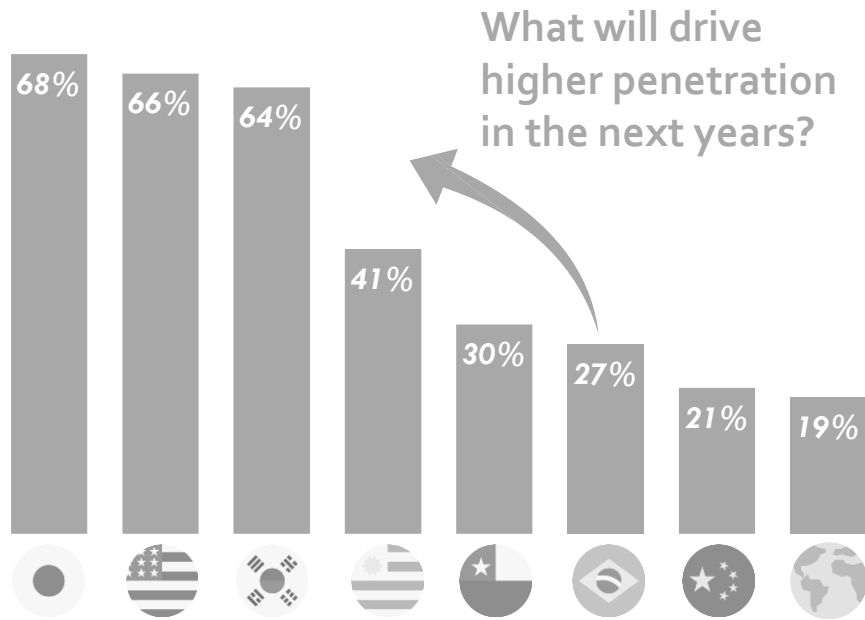


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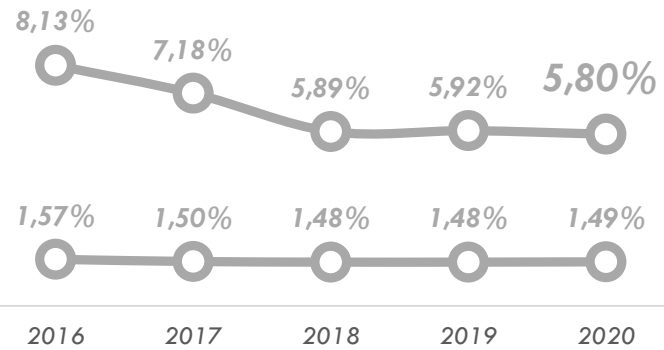
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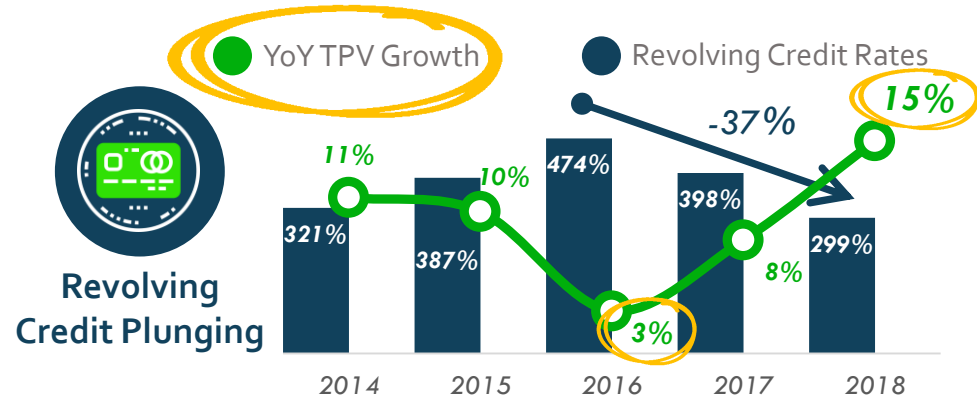


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Delinquency Rates Falling

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Revolving Credit Plunging

Sources: World Bank, BCB, BCB-Deban



**Credit Card:** growth potential due to **low penetration** and **consumer culture**

Compared to other countries, Brazil's card industry is embryonic despite its potential

Is **instant payment** a meaningful **threat** for the card industry?



Mr. Cheney, Iguatemi Shopping SP



We went **on the field** to **understand the usage of instant payment** and **how it could impact debit and credit cards...**

**Instant payment** will increasingly be **an option...**  
**However,** despite the reduction of debit cards usage, **credit cards weren't meaningfully affected....**

**Why?**

Sources: BCB, Companies Data

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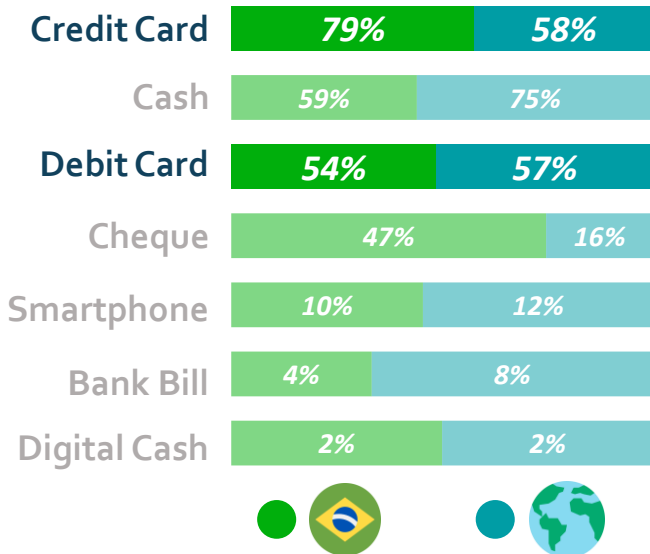
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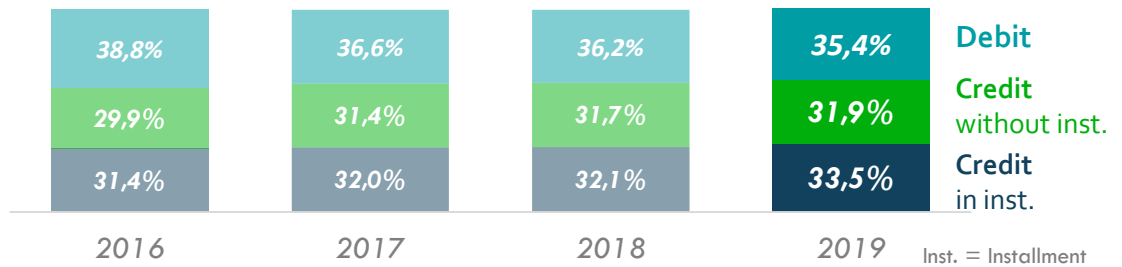
Credit and debit cards remain as the first choice of the Brazilian consumer

Preference for payments method Brazil vs. World



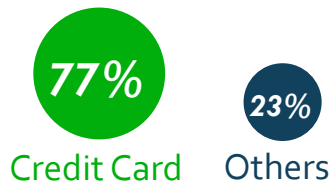
**Splitting purchases in installments is cultural**

Breakdown of total cards volume traded by the chosen payments method



**Profile of Debt: Credit Card as main source of indebtedness**

Profile of Debt in Brazil 2019



Sources: BCB, Companies Data, World Bank, ABCECS, JP Morgan

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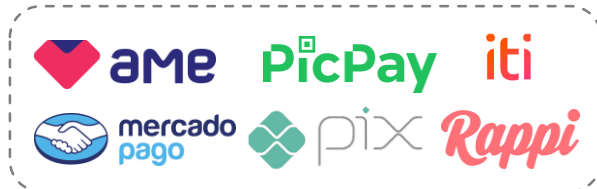
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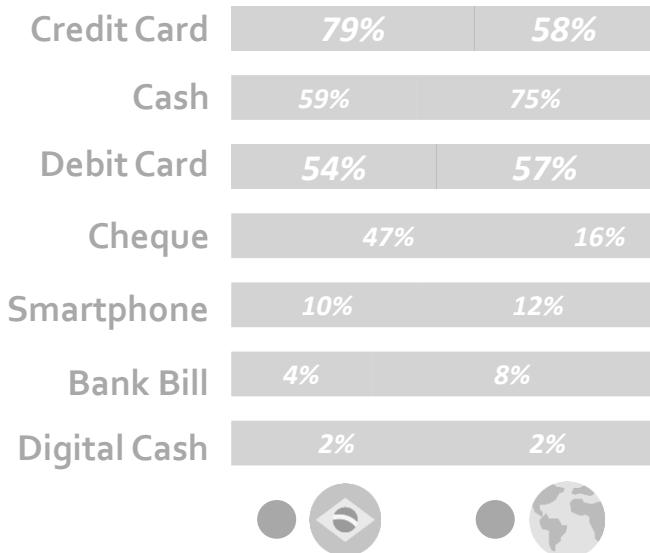
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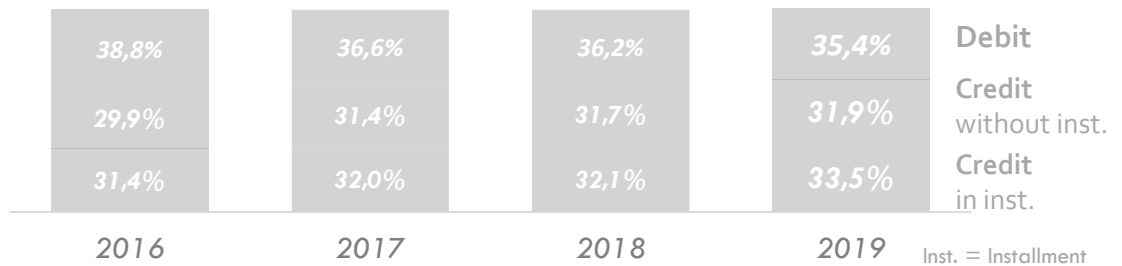
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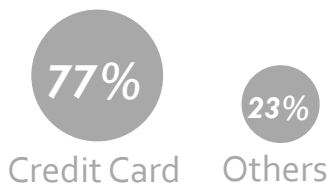
**Splitting purchases in installments is cultural**

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**Profile of Debt: Credit Card as main source of indebtedness**

Profile of Debt in Brazil 2019



**Instant Payment is on its way and might indeed reduce debit cards usage... But it doesn't undermine the Brazilian culture of splitting purchases in installments**



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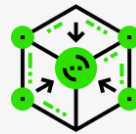


It looks like apples to apples, but it is **apples to oranges**

Although they are all acquirers, segmentation brings out distinct approaches from players



Clients Profile



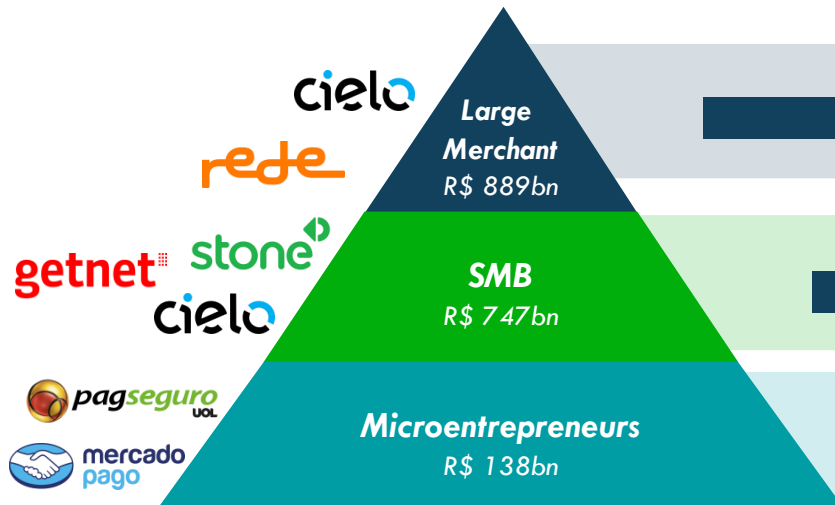
Levels of service



Threat of new entrants

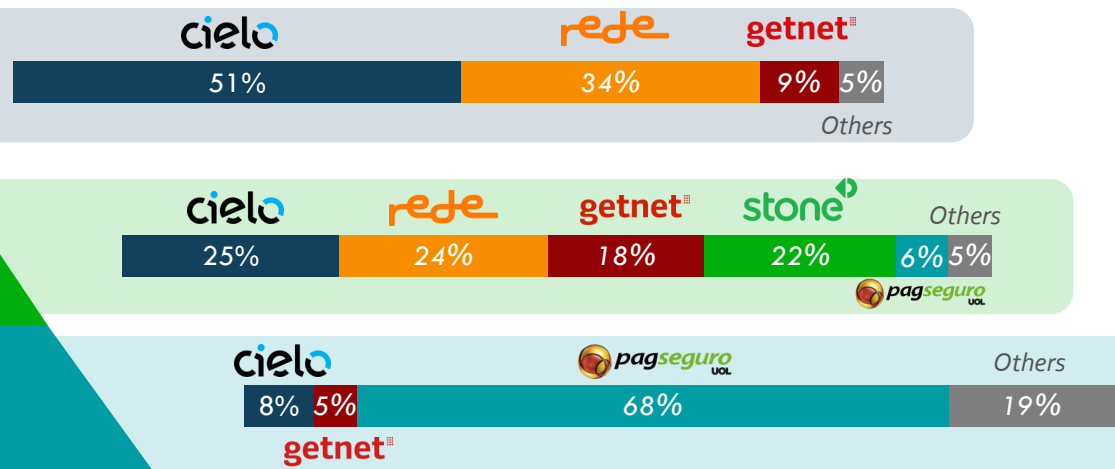
## Merchant's segments by TPV and players

R\$ bn, players segmented by niche specialization



## Market Share by segment - 2019

Estimated TPV market share



Sources: Companies Data, McKinsey

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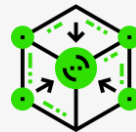


SMB segment has the **best service pool** to offer

Acquiring just as big banks' entry door to large merchants... in Micro segment, LTV is too short...



Clients Profile



Levels of service



Threat of new entrants



Biggest clients of the industry: highly demanding and largest operations

Large



Formal merchants with stores and high service demanders

SMB



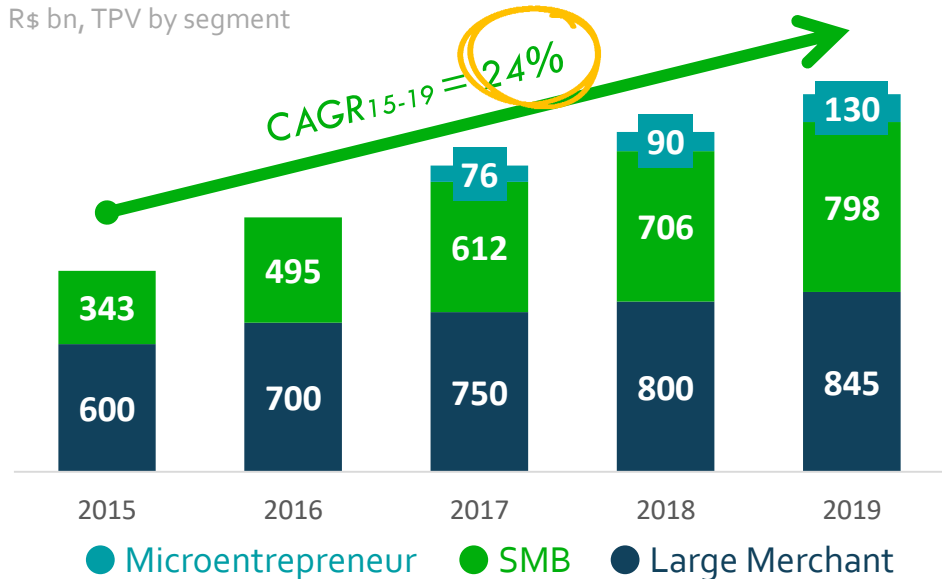
Smallest operations of the segment and self-made entrepreneurs

Micro

Sources: Companies Data

SMB: the fastest-growing TPV of the industry

R\$ bn, TPV by segment



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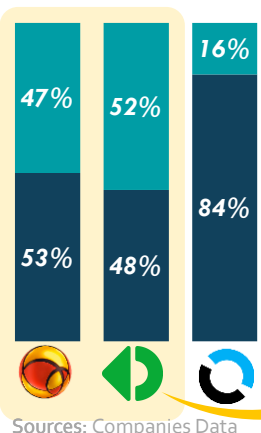
Credit Solutions

Software

Digital Banking

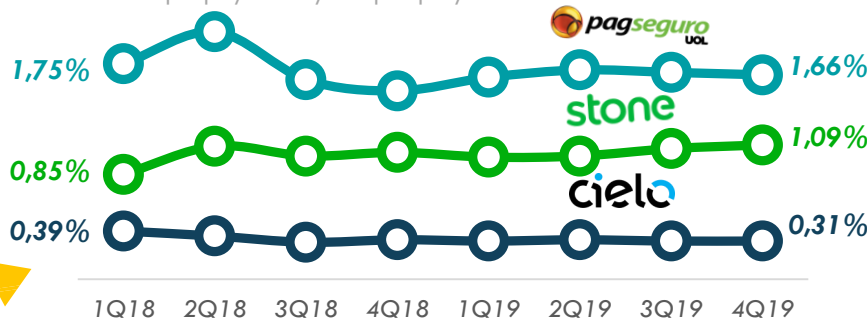
Large Merchants **use banks for credit solutions** like prepayment transactions, not acquirers

Take rate breakdown per acquirer 2019



Prepay. **Higher prepayment yield in SBMs and Micros**

Evolution of prepayment yield per player



Sources: Companies Data

Stone at a Glance

Positioning

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Relationship

Governance

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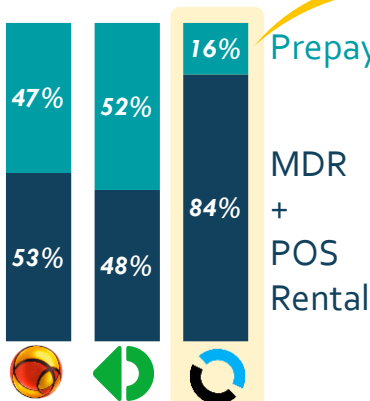
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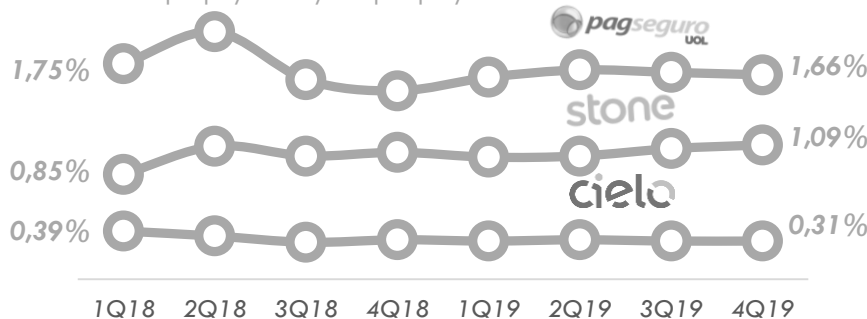
Sources: Companies Data, BCB

