

Stone Co 2Q25 Earnings Conference Call

August 7, 2025

Operator:

Good evening, everyone. Thank you for standing by. Welcome to StoneCo's second quarter 2025 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 online at investors.stone.co.

Before we begin the call, I advise you to review the disclaimer included in the press release and presentation, which outlines important information about forward-looking statements and non-IFRS financial measures.

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.

In hindsight, I would like to highlight that the Company is restricting the number of questions to two per analyst.

Joining the call today is Stone's CEO, Pedro Zinner, the CFO and IRO, Mateus Scherer, the Strategy & Marketing Officer, Lia Matos, and the Head of IR, Roberta Noronha. I would now like to turn the conference over to your host, Pedro Zinner. Please proceed.

Pedro Zinner – Chief Executive Officer

Thank you, operator, and good evening everyone. To begin, before diving into our second quarter performance, I want to briefly discuss our recently announced software divestitures and how this strategic move aligns with our future direction.

As many of you may recall from our Investor Day in 2023, we outlined our Total Addressable Market across payments, banking, credit, and software – roughly a R\$100 billion revenue opportunity. Our core focus remains on serving Brazil's more than 14 million micro, small, and medium-sized business by providing solutions that meet their evolving needs and support their daily operations. We are now pursuing this mission with a much more focused approach and greater discipline in capital allocation.

By sharpening our focus on financial services, we continue to target over 90% of that substantial TAM. It's important to note that our current share in this combined market is still very small, which indicates significant room for growth ahead. While software will remain part of our broader ecosystem, we now view it as more of a value-added layer – one with low capital requirements – rather than a core offering. This strategic shift allows us to concentrate our efforts and resources on the areas of greatest long-term value and impact for our MSMB clients and ultimately for our shareholders. We believe this sharper focus positions us well to capture future growth opportunities in our core market.

Now moving to slide 4, let me provide more detail on the divestments. The first and most significant transaction is the sale of Linx to TOTVS. As you know, we agreed to sell this group of software businesses for an enterprise value of R\$3.05 billion. In addition, we will receive the net cash position of these assets (currently estimated at R\$360 million) plus any cash generated between signing and closing of the deal. Notably, the R\$3.8 billion in goodwill from our original Linx acquisition in 2021

will remain with us, and we expect to amortize that goodwill over the next eight years – providing additional value beyond the sale price.

Payment for the Linx assets will be made in cash at closing, which is pending regulatory approvals including from CADE (the Brazilian antitrust authority). There are no earn-outs associated with this deal. In a separate transaction, we have also sold SimplesVet – a veterinary ERP software company – to Petlove for an enterprise value of R\$140 million plus the net cash position of R\$15 million, totaling R\$155 million. This deal was approved by CADE and closed in July, with payment in cash (a portion already paid and the remainder to be paid over three installments). There are no earn-outs on this deal either.

Regarding our remaining software assets, our approach is straightforward: we are evaluating our assets individually. The goal is to determine whether each one should be fully integrated into our core fintech ecosystem (to enhance existing solutions and product differentiation) or whether it is better to let it operate independently while we assess its long-term strategic fit.

We will allocate the proceeds from these divestitures in line with the capital allocation framework we have outlined. Essentially, if we do not identify immediate value-accretive growth opportunities, we intend to return this excess capital to our shareholders. We truly believe these transactions represent a significant strategic step and will be accretive to our company. Consider that the total value unlocked from these sales – combining the transaction proceeds and the goodwill retention benefit – is over R\$4 billion, roughly 25% of our current market capitalization. Yet, for the first half of 2025, these software assets accounted for only about 8% of our revenues and 5% of our consolidated bottom line. By divesting them, we have unlocked substantial capital and, most importantly, refocused our energy on our highest-growth, most profitable segments. We are confident that this sharper focus will allow us to drive greater shareholder value in the years to come.

Before I hand it over to Lia to discuss the quarterly results, let me first walk you through some important updates to our reporting and 2025 guidance in slide 6.

Following the sale of our software assets, we are now reporting discontinued operations as a single line item above consolidated net income. As a result, we are shifting our forward-looking metrics to better reflect the core of our ongoing business.

Starting with Gross Profit: our guidance now reflects only continuing operations. We've also updated our assumptions to incorporate year-to-date performance and the impact of share repurchases executed since our original guidance in February. Our updated Gross Profit guidance now implies over 14.5% year-over-year growth, surpassing R\$6.3 billion.

Turning to EPS: we continue to guide on a consolidated basis, including discontinued operations. Here, the update is more substantial. We've increased our expected EPS growth from 18% to 32% year-over-year — a 14 percentage-point upgrade. This reflects both (1) the impact of share buybacks and (2) stronger-than-anticipated net income performance so far this year. To put it simply: even after incorporating a lower share count, we're still revising our implied adjusted net income guidance upward — from R\$2.4 billion to R\$2.6 billion — based on the prospects we have seen for the business.

