

Stone Co 1Q25 Earnings Conference Call

May 8, 2025

Operator:

Good evening, everyone. Thank you for standing by. Welcome to StoneCo's first 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.

Throughout this conference call the Company will present certain non-IFRS financial information including adjusted net income, adjusted gross profit, adjusted net cash, adjusted basic EPS and ROE. 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 may include forward-looking statements. These forward-looking statements are not guarantees of future performance and therefore you should not put undue reliance on them. These statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from the Company's expectations. Please refer to the forward-looking statements disclosure in the Company's earnings press release.

In addition, many of the risks regarding the business are disclosed in the Company's Form 20-F filed with the Securities and Exchange Commission, which is available at www.SEC.gov.

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.

I'd like to begin by reaffirming our annual goals and expressing how pleased I am with our first-quarter performance. It was another successful chapter in our journey, marked by disciplined execution and continued progress toward our long-term objectives.

This quarter, we focused on profitability, executing a new cycle of price adjustments across our client base in response to the yield curve increase observed in the second half of last year. At the same time, we continued to develop solutions and features that truly make a difference in our clients' lives. I believe our results reflect the strength of our client-centric approach, disciplined execution, and a rational competitive environment.

When we take a step back and look at our performance in the context of our 2025 guidance, it becomes clear that we are on the right path.

In the first quarter of 2025, we grew gross profit by 19% year over year, driven by effective repricing execution and a reduction in our average funding spreads. This result outpaces the 14% annual gross profit growth outlined in our guidance.

On the EPS front, we accelerated year-over-year growth to 36%, significantly