Cielo just as an entry door and **credit facilitator** for banks



Prepay. Higher prepayment yield in SBMs and Micros

Evolution of prepayment yield per player



According to BCB, **outstanding loan balance** for **small-sized companies** is of **~R\$38bn** with **R\$10bn** **addressable** to retail and food companies, **Stone's main client profile**



Greater Credit Penetration

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Large Merchants use **software companies** and **Micros aren't looking for better systems**

Software companies segmentation

## Large Merchants

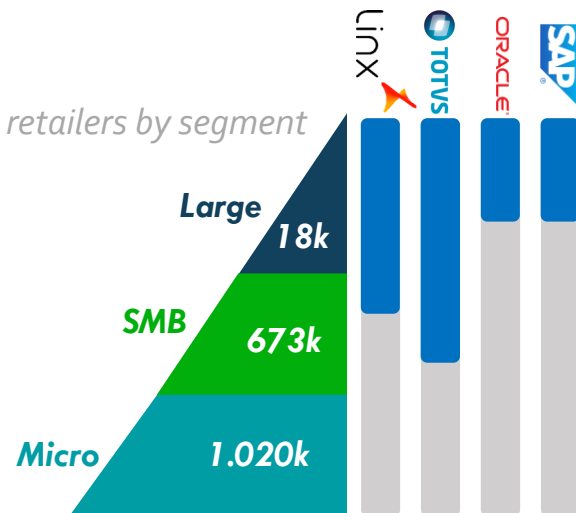
### Software Companies



These companies offer **more sophisticated products**, like **TEF** and **Smart Terminals**

Large Merchants already **highly penetrated** by software companies

# retailers by segment



Sources: Companies Data, Euromonitor, Total Retail Service

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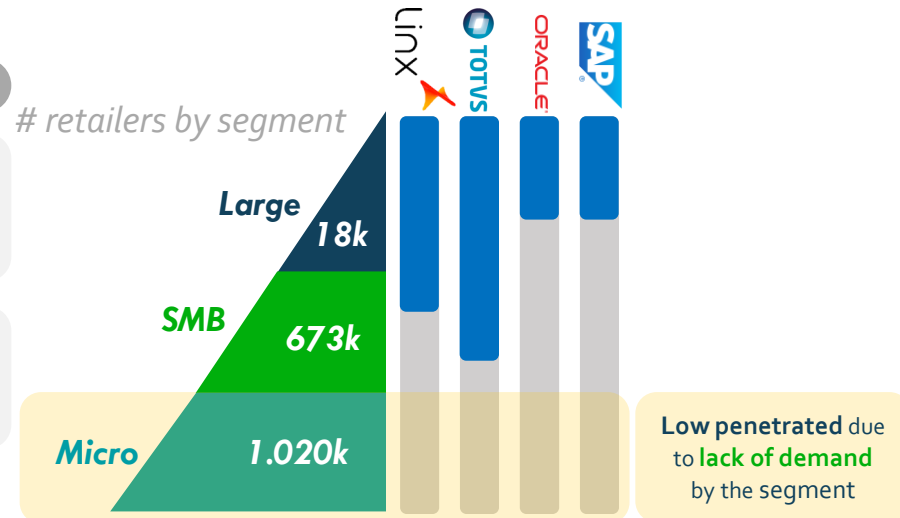
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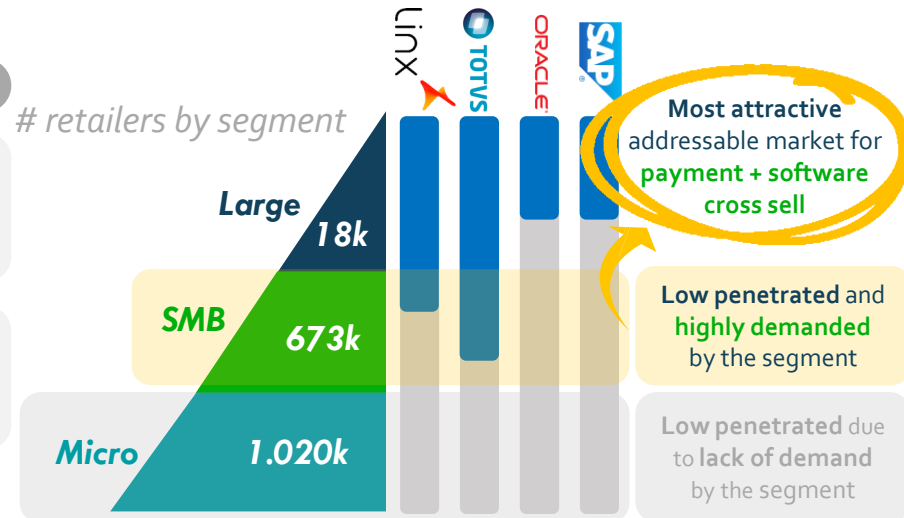
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# retailers by segment



Most attractive addressable market for **payment + software cross sell**

Low penetrated and highly demanded by the segment

Low penetrated due to lack of demand by the segment



Sources: Companies Data, Euromonitor, Total Retail Service

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Threat of new entrants

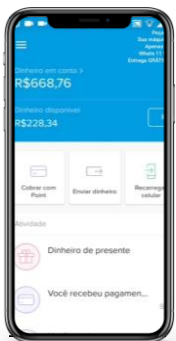
Credit Solutions

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Digital Banking

## In SMB and Micro segments, clients are consumers and digital banking is a meaningful opportunity

Mercado Pago, Stone and PagSeguro digital banking accounts



Digital banking account linked to a prepaid/credit/debit cards, once most customers are poorly served by traditional banks

Digital banking is a game changer for **credit penetration** and to **build solid relationships in Micro and SMB**



Sources: Companies Data, McKinsey

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Clients Profile



Levels of service



Threat of new entrants

## Consequences of deeper level of service in SMBs

Proxy of LTV per segment

Large

Micro

SMB

LTV

High

Low

Medium

SMB have higher LTV in comparison to Micros, since those entrepreneurs are formal, have physical stores and, therefore, have **monthly recurrent revenues**

Sources: Companies Data, Our Estimates

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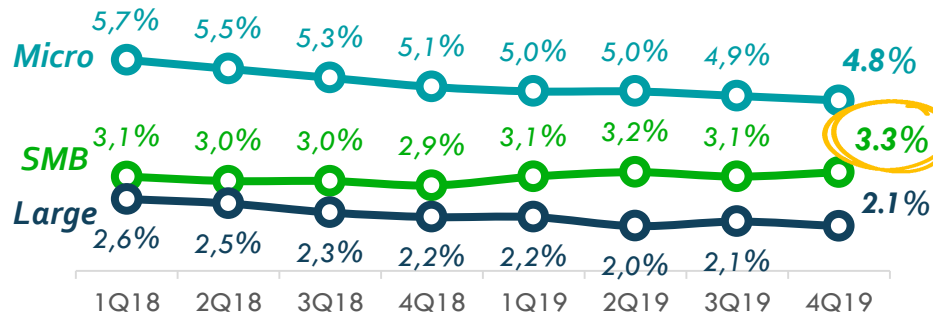
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SMB is a great balance between **Take Rate** and **LTV**

## SMB provides an attractive and stable Take Rate

Proxy of fully-loaded take rate per segment



Sources: Companies Data, Our Estimates

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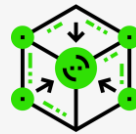


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Clients Profile



Levels of service



Threat of new entrants

Barrier to Entry

High

Large

Financial Institution

Credibility

Solid Structure

Due to the higher barriers to entry in comparison to Micro segment, SMB is better protected from potential new entrants

Medium

SMB

Brand Loyalty

Excellent Service

Logistics

Low

Micro

Marketing

Satisfactory service

High Scalability

Sources: Companies Data, Euromonitor

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...however, it's time to catch the **opportunity gap** in the **Long Tail**

Most opportunities of the segment are concentrated in offering clients digital banking accounts

**Due to lower client concentration, acquirers have higher bargain power with Micro Merchants**

TPV / Merchant per segment



TPV / Merchant



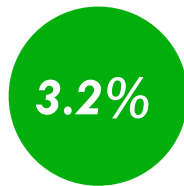
Higher Bargain Power

... resulting in the **highest Take Rate** of the industry

Proxy of fully-loaded take rate per segment 2019



Large



SMB



Micro

Sources: Companies Data, Our Estimates

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TPV / Merchant per segment

	Large	Micro	SMB
TPV / Merchant	R\$ 550.000	R\$2.500	R\$25.000

Creation of longer relationships with higher fees



Higher Bargain Power



Digital Banking cross sell

... resulting in the highest Take Rate of the industry

Proxy of fully-loaded take rate per segment 2019



Large



SMB



Micro

... but is there room for growth in this segment?

A wider addressable market consists of self-employed workers, who amount to 23 million individuals. These people have average monthly earnings of R\$1.7k each, resulting in an annual volume of BRL457bn

Sources: Companies Data, Our Estimates

**But how does Stone  
reach these clients?**



# Investment Thesis

Right Place  
at the Right Time



Top-Notch  
Distribution Model



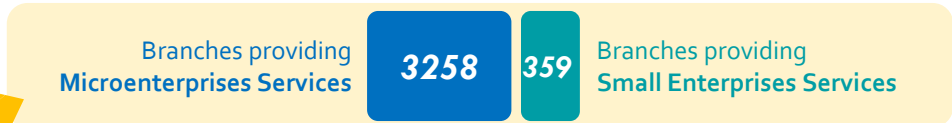
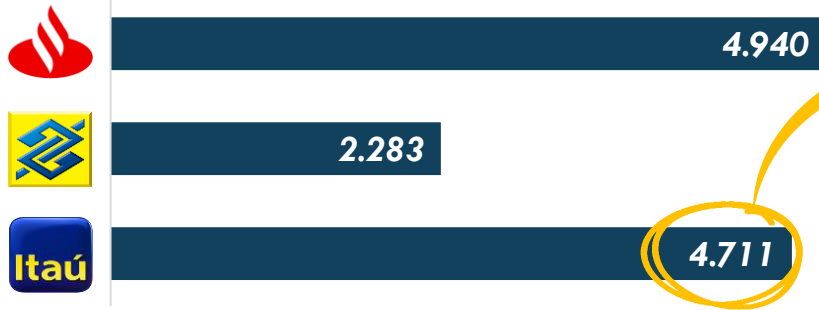


### Stone Hubs: An efficient and fast-growing distribution model

Despite incumbents' capillarity, Stone's distribution model is more efficient

To win the battle against incumbents, one needs an effective distribution system...

Bank branches by big banks behind incumbents - 2019



**cielo**

Cielo's opening its own distribution points, having opened less than 10 so far

$$\frac{\text{\# Clients}}{\text{\# Bank Branches}} = 94$$

**stone**

Stone's distribution model implies a way more clients per unit than its peers

$$\frac{\text{\# Clients}}{\text{\# Hubs}} = 1414$$

Sources: Companies Data; Our Estimates



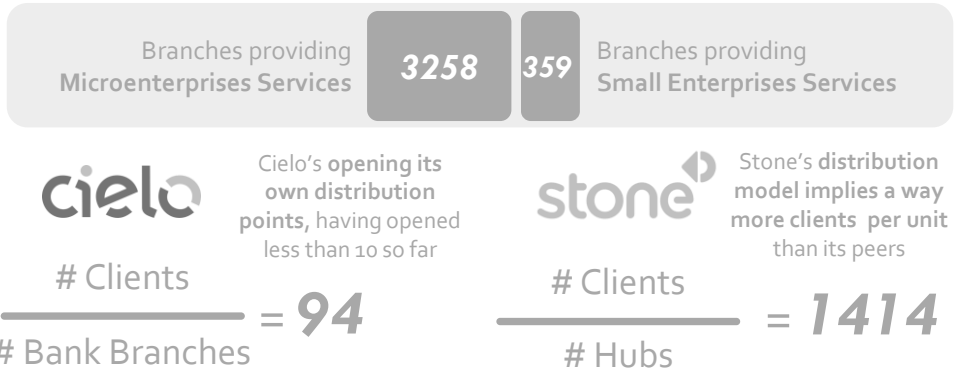
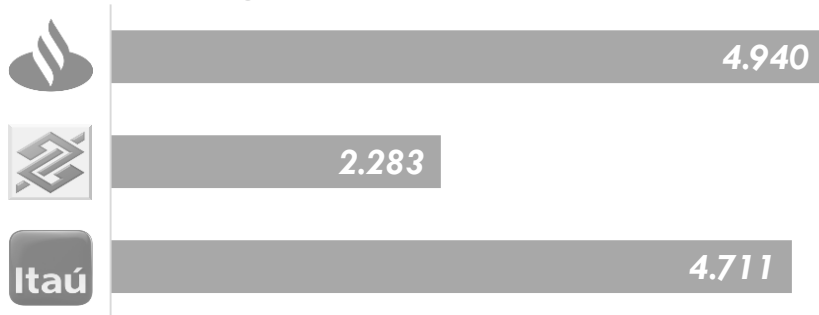


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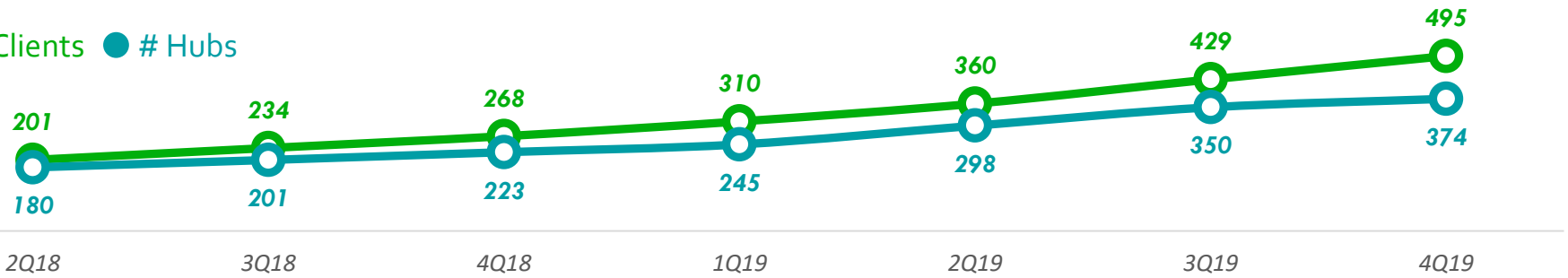
Bank branches by big banks behind incumbents - 2019



Stone has been expanding its network in a growth pace of ~2 hubs per week

ooo', Number of clients evolution vs. Number of Hubs evolution

● # Clients ● # Hubs



Sources: Companies Data; Our Estimates

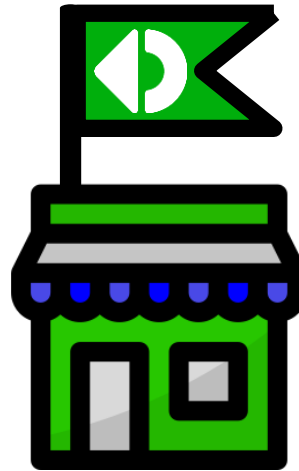


### Stone way of competing: go hyperlocal or go home

The hubs distribution model has allowed Stone to challenge incumbents in an unprecedented way...

#### Sales Manager

- Coordinates sales team ✓
- Leads daily reunions at 8:30 AM ✓
- Fosters results ✓



#### Green Angels

- Provide on-demand logistics support ✓
- Respond the clients needs in a short time ✓



Central coordination helps maintaining culture and improving strategies

Effective logistics support guarantees quick problems-solving

#### Hubs at a Glance

Sales Team  
Logistics Support  
S&M-Sized Cities and Suburban Areas of Big Cities

#### Unit Economics

~R\$348k TPV  
1 Sales Manager  
Between 6 and 10 workers  
~1,415 Clients

Sources: Company Data, Our Estimates

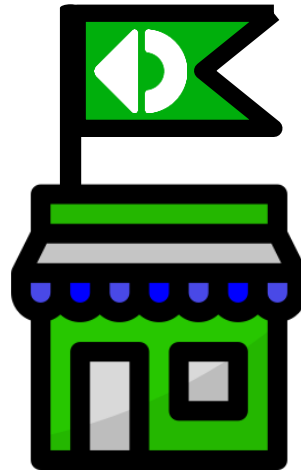


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Central coordination helps maintaining culture and improving strategies

Effective logistics support guarantees quick problems-solving

### Missionaries: In charge of clients capture and retention and responsible for client portfolio administration



Missionary

- Approach merchants ✓
- Guarantee proximity ✓
- Results-oriented salesmen help increasing retention ✓



Addressed Regions

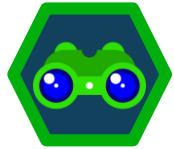
- Help maintaining customized services ✓
- Crucial for creating proximity and building a relationship ✓



Brick-and-Mortar Stores

- B&M mom and pop shops on the countryside, often underserved, are the target ✓

Sources: Company Data



We went **on the field** to better understand **regional allocation...**

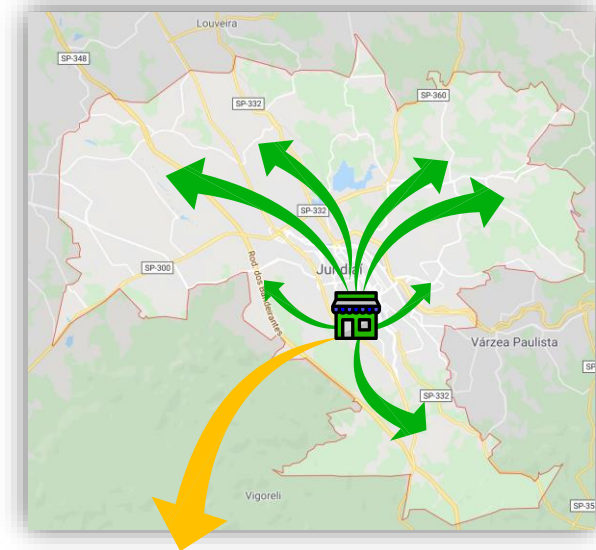
Missionaries are given specific areas, within which they are responsible for serving clients