These updates also reflect our strong confidence in the company and in our team's ability to execute. In that context, we remain fully committed to returning the R\$3 billion in excess capital generated in

2024 back to shareholders. I'm pleased to report that by the end of June we had already returned 41% of that amount through share buybacks – about R\$2.6 billion over the last twelve months.

With that, I will now turn the call over to Lia for a deeper dive into our quarterly numbers. Lia, please go ahead.

Lia Matos –Strategy & Marketing Officer

Thank you, Pedro and good evening everyone.

Diving into our 2Q25 results, we are very pleased to see that despite a challenging macroeconomic scenario, with higher interest rates and signs of economic deceleration, we have successfully executed on our strategy, evolving the multiple ways in which we help our clients, while delivering solid results.

Moving to **slide 7**, let's take a look at our bottom line results and ROEs, which are reported on a consolidated basis, including both continuing and discontinued operations.

Our **Adjusted Net Income** accelerated to a **27%** year-over-year increase, reaching **RS631 million**. The majority of this growth came from our **Financial Services** operation, which saw an impressive **21%** growth over the same period. This strong performance is a direct result of some key factors, notably our successful pricing adjustments in a higher interest rate environment, the growing use of deposits as a low-cost funding source for our operation and a lower effective tax rate.

Our **Adjusted basic EPS** reached **RS2.33 per share**, representing a **45%** year over year increase. Beyond the solid net income performance, the increase was further strengthened by our share repurchase program, in which we bought back **almost 42 million** shares over the last twelve months.

Finally, ROEs continue to expand. Our financial services segment's ROE achieved **30%**, and our consolidated ROE reached **22%**. Both of these figures grew by **3 percentage points** sequentially and showed even more significant growth on a year-over-year basis.

Now let's dive deeper into our top line performance, focusing on our continuing operations.

Revenues from continuing operations grew **20%** year-over-year to **RS3.5 billion, given continued solid execution in our core business**. This increase was primarily driven by our repricing initiatives, even while negatively impacted by a reduction in floating revenues resulting from the use of client deposits as a source of funding. To clarify, as we transform these deposits into time deposits to fund our operations, we stop recognizing floating revenue. As we explained previously, this shift is more than compensated by the significant reduction in our financial expenses, given the much lower cost of funding related to deposits compared to other funding alternatives.

Adjusted Gross Profit from continuing operations reached **RS1.6 billion** this quarter, a year-over-year growth of **14%, broadly in line with guidance implied growth**. It is useful to compare our Gross Profit growth with TPV growth because this highlights the multiple ways in which we monetize our relationship with clients in an efficient way. In the second quarter, gross profit grew ahead of TPV by 2 percentage points mainly driven by our continued pricing discipline, more client engagement and a more efficient funding strategy.

In **slide 9**, we will discuss our payments operations for MSMBs. Our **payments active client base** grew 17% year over year to reach 4.5 million clients. Out of those, 38% are considered as **heavy users**, meaning they utilize more than three of our different solutions.

Our MSMB TPV grew 12% year over year in the quarter, to R\$122 billion. This growth results from two key trends: (i) a **59% growth in MSMB PIX QR Code volumes**, which continues to gain share over traditional debit card transactions, and (ii) a **6.4% year over year growth in card TPV**. Two main factors drove the TPV growth deceleration in this quarter: First, **this was an expected reflection of our repricing initiatives**. Second, we saw **a reduction in our clients' same-store sales**, which were impacted by a **tougher macroeconomic environment** and a quarter with **more holidays**. As we look ahead, we will continue to keep a close eye on the macroeconomic environment. We anticipate that the second half of the year will continue to face a tougher environment, but MSMB TPV growth should stabilize at low double digits in the period.

On slide 10, let's move on to our **banking performance**. We're very pleased with the continued growth in our client base and their increased engagement with our banking solutions, which is ultimately reflected by a larger balance of deposits.

Our active banking client base grew **23% year-over-year**, reaching **3.3 million** clients. **Client deposits** also grew significantly, up **36% year-over-year**, or **7% quarter-over-quarter**. We are very encouraged by this growth, as it's **almost 3x higher** than our MSMB TPV growth on a sequential basis, meaning that our clients are shifting from using mainly our payments solutions to relying on Stone as their end to end provider of financial services and workflow tools.

Regarding deposits, as we mentioned last quarter, we have been strategically **shifting our deposit mix towards a higher concentration of time deposits**. This includes both the investment solutions we offer our clients, which have been performing well, as well as our cash sweep strategy, a valuable funding source for our own operations. The **most significant shift happened late in the first quarter**, which means we saw a more **complete impact to our P&L in the second quarter**. Currently, **83%** of our total deposits are already considered as time deposits.

Now let's turn to **slide 11**, where we'll give some color on our **credit product evolution**. The main highlight here is that we continue to **grow** consistently while keeping **our credit quality indicators healthy**.