We met a **very engaged and goals-oriented team**, whose compensation is results-dependent

Our field research in Jundiaí - SP

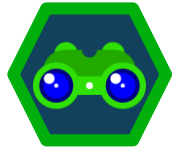
We've been told about **Stone's "door-to-door" client capture method**, whereby **Missionaries actively approach potential clients**, offering Stone's services; Such strategy **inverts the logics of the industry and boosts client adds and retention**

*Hub distribution in Jundiaí - SP*



**10 workers: 8 Salesman and 2 Green Angels**  
This workforce is **responsible for all Stone's distribution in the city**

Sources: Our conversation with Stone Missionary, Company Data



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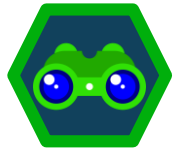
Our field research in Jundiaí - SP

*Our conversation with Bruno Brombal, Stone Missionary, at Jundiaí Shopping*

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Sources: Our conversation with Stone Missionary



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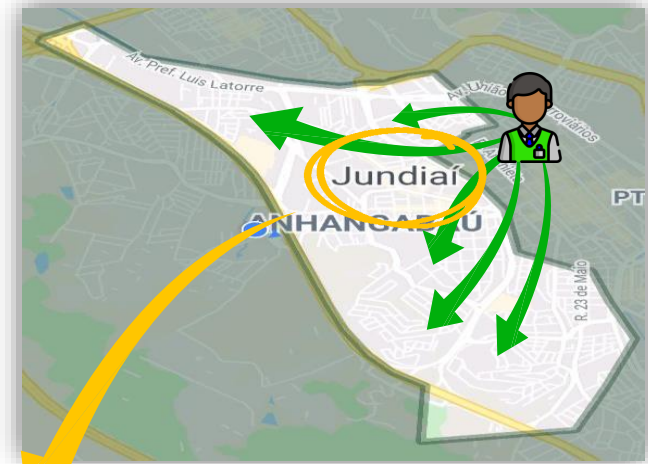
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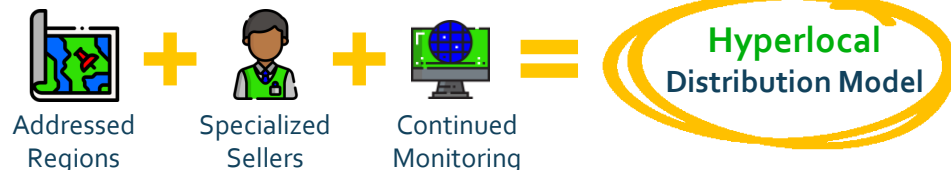
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We've been told about **Stone's "door-to-door" client capture method**, whereby **Missionaries actively approach potential clients**, offering Stone's services; Such strategy **inverts the logics of the industry and boosts client adds and retention**

Stone provides **Marcopolo**, a proprietary technology...



*Bruno's designed area for tracking clients*



Sources: Our conversation with Stone Missionary, Company Data



### What are the consequences of such better distribution model?

Due to its better quality of distribution, Stone has huge advantage in getting more and more clients

Stone has a much higher NPS than the average of its peers, leading to a distribution chain effect

NPS by company

stone 68

pagseguro uol 54

getnet 18

cielo -2

rede -3

*"Our clients recommend us for other merchants every day. For example, one of my clients, Bono Pneus, gave me more than 10 other clients by recommending our service"* - Bruno Brombal, Stone Missionary at Jundiaí - SP

Sources: Our conversation with Stone Missionary, Companies Data, Our Field Research



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*Our conversation with Patrícia, Bono Pneus Manager, at Jundiaí - SP*



So we went after the management of Bono Pneus to better understand what they think about Stone...

**"Since our first interaction with Stone, when a salesman knocked at Bono Pneus' door, our perception about what an acquirer can do changed"** – Patrícia, Bono Pneus Manager

Sources: Companies Data, Our Field Research



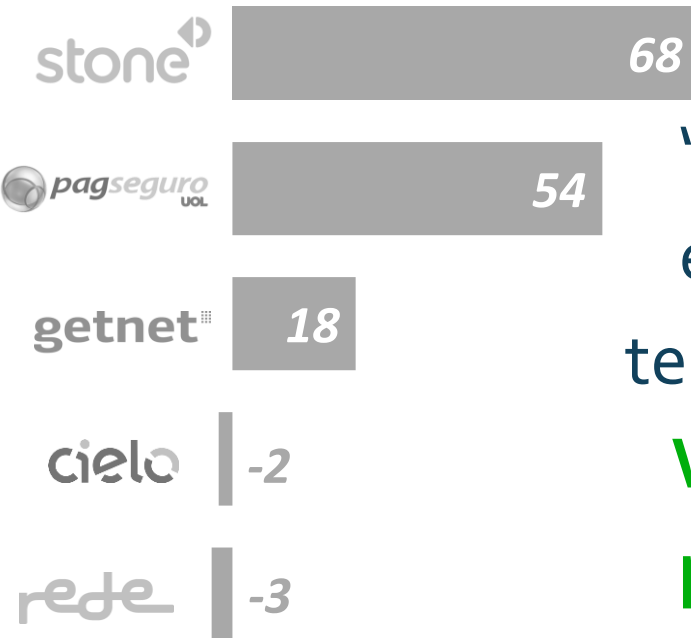


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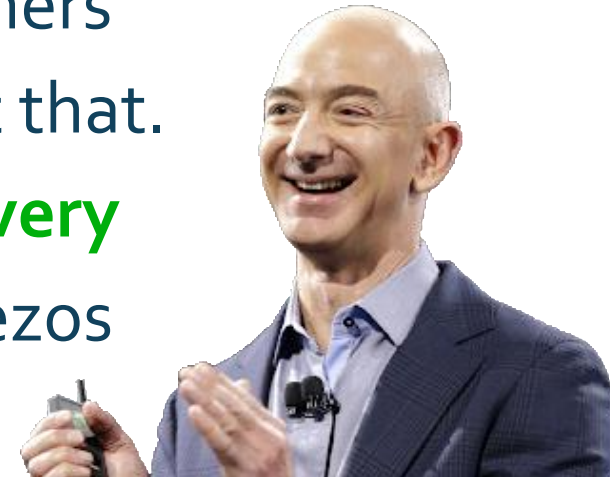
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NPS by company



“If you do build a great experience, customers tell each other about that.

**Word of mouth is very powerful”** – Jeff Bezos



Sources: Companies Data, Bloomberg Interview



## The hubs distribution model is scalable, what means cost dilution

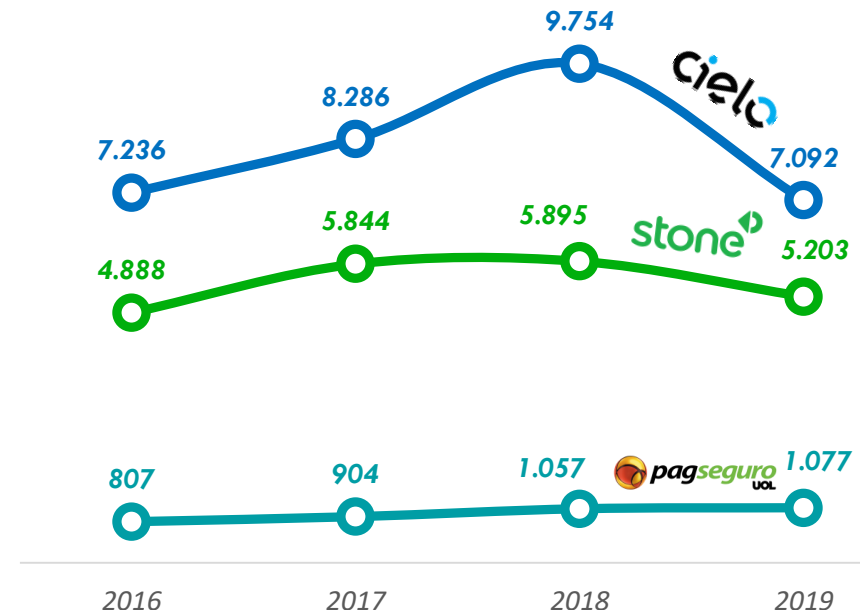
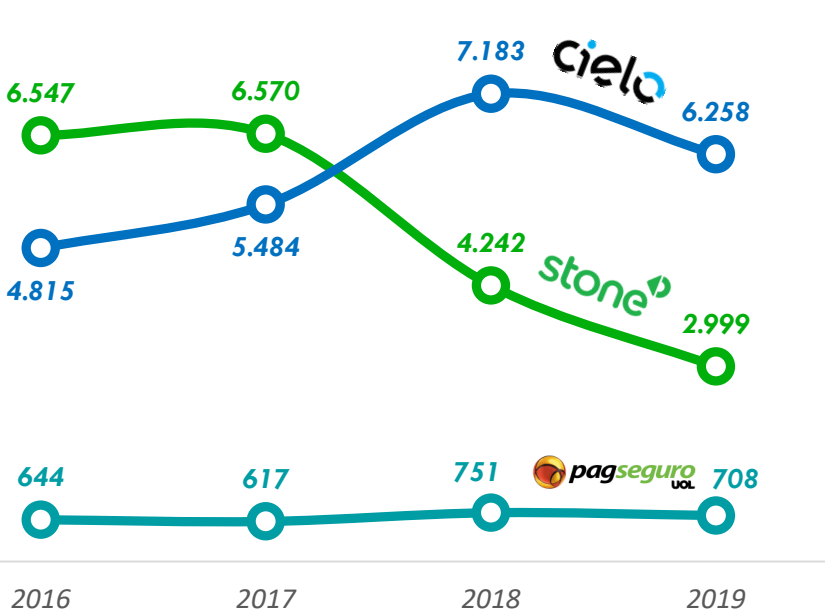
Stone way of distributing and expanding is also very competitive in the long run

### Stone's distribution model implies more profitable additional clients

R\$, Total Operational Costs per client; R\$, Total revenue per client

#### Total Operational Cost per Client

#### Total Revenue per Client



Sources: Companies Data



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#### Total Operational Cost per Client

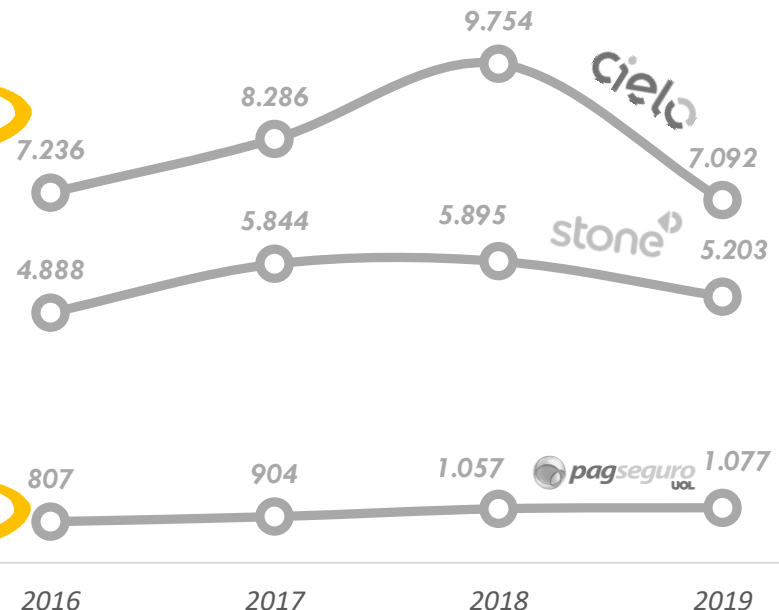
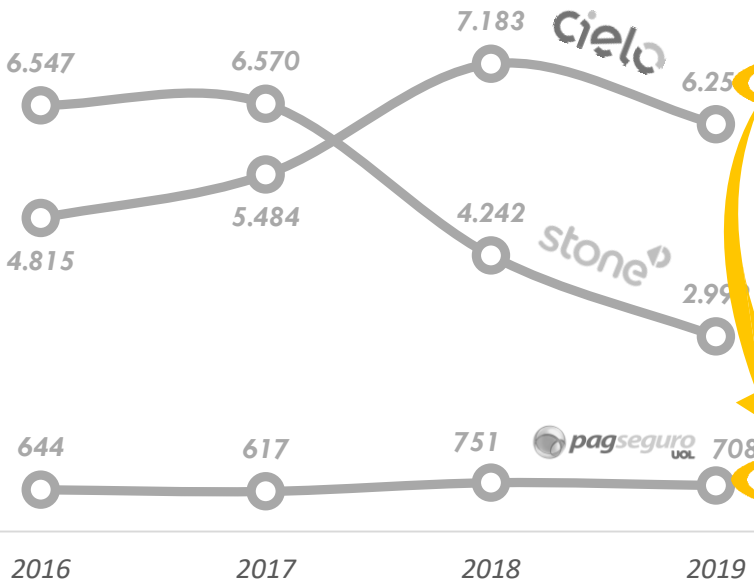
#### Total Revenue per Client

Gross Profit per Client 2016

cielo R\$2.421  
 stone<sup>UOL</sup> - R\$1.659  
 pagseguro UOL R\$163

Gross Profit per Client 2019

cielo R\$834  
 stone<sup>UOL</sup> R\$2.204  
 pagseguro UOL R\$369

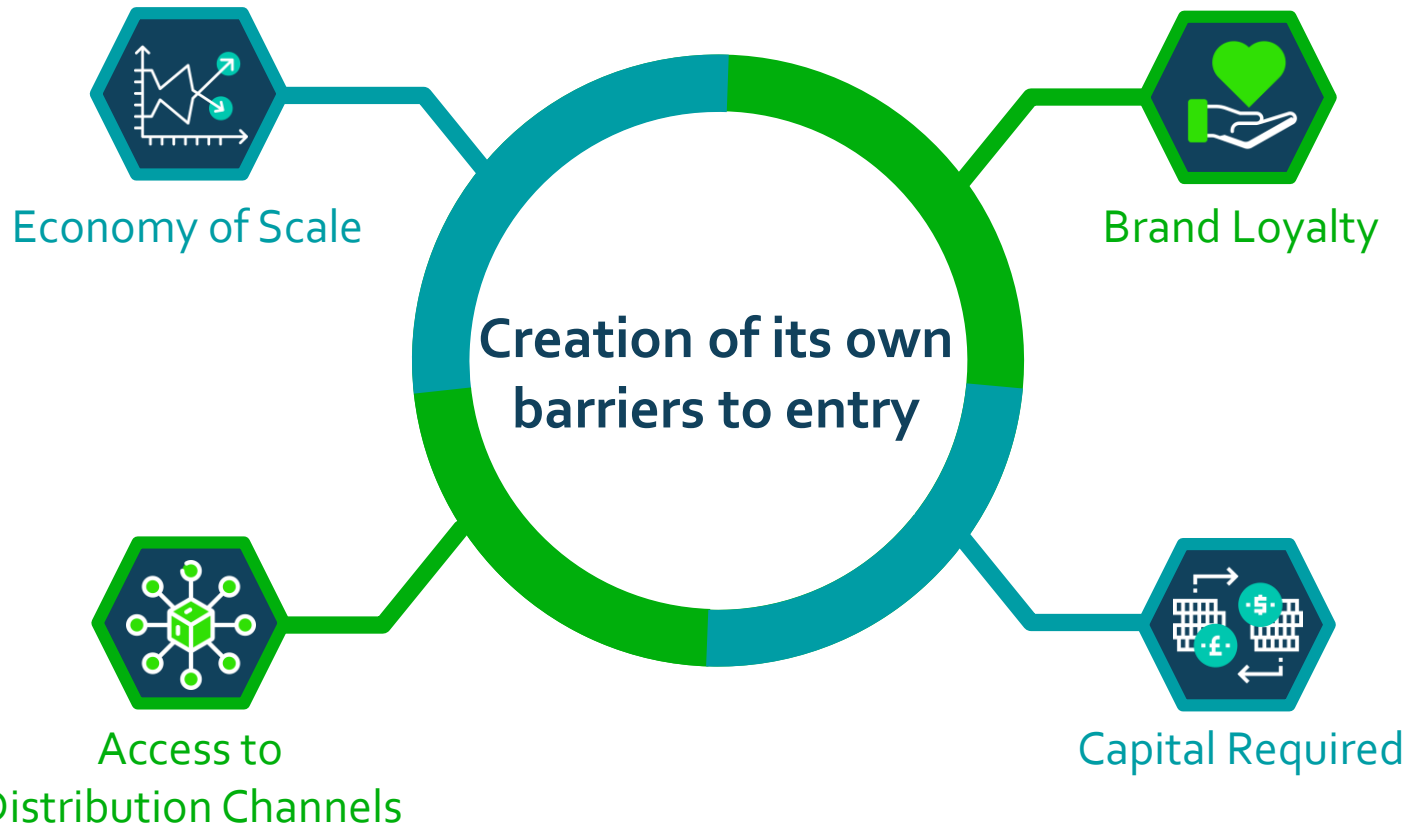


Sources: Companies Data



## Remodeling the industry: Building its own barriers to entry

Quality service along with robust distribution make hubs profitable and peerless at the same time



Sources: McKinsey, Our analysis



## Ton is the **acquiring opportunity in the Long-Tail**

Acquiring in Micro Merchants segment is a big deal as well...

### Joint Venture **Stone + Grupo Globo**

Great partnership due to high level of synergy to reach and serve clients

**stone**  
67%

- ✓ Delivers **best-in-class service** level for the segment
- ✓ **Highest NPS** of the segment

**GRUPO GLOBO**  
33%

- ✓ Invests more than **BRL460mn** in marketing
- ✓ Reaches more than **100 million Brazilians** in a day

Sources: Company Data



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### Online Visitors: **Grupo Globo vs. UOL**

Millions, UOL and Grupo Globo number of six-months online visitors



Sources: Company Data, Similarweb



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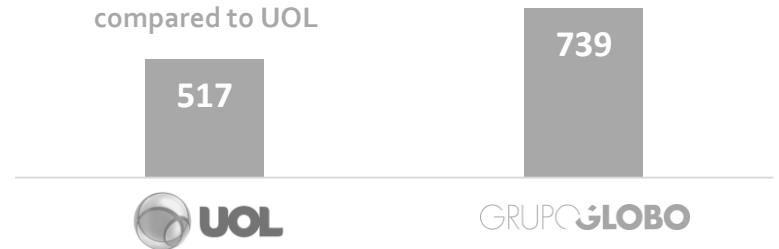
Sources: Company Data, Similarweb



### Online Visitors: Grupo Globo vs. UOL

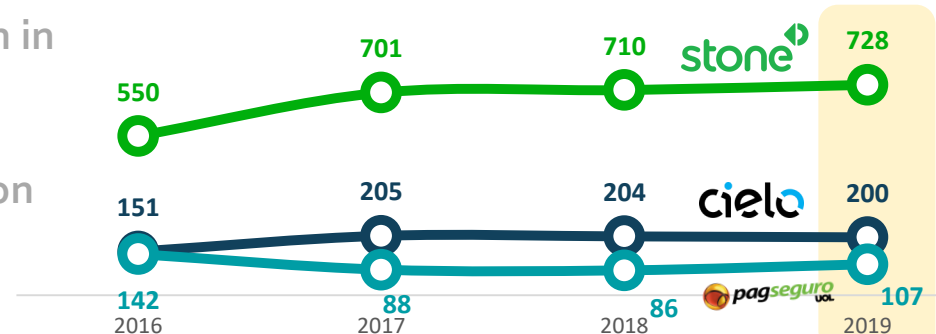
Millions, UOL and Grupo Globo number of six months online visitors

Grupo Globo has broader penetration in Brazil compared to UOL



### Totally different focus: **minimizing CAC**

CAC will be lower for Ton, since mortality in long-tail is very high



**But how to keep  
clients on board?**





# Investment Thesis

Right Place  
at the Right Time



Top-Notch  
Distribution Model



Strong Relationship  
out of Value Proposal



# Price: Incumbents' Weapon

# Fundamentals of LT Relationship

# Payments: the Tip of the Iceberg

# Ton's Different Approach

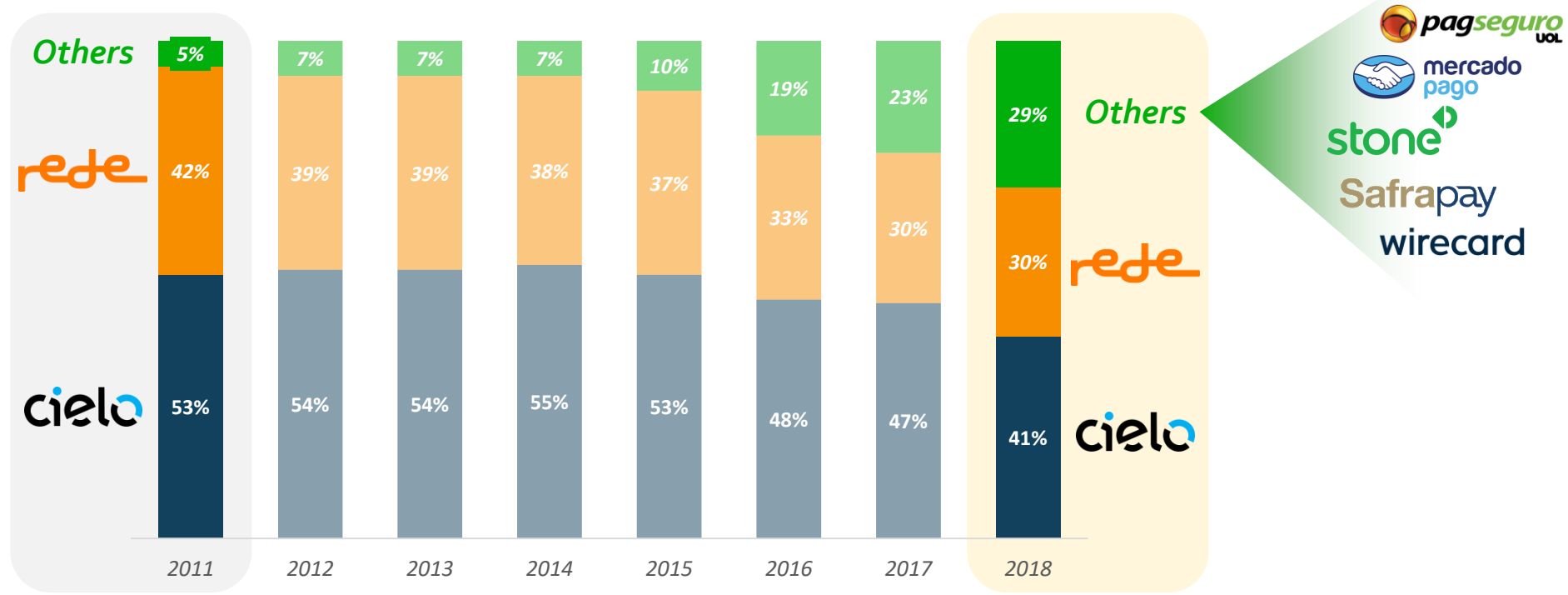


## Price War: commoditized services and too many players

Incumbents are breathless to keep lowering fees, differentiation must come through better services

## Regulation loosened barriers to entry, leading to a huge number of acquirers and sub-acquirers

Market Share evolution



Sources: Companies Data

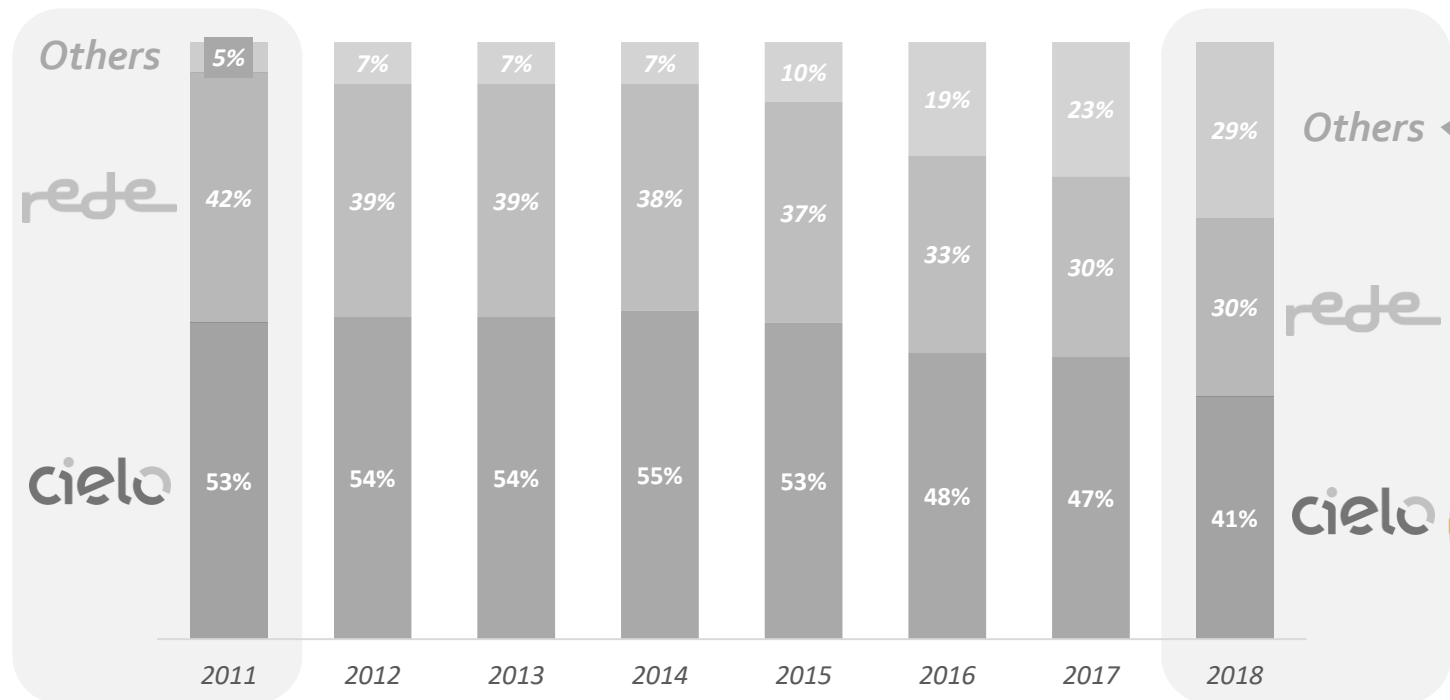


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**What was the reaction from incumbents?**

Sources: Companies Data

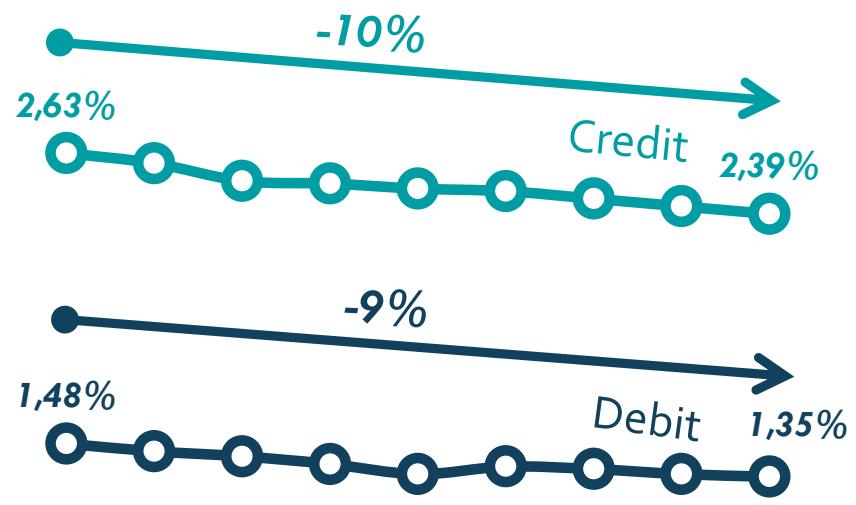


## Price War: It might have affected the industry as a whole, but not Stone

Net MDR has gone down, making it harder for acquirers, but Stone's Take Rate remained stable

The result: Credit Card MDR rate dropped by 10% and Debit Card by 9% in two years

Credit and Debit Gross MDR evolution



4Q17 1Q18 2Q18 3Q18 4Q18 1Q19 2Q19 3Q19 4Q19

Sources:BCB

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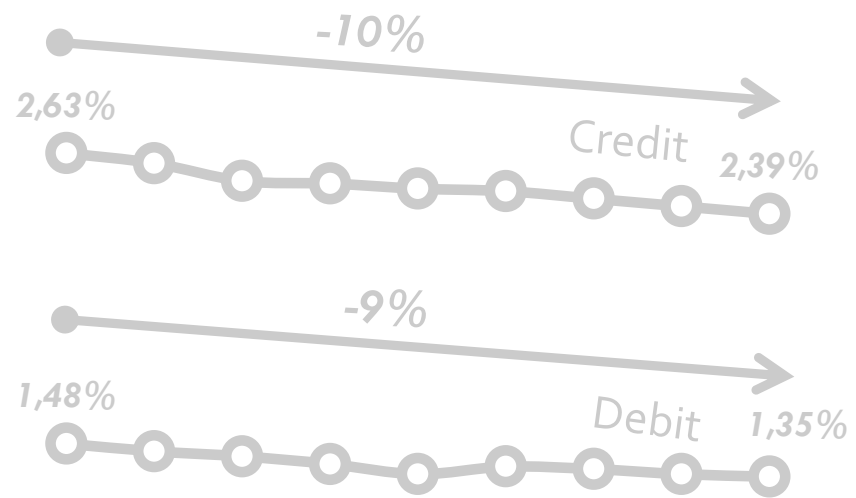


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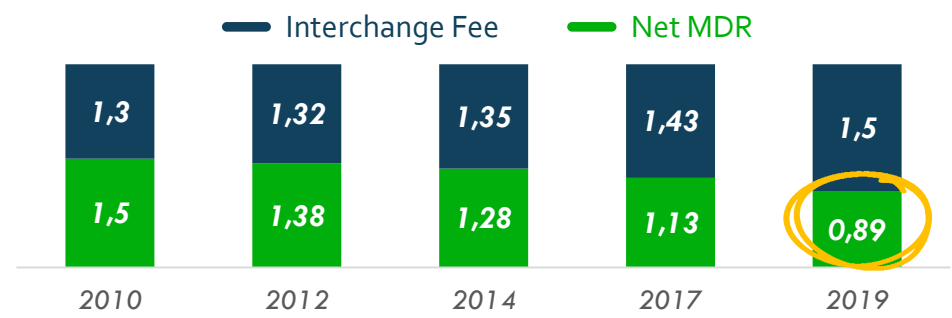
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## ... squeezing acquirers' fees

Credit Net MDR and Interchange Fee evolution



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Sources: BCB, JP Morgan

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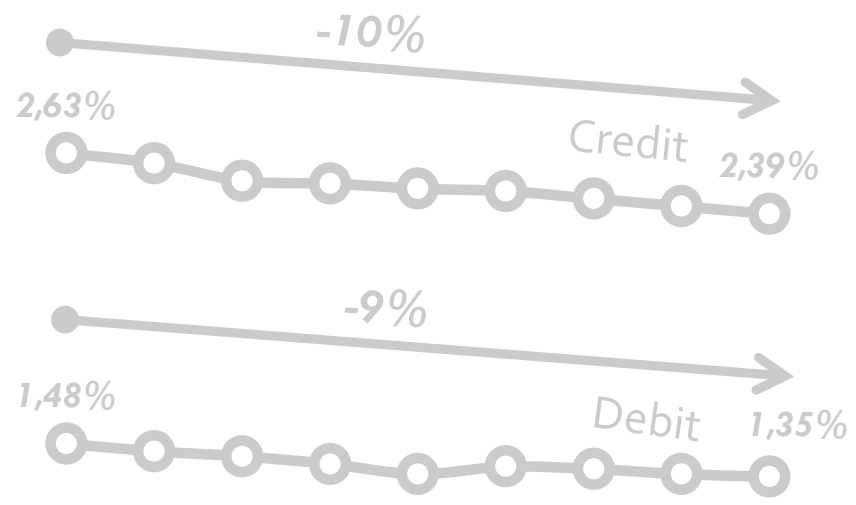


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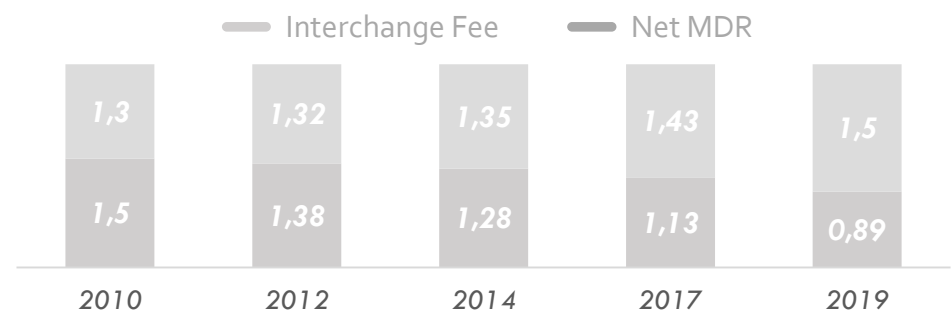
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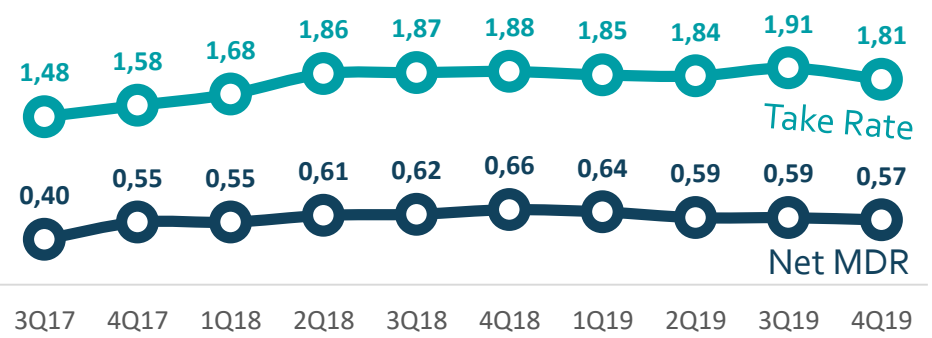
... squeezing acquirers' fees

Credit Net MDR and Interchange Fee evolution



But it didn't affect Stone's MDR or Take Rate...

% Stone's Net MDR and Take Rate



4Q17 1Q18 2Q18 3Q18 4Q18 1Q19 2Q19 3Q19 4Q19  
Sources: BCB, JP Morgan, Company Data

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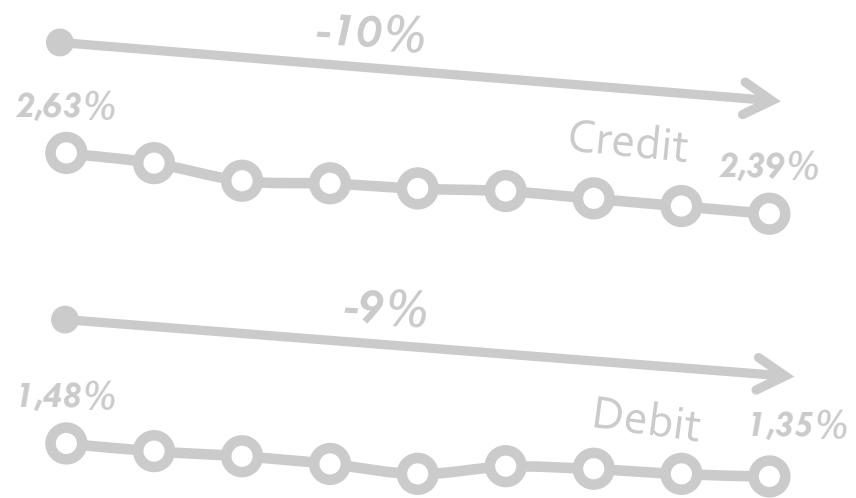


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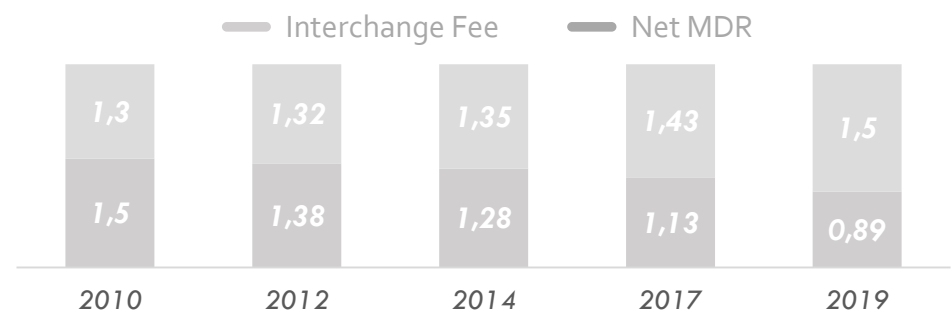
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% Stone's Net MDR and Take Rate





**We went on the field and talked to 240 different merchants...**

For Stone's clients, service matters more than for the other acquirers' clients... and that's a trend



**Downtown São Paulo**



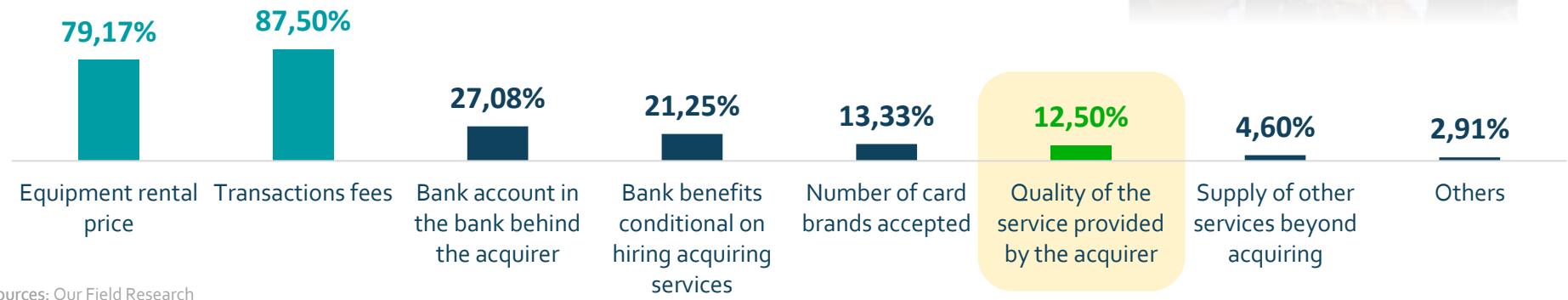
**Suburban Areas of São Paulo**



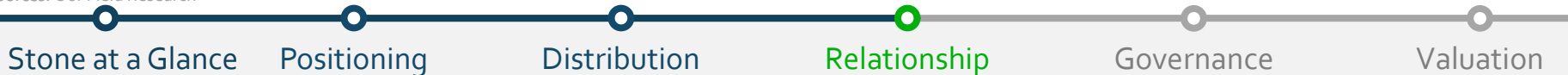
**Jundiaí, Campinas, Vinhedo and Valinhos**



We asked each of them **what was the main factor** on which they would base their choice **regarding POS Terminal...**



Sources: Our Field Research





# Price: Incumbents' Weapon

# Fundamentals of LT Relationship

# Payments: the Tip of the Iceberg

# Ton's Different Approach



We went on the field and talked to 240 different merchants...