Our credit portfolio grew **25% sequentially** to **R\$1.8 billion**. Of this total, R\$1.6 billion, refers to our **merchants solutions**, comprised mainly of working capital to MSMBs, where disbursements increased significantly by **41%** on a quarter over quarter basis. The remaining **R\$192 million** refers to our **credit card portfolio, which grew 19% sequentially**.

We monitor credit quality very closely and continue to see steady, healthy NPL levels. **Our 15-to-90-day NPL has been relatively stable**, decreasing **10** basis points sequentially, while **our over-90-day NPL increased by 10** basis points. This is a smaller increase than in the past, reflecting our accelerated disbursements this quarter.

Despite the healthy NPL levels, we saw a significant increase in **our provisions for expected losses this quarter, from R\$34 million in the first quarter to R\$82 million in the second quarter**. This increase was driven by three main factors: First, by the **continued expansion of our credit portfolio**, supported by a very strong sequential increase in working capital disbursements. Second, an increased

mix towards **limit-based offerings** such as overdraft and credit-cards. Most importantly, despite our stable asset quality as evidenced by our consistent NPL performance, **we made a deliberate decision to increase coverage levels in light of a weaker macroeconomic outlook.**

As a result, **our coverage ratio increased from 256% in the first quarter to 280% in the second quarter.** This higher level of provisions also pushed our **cost of risk metric**, which is based on the provisions for the current quarter, **to a level of 20%**, up from 10% in the first quarter. However, if we were to exclude our decision to take a more conservative approach given the weaker macro environment, **our cost of risk would have been 13.5% in the period.**

All in all, I'm very pleased with our quarterly performance, even amid a more challenging macro environment. It highlights the strength of our execution, and our continued commitment to our priorities and the guidance we've laid out to the market. We continue to work hard to evolve our business towards fulfilling our mission: to become the preferred partner when our clients think of financial services and tools that help them better manage their business and grow. While doing this we maintain a steadfast commitment to generating value to our shareholders.

Now, I want to pass it over to Mateus to discuss our more detailed financial performance. Mateus?

Mateus Scherer – Chief Financial and Investor Relations Officer

Thank you, Lia, and good evening, everyone.

Before we dive into the numbers, I'd like to highlight a few **important changes we've made to our financial reporting.**

As Pedro mentioned, our **P&L** now focuses exclusively on **continuing operations**, with discontinued operations presented separately as a single line item above consolidated net income. To maintain comparability, we've adjusted past figures to align with this new approach.

On the **balance sheet**, discontinued operations are now represented by single line items within current assets and current liabilities, while prior periods remain as originally reported.

Our **cash flow statement** remains on a consolidated basis, meaning our adjusted net cash metric still reflects cash generated by both continuing and discontinued operations.

As a quick note, all updated figures for 2024 and 2025, reflecting these changes, are available in the spreadsheet posted on our website.

Now, let's discuss our adjusted consolidated P&L for continuing operations:

- **Cost of Services increased 22% year-over-year, or 40 basis points** as a percentage of revenues due to higher provisions for expected credit losses, as Lia highlighted earlier. This was partially offset by lower payments and banking provisions as a percentage of revenue and operating leverage in key areas of our operation, especially in technology and customer support.
- **Administrative expenses increased 12% year-over-year, resulting in a reduction of 50 basis points** as a percentage of revenues, driven by continued operating leverage across our support functions.

- **Selling Expenses increased 17% year-over-year but decreased 40 basis points** relative to revenues, reflecting stronger operating leverage in marketing spend.
- **Financial expenses increased 29% year-over-year, representing a 210 basis points increase** as a percentage of revenues. This was largely due to a higher average CDI rate compared to the lower rates seen in the second quarter of last year. Importantly, this impact was partially mitigated by increased use of client deposits as a lower-cost funding source.
- **Other Expenses increased 12% year-over-year but declined 20 basis points relative to revenues**, benefiting from a one-time disposal of PP&E, partially offset by higher share-based compensation, mostly driven by the higher share price in the period.
- **Our effective tax rate was 15.0% in the quarter**, down from 22.5% in 2Q24. The year over year decrease was driven primarily by higher benefits from Lei do Bem.

Moving to slide 13, our Adjusted Net Cash position ended the quarter at R\$3.7 billion, a sequential decrease of just R\$118 million despite executing share repurchases totaling almost R\$400 million during the quarter. Excluding these buybacks and the present value adjustments to accounts receivable from card issuers, which flow through Other Comprehensive Income, Adjusted Net Cash would have increased by nearly R\$400 million.

Before we move on to questions, I'd like to thank you all for your time and continued support. We keep fully committed to our strategy and our focus remains on disciplined execution and creating sustainable, long-term value for both our clients and shareholders.

With that said, we are now ready to open the call up to questions.