For Stone's clients, service matters more than for the other acquirers' clients



Downtown São Paulo



Suburban Areas of São Paulo



Jundiaí, Campinas, Vinhedo and Valinhos



And our results point that Stone's set another standard of service...

Main factors basing POS Terminal choice given that the terminal is Cielo's vs given that the terminal is Stone's

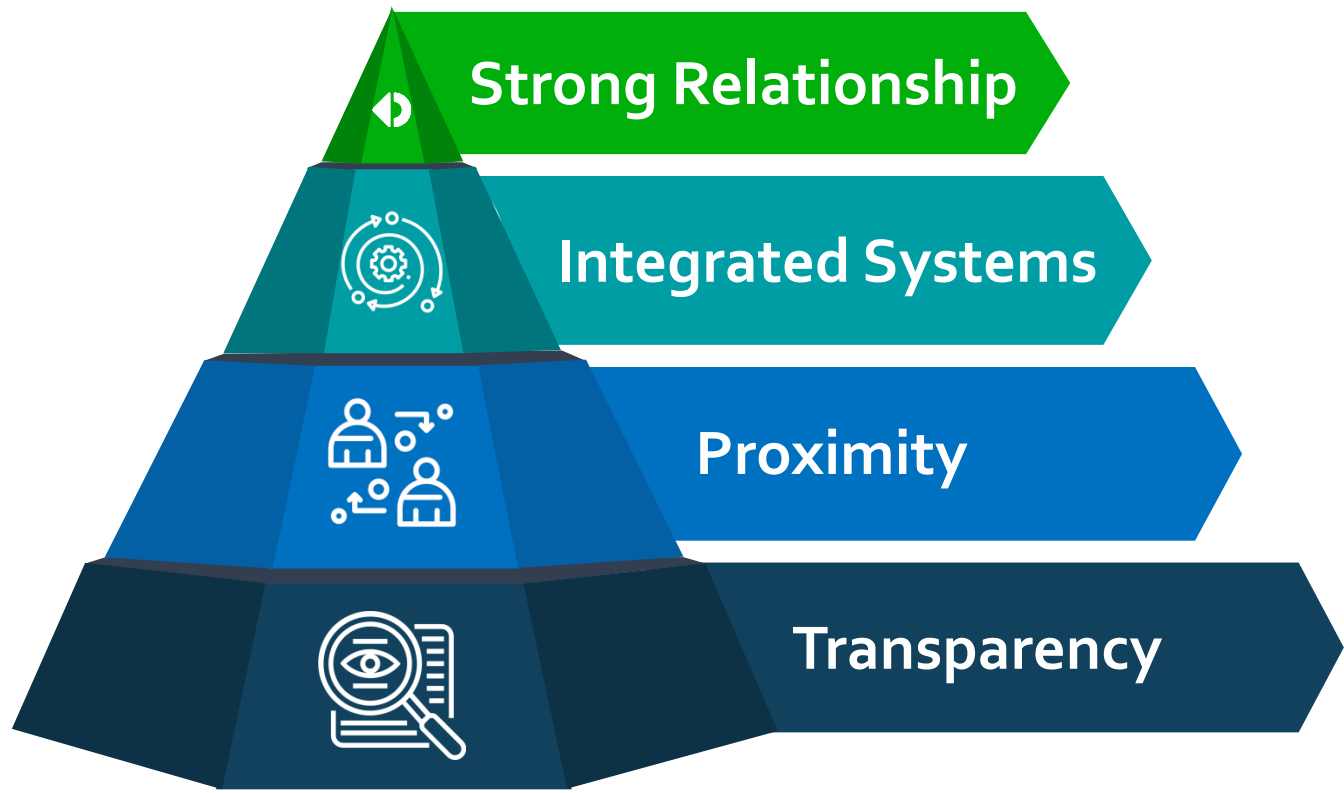


Sources: Our Field Research



It takes **three pillars** to have a **strong relationship... Stone has them all**

Transparency, Proximity and Integrated Systems are crucial fundamentals for a Long-Term Relationship



Sources: McKinsey, Our Analysis

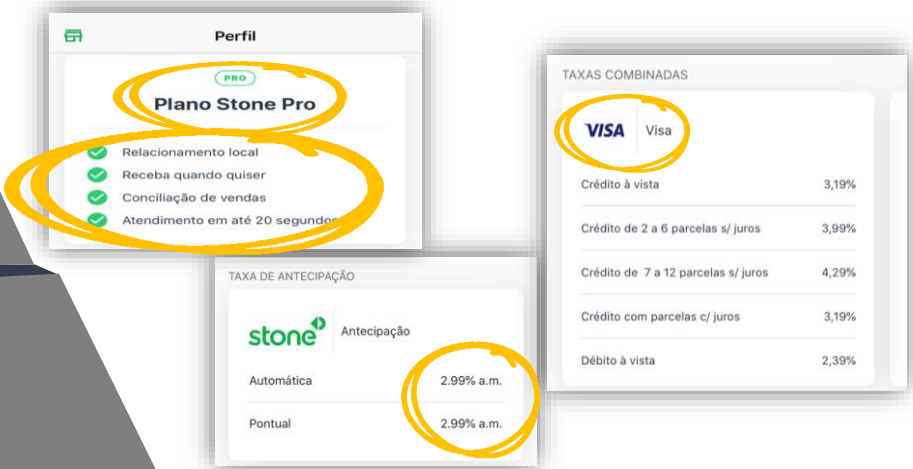


### It takes three pillars to have a strong relationship... Stone has them all

Transparency, Proximity and Integrated Systems are crucial fundamentals for a Long-Term Relationship

### Stone offers a transparent service, displaying all fees and tariffs that clients afford

Stone app also provides other essential information and services



- Account Profile ✓
- Discount rates by brand ✓
- Prepayment Rates ✓
- All monthly charge ✓

Sources: Stone Mobile App

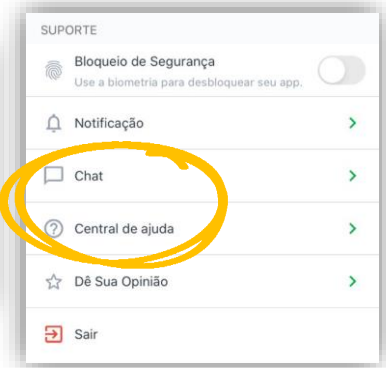
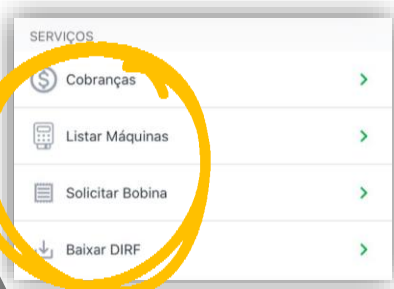


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- Account Profile ✓
- Discount rates by brand ✓
- Prepayment Rates ✓
- All monthly charge ✓
- All POS Devices ✓
- Request new Coils ✓
- Income Tax Facilitation ✓
- Fast customer service ✓
- Help Desk ✓

Sources: Stone Mobile App

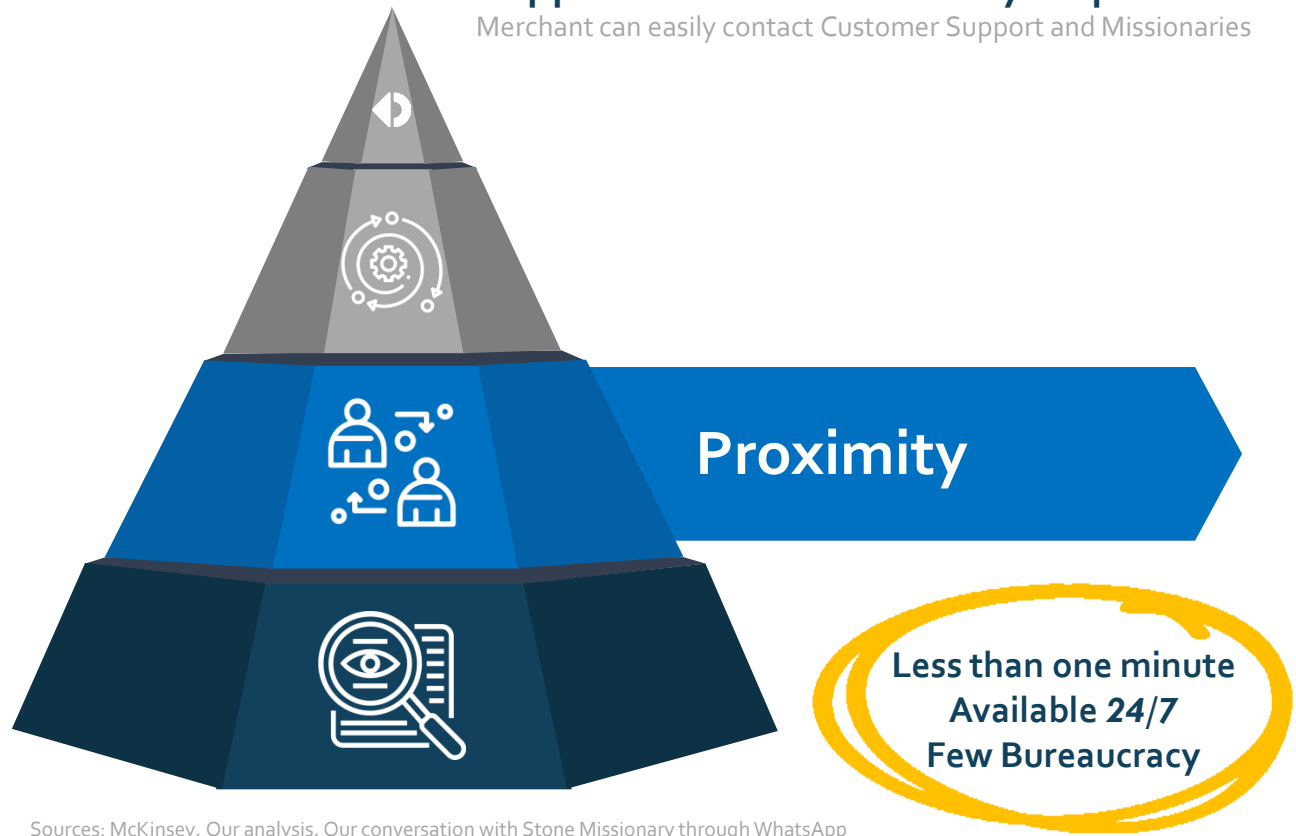


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Transparency, Proximity and Integrated Systems are crucial fundamentals for a Long-Term Relationship

Support is **efficient** and may be provided through **WhatsApp** by a person

Merchant can easily contact Customer Support and Missionaries



Sources: McKinsey, Our analysis, Our conversation with Stone Missionary through WhatsApp

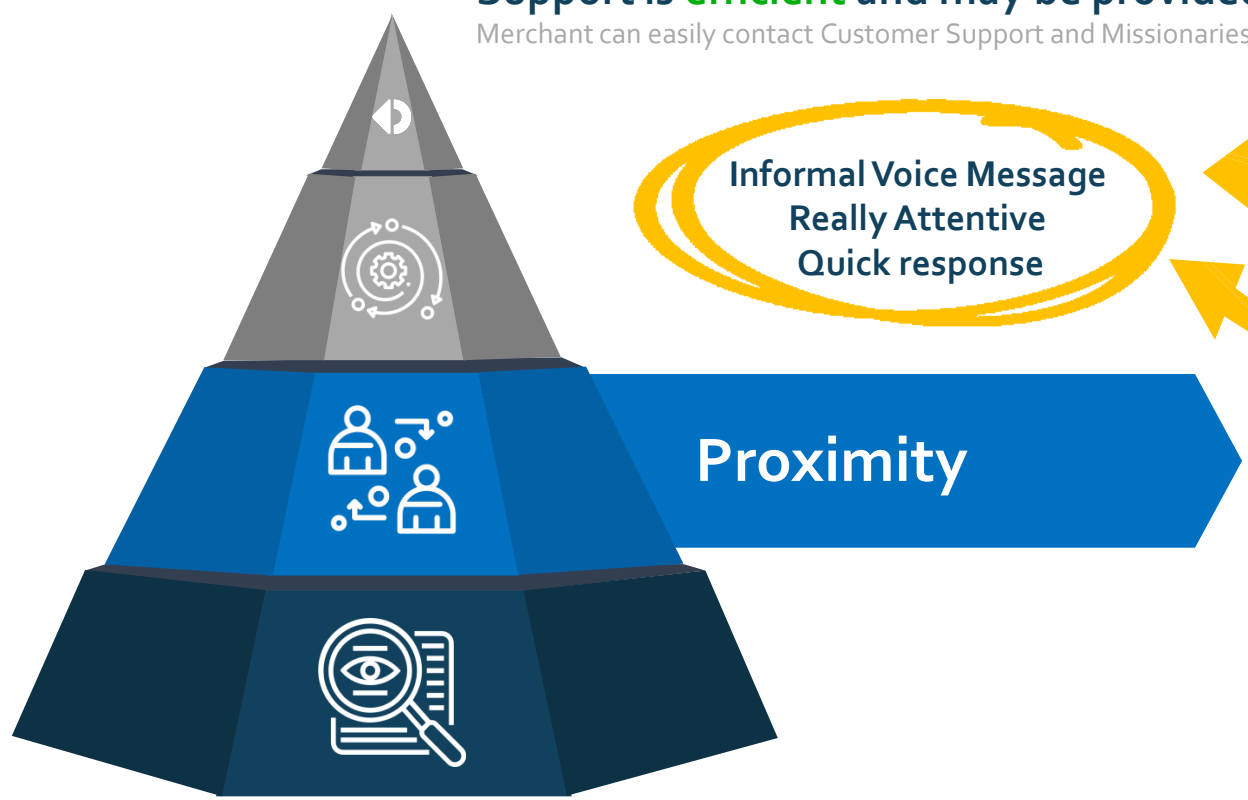


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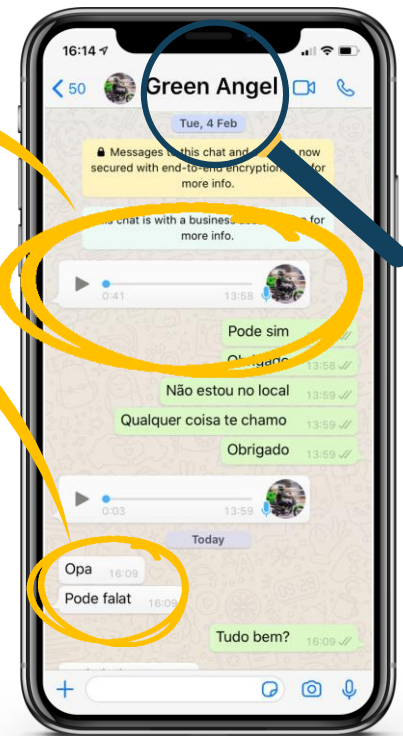
Transparency, Proximity and Integrated Systems are crucial fundamentals for a Long-Term Relationship

Support is **efficient** and may be provided through **WhatsApp** by a person

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Informal Voice Message  
Really Attentive  
Quick response



Sources: McKinsey, Our analysis, Our conversation with Stone Green Angel through WhatsApp

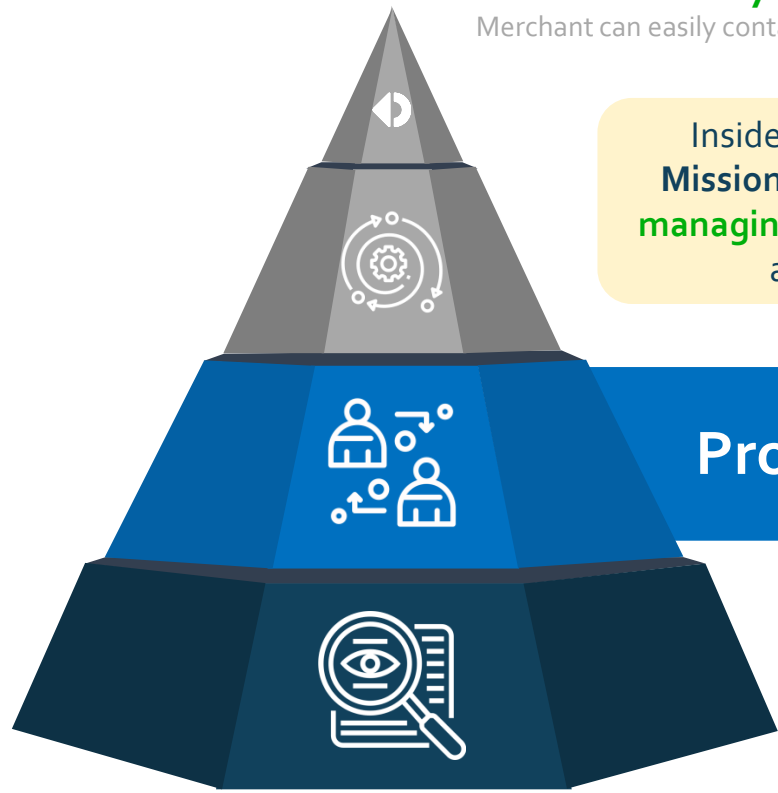


It takes three pillars to have a strong relationship... Stone has them all

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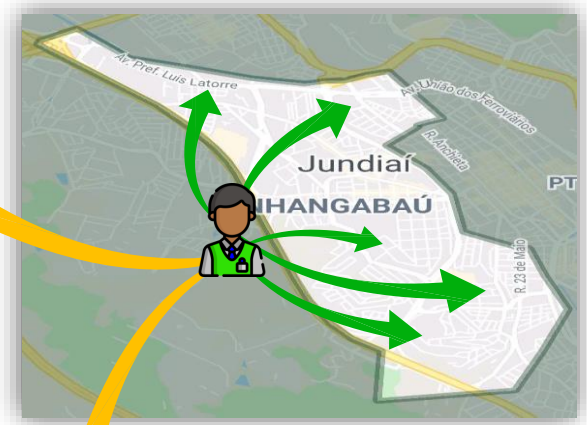
The Missionary is vital for maintaining a Long-Term Relationship

Merchant can easily contact Customer Support and Missionaries



Inside a Stone hub, each Missionary is responsible for managing a clients portfolio in a specific area

Bruno's designated area for tracking clients



Communication through WhatsApp + Daily checking clients' activity + Solving clients' problems within minutes

Sources: McKinsey, Stone's Marcopolo, Our analysis

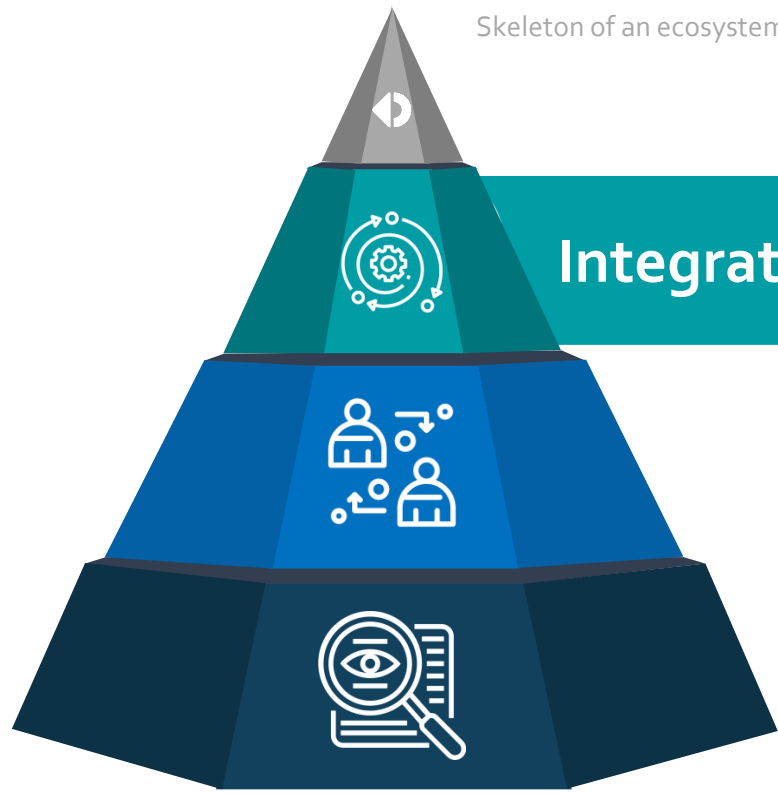


# It takes three pillars to have a strong relationship... Stone has them all

Transparency, Proximity and Integrated Systems are crucial fundamentals for a Long-Term Relationship

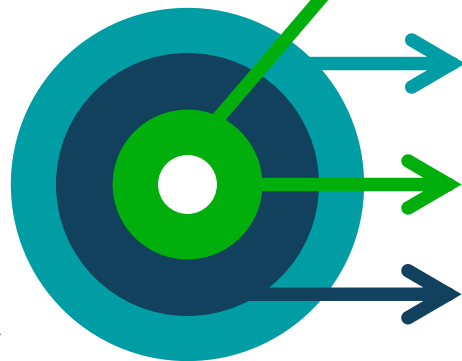
## How does an ecosystem business model work?

Skeleton of an ecosystem from a general perspective



Integrated Systems

-  **Banks**  
Financial solutions
-  **Payments**  
Acquiring
-  **Retail**  
Distribution
-  **Software**  
ERP and Terminal



- Ecosystem**  
The client has everything he needs
- Core Business**  
The core service attracts most clients
- Additional Services**  
Essential services demanded by clients

Sources: McKinsey, Our analysis



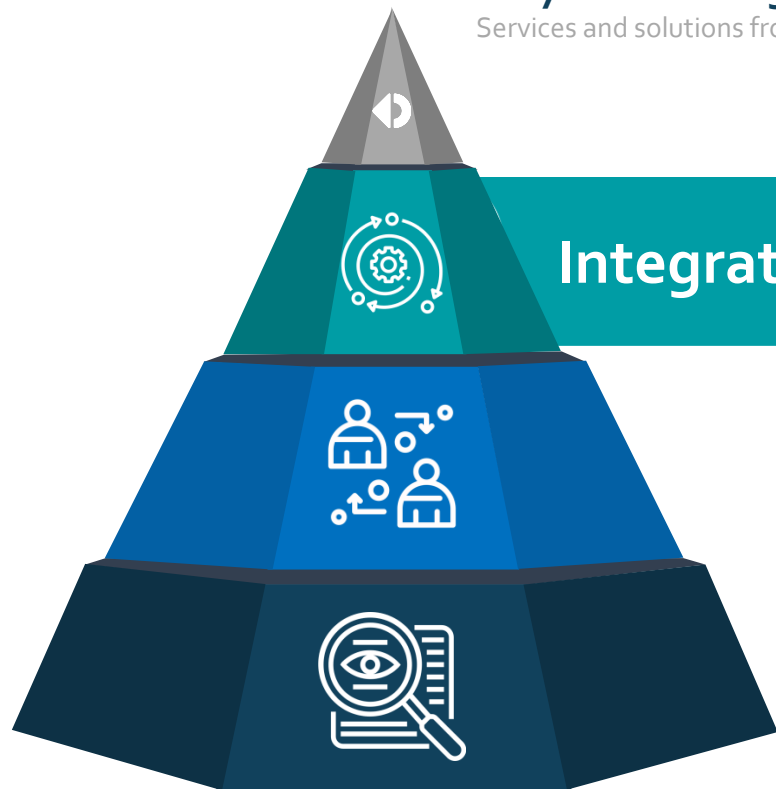


It takes three pillars to have a strong relationship... Stone has them all

Transparency, Proximity and Integrated Systems are crucial fundamentals for a Long-Term Relationship

Players creating their own ecosystems to fully own clients

Services and solutions from each segment category



**Banks**

**Payments**

**Retail**

**Software**

Sources: McKinsey, Our analysis



It takes **three pillars** to have a **strong relationship**... **Stone has them all**

Transparency, Proximity and Integrated Systems are crucial fundamentals for a Long-Term Relationship



But how does **Stone's ecosystem** integrate these **three pillars** to build **a strong relationship** with its clients?

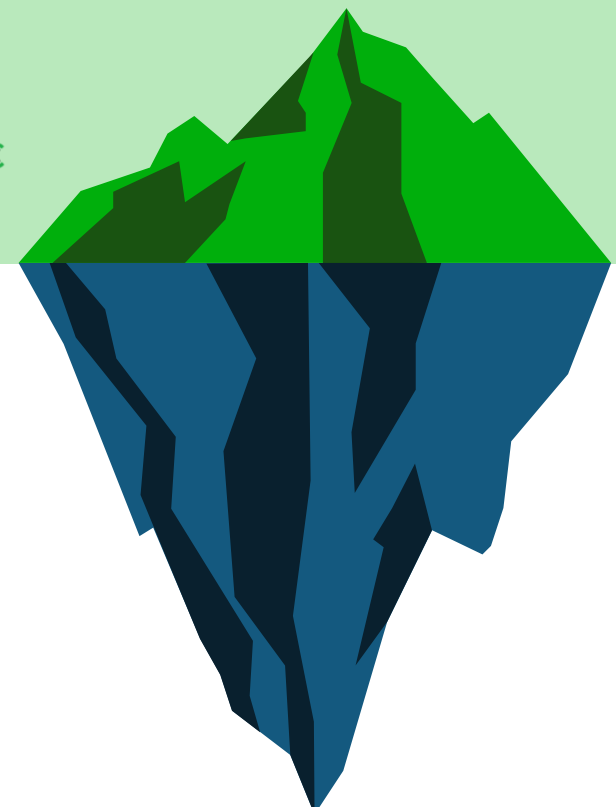
Sources: McKinsey, Our analysis



**Stone's iceberg ecosystem: acquiring just as core business to attract clients**

The company creates an integrated ecosystem to fully own clients

Acquiring



Sources: Company Data



**Stone's iceberg ecosystem: acquiring just as core business to attract clients**

The company creates an integrated ecosystem to fully own clients

**Acquiring**

**stone**  
*SMB Focused*

**ton**  
*Micro Merchant Focused*

**pagar.me**  
*Sub-Acquirer*

**mundipagg**  
*Gateway*

**CAPPTA**  
*TEF*

**Digital Banking**

Diversification of payments methods and cash management for the business and its owner

Sources: Company Data



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**Software Solutions**

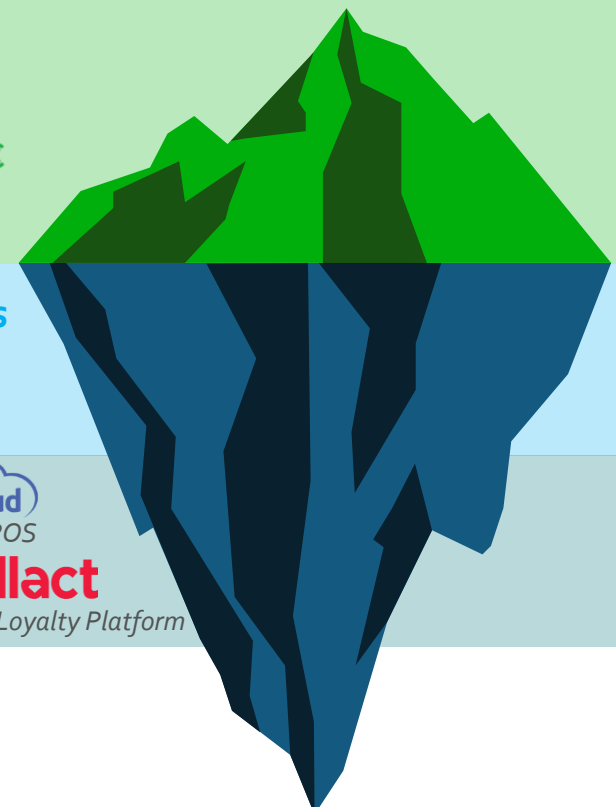
**vhsys**  
POS and ERP

**Tablet Cloud**  
White Label POS

**linked gourmet**  
Specific ERP

**equals**  
Reconciliation

**collect**  
Integrated Loyalty Platform



Sources: Company Data



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**Acquiring**

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**Digital Banking**

Diversification of payments methods and cash management for the business and its owner

**Software Solutions**

vhsys *POS and ERP*      Tablet Cloud *White Label POS*  
linked gourmet *Specific ERP*      equals *Reconciliation*      collect *Integrated Loyalty Platform*

**Credit Solution**

Easy access to credit loans and other financial solutions, like insurance and Asset Management

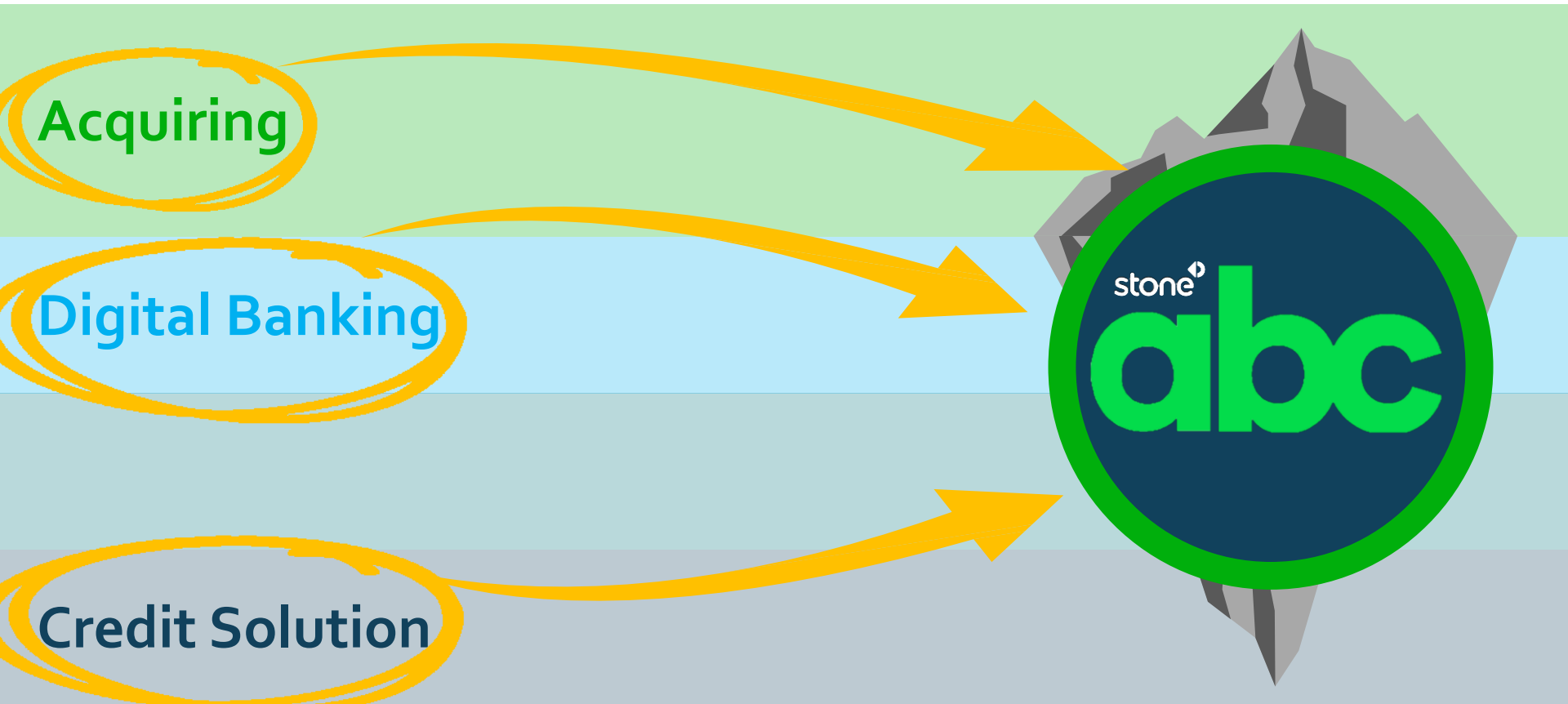


Sources: Company Data



**Stone's iceberg ecosystem: acquiring just as core business to attract clients**

The company creates an integrated ecosystem to fully own clients



Sources: Company Data



**Micro Merchants segment requires a totally different framework**

Shorter LTV due to churnings make hyperlocal distribution too expensive and requires lower CAC



POS      MPOS



Affordable POS



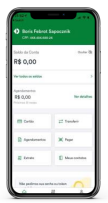
Digital Banking



Cash Solutions



**Micro Merchant Ecosystem**



Digital Account

R\$ 58,80      R\$ 226,80

**Unbanked Segment**      81% don't have a bank account

- ✓ Money receiving in the digital account
- ✓ Digital Wallet for tracking money
- ✓ Clients charge using other payments methods

**Cash In and Cash Out Solutions**

Micros can use their own pre-paid cards to make purchases

- ✓ Essential on a daily basis
- ✓ Fast and easy interaction

Sources: Companies Data, Ton App, Companies Website, BCB



# Investment Thesis

Right Place  
at the Right Time



Top-Notch  
Distribution Model



Strong Relationship  
out of Value Proposal



Who is the  
management behind it?



# Corporate Governance



## Stone has the **best people to run the business**

Besides its great management, Stone has Berkshire Hathaway as investor with 8% of the shares

### Board of Directors and Founders

#### André Street

Chairman

✓ Founded other 4 payments companies

✓ OPM Harvard

#### Eduardo Pontes

Vice Chairman

✓ Founded other 3 payments companies

✓ MBA FGV and OPM Harvard

#### Roberto T. Motta

Director

✓ One of the founders of 3G Capital

✓ MBA Wharton

#### Thomas Patterson

Director

✓ General Partner at Madrone Capital

✓ AB at Harvard

### Main Executives

#### Augusto Lins

President

✓ Itaú Executive

✓ Rede Director

#### Thiago Piau

CEO

✓ Founded Paggtaxi

✓ Served as COO

#### Lia Matos

CSO

✓ Head of Strategy

✓ PhD at MIT

### Strong Culture

**LinkedIn**

**Top Companies**

Where Brazilians dream to work at

*Recruta Stone 2019*



Sources: Company Data, Bloomberg

# Corporate Governance



Stone has the **best people to run the business**

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Entrepreneurial  
DNA



Young  
Management



Experience in  
Payments

Sources: Company Data, Bloomberg

# Corporate Governance



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Entrepreneurial  
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Young  
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Experience in  
Payments



**Great team to lead a  
revolution in the  
acquiring industry**

Sources: Company Data, Bloomberg

# Financials and Valuation



# Operational Projections

# Financial Projections

# DCF Valuation

# Multiples Analysis

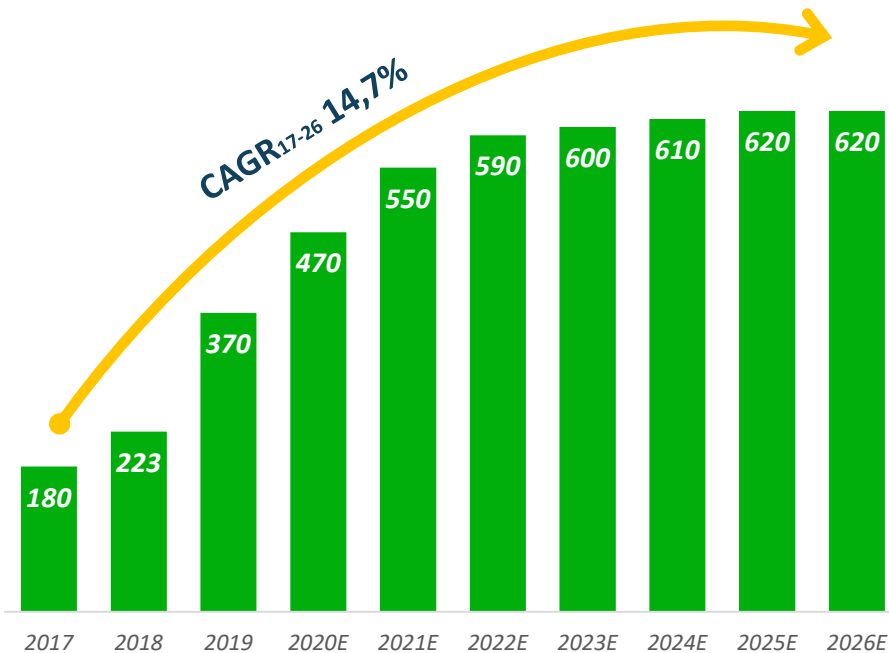


## We project TPV growth modeling for Hubs Unit Economics...

Management says that hubs growth pace isn't slowing down in 2020

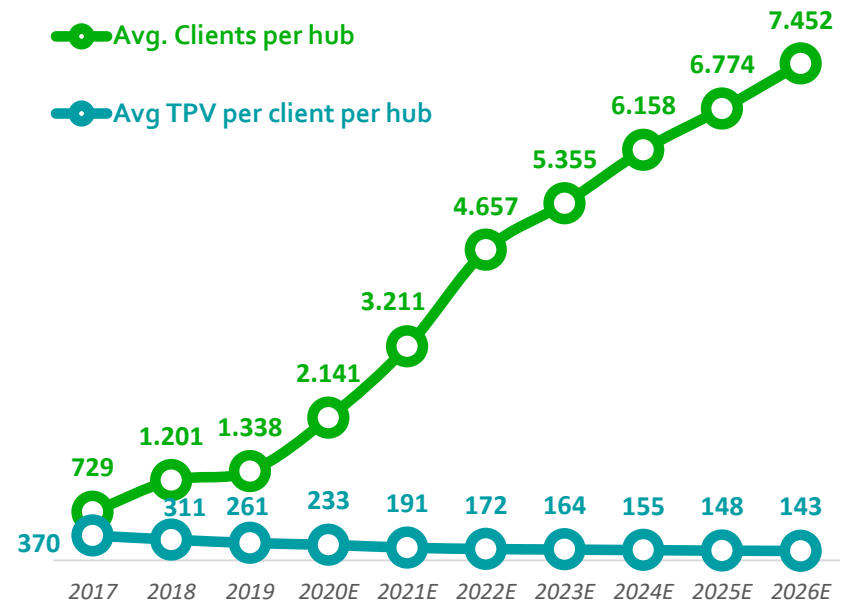
We expect Stone to have approximately **620 hubs** by **2026**... Expansion peak to happen in 20-22...

Projected Number of Hubs Evolution



We see the **average number of clients per hub** increasing while **TPV per client** decreases

Projected Avg. Clients per hub vs. (R\$ 000') Avg. TPV per client per hub



Sources: Company Earnings Release, Our estimates

# Operational Projections

# Financial Projections

# DCF Valuation

# Multiples Analysis

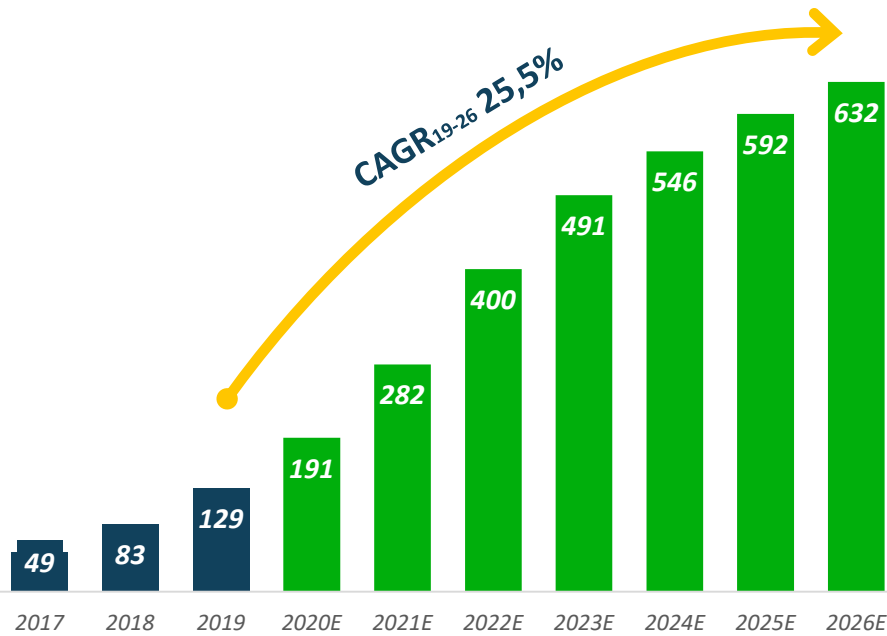


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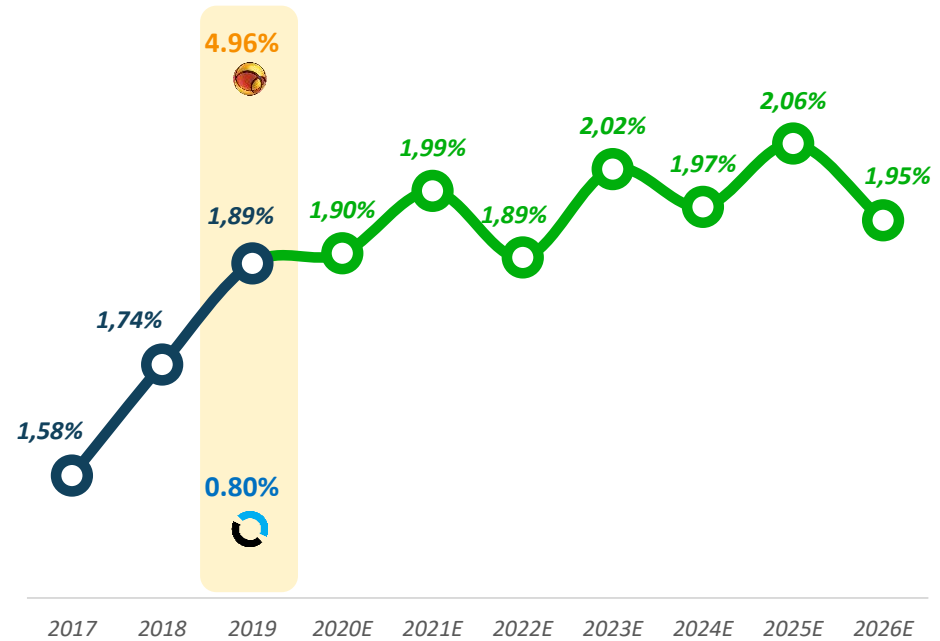
We thus see **TPV growing in a slower pace every following year**, reaching **R\$ 632bn by 2026...**

Projected TPV Evolution



As well as a little bit higher than in the past few quarters **take rate...**

Projected Avg. Clients per hub vs. (R\$ 000') Avg. TPV per client per hub



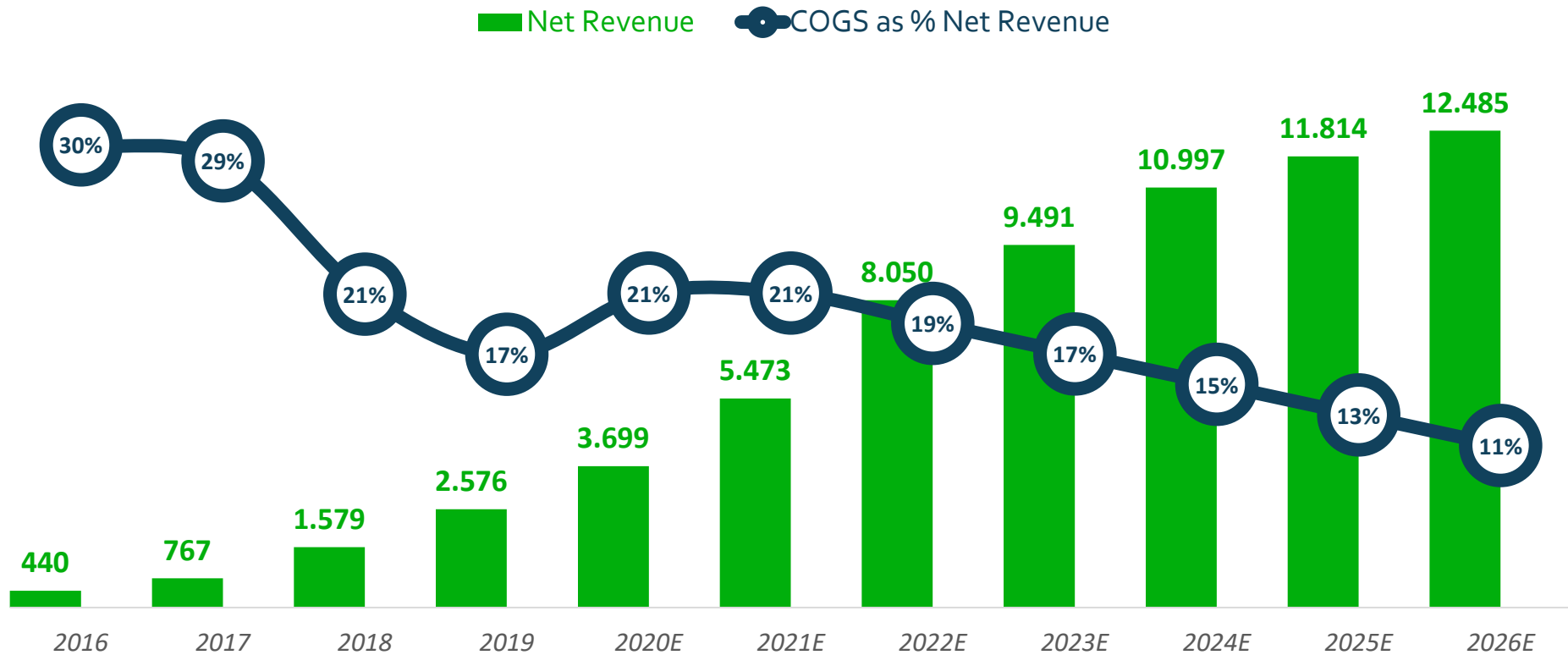
Sources: Company Earnings Release, Our estimates





## Hubs expansion brings out COGS as % of Net Revenues gains as of 2023

Economy of scale generated by expansion of hubs and clients' base growth means greater margins



Sources: Company 6-K, Company Earnings Release, Our estimates

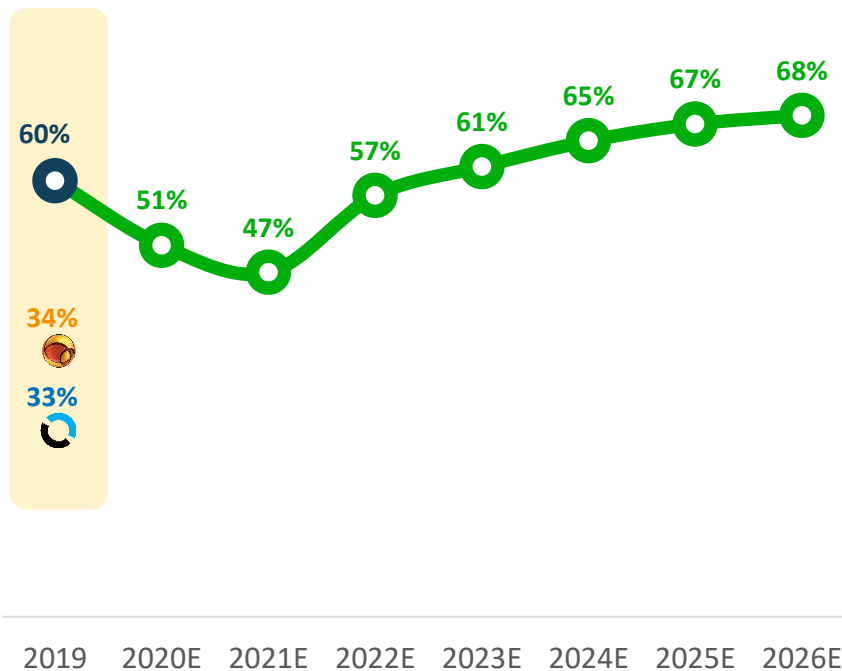


As hubs mature and other services are added, we see **even better margins**

EBITDA and Net Margins will benefit from expansion and higher profitability of clients

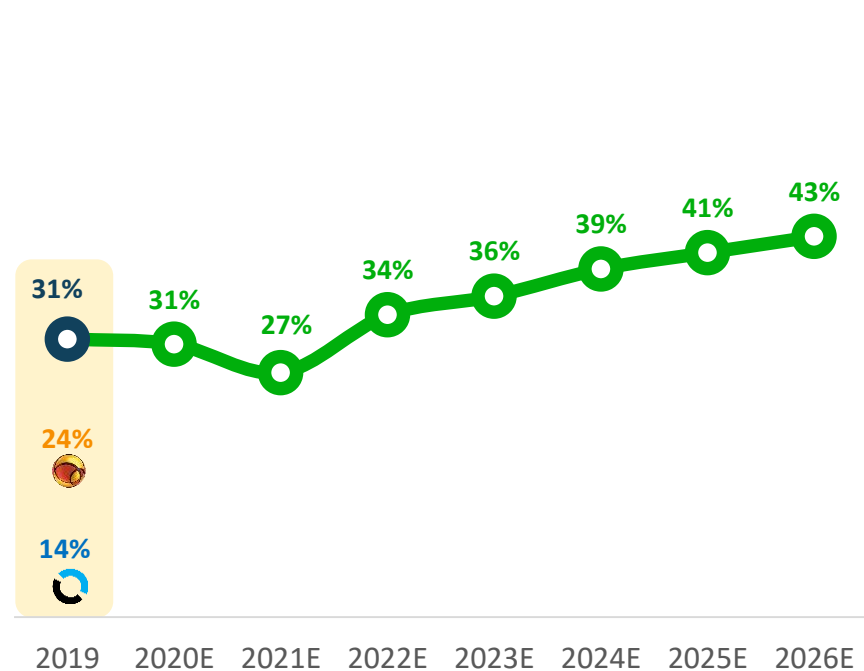
## EBITDA Margin of 68% by 2026

Evolution of Stone's EBITDA Margin



## Net Margin of 43% by 2026

Evolution of Stone's Net Margin

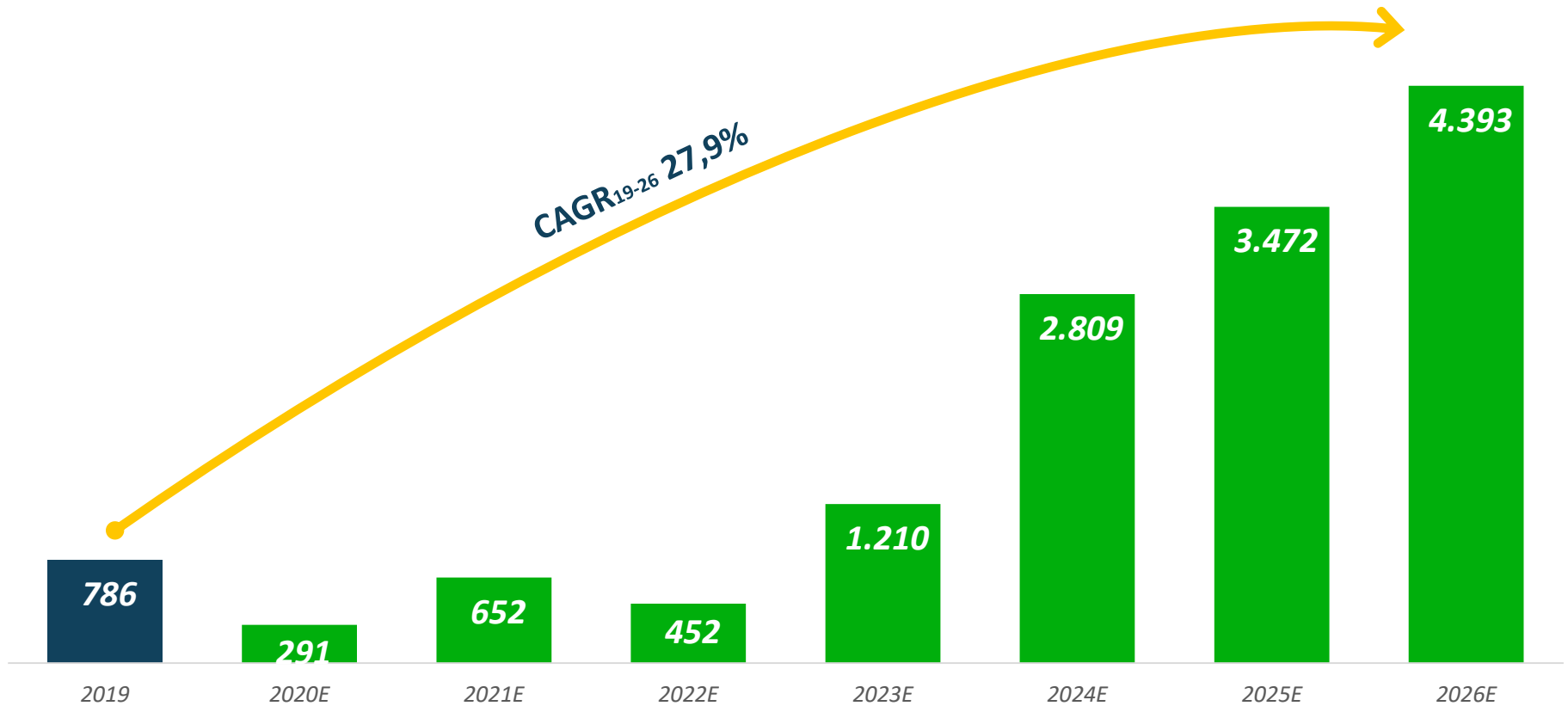


Sources: Companies 6-K and DFP, Our estimates



The real **Free Cash Flow** growth is set to start by **2023**, at a **27,9% CAGR** pace

First years CAPEX and WK levels reflect future TPV growth and are supposed to stabilize by 2024



Sources: Company 6-K, Our estimates

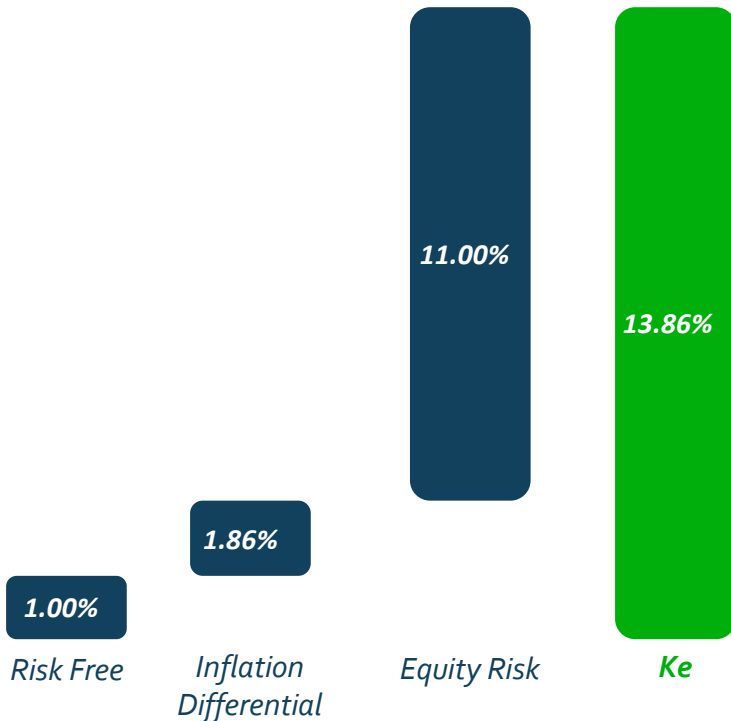


Assuming a **7% perpetuity growth rate**, we reach a **USD 48,94 Target Price!**

We use a 13,86% Ke along with a 7% g... Almost 75% of Equity Value in Perpetuity

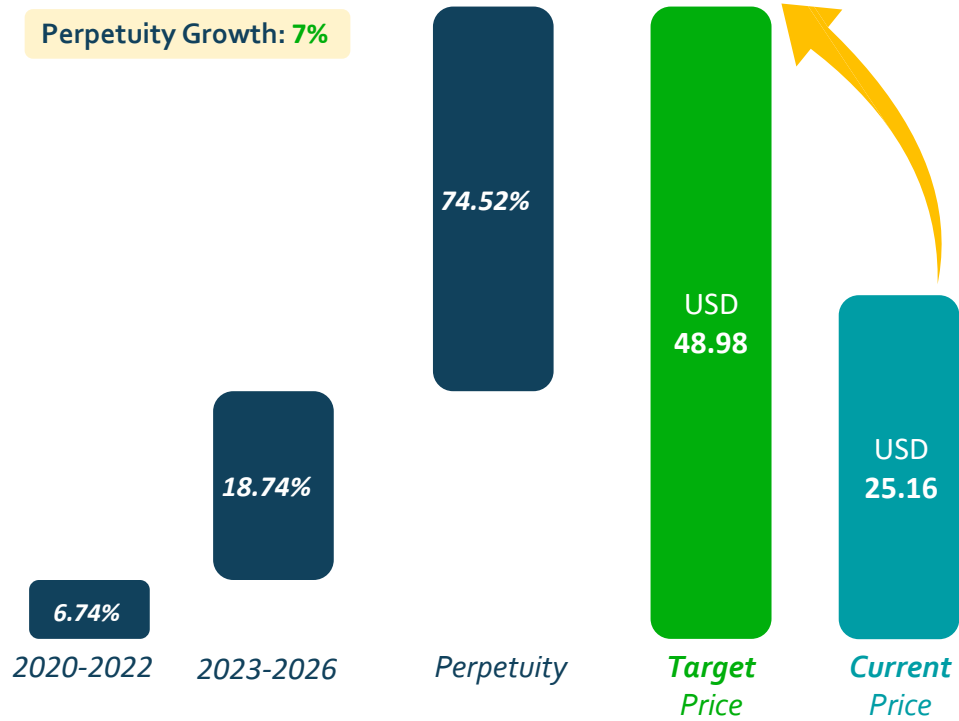
## Cost of Equity Breakdown

Composition of our cost of equity



## Target Equity Value of R\$ 69.227mn

Composition of our Target Equity Value



Sources: Damodaran, Copeland, CPI, US Treasury, Our estimates

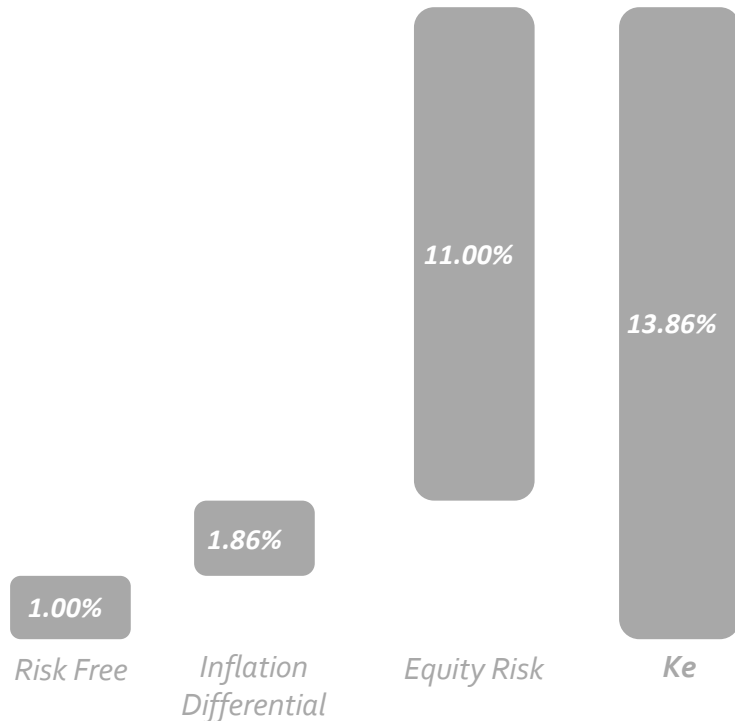


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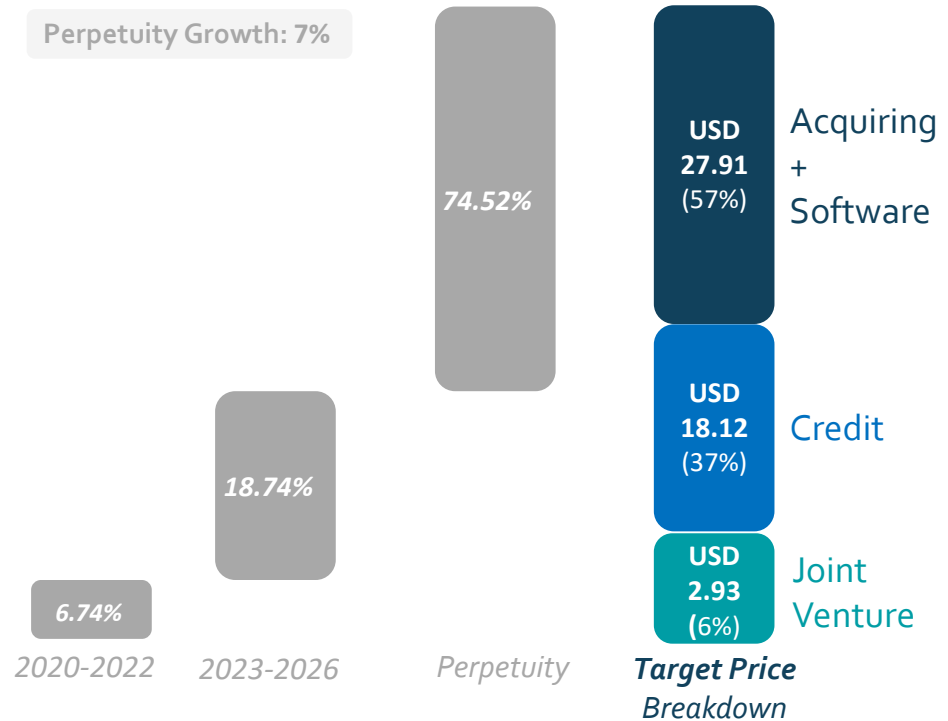
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## Target Equity Value of R\$ 69.227mn

Composition of our Target Equity Value



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Stone's multiples are currently **much higher than its peers'**

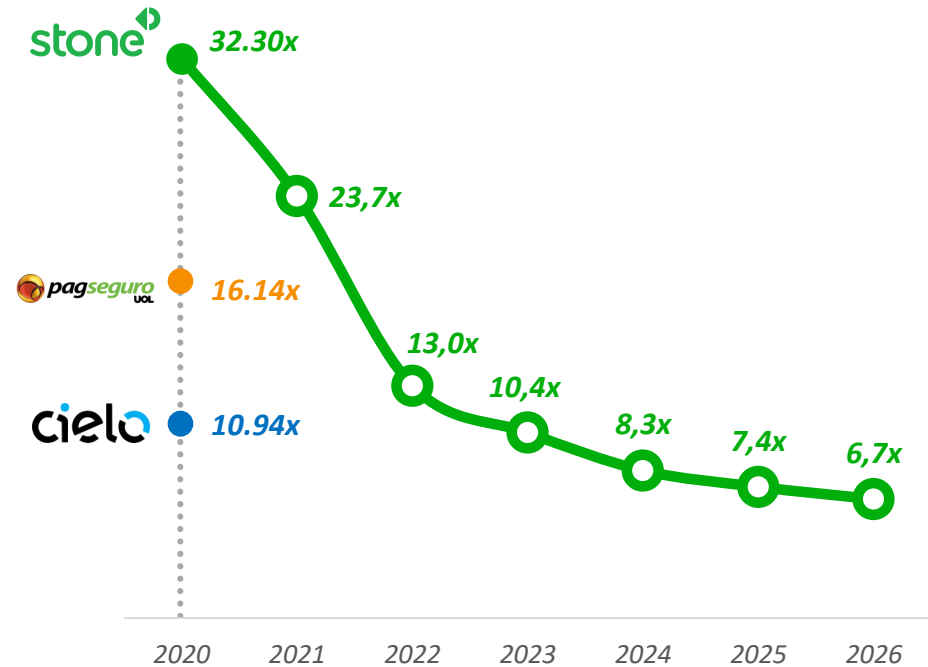
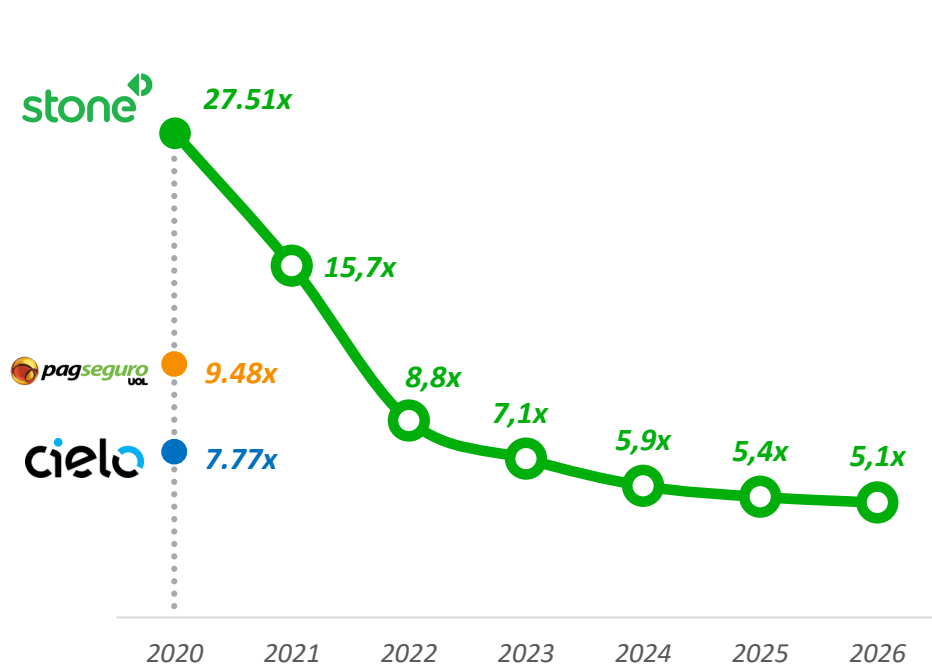
We project a multiples retraction in the next years, with Stone getting close to Cielo and Pags...

## EV / EBITDA

Projection of Stone EV/EBITDA

## P / E

Projection of Stone P/E



Sources: Companies 6-K and DFP, Our estimates

Would you be  
Stone Shareholder?



# Would you be Stone Shareholder?



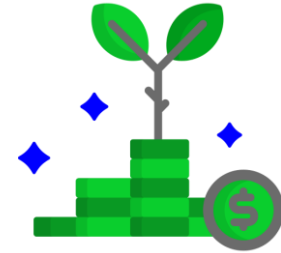
Great Business



# Would you be Stone Shareholder?



Great Business



Disruptive Industry

# Would you be Stone Shareholder?



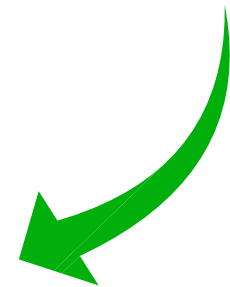
Great Business



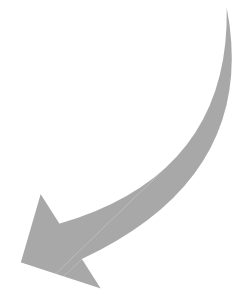
Disruptive Industry



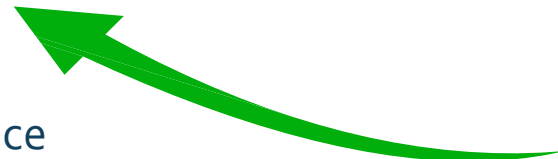
Outstanding  
Management and Board



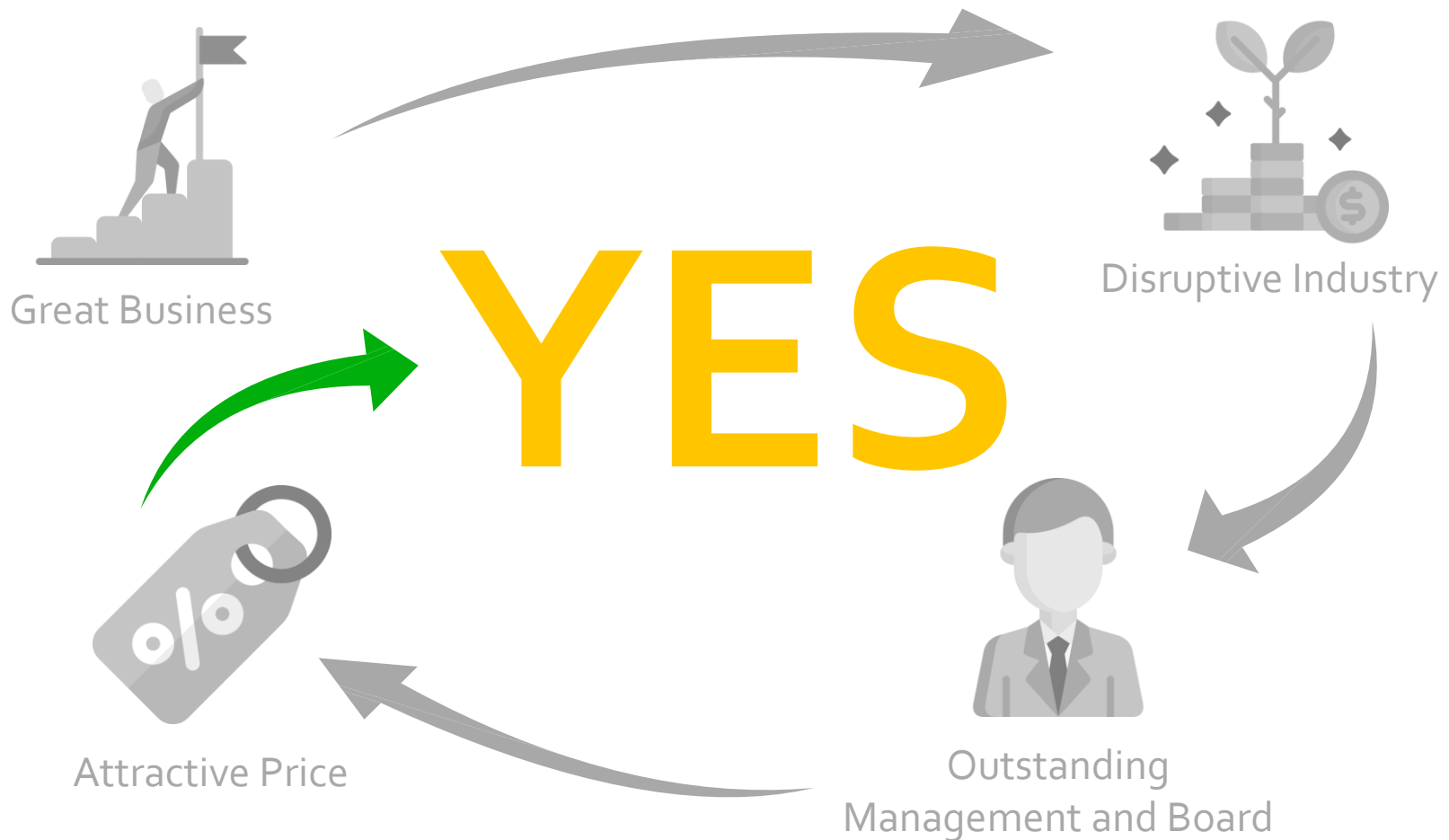
# Would you be Stone Shareholder?



Attractive Price



# Would you be Stone Shareholder?





Q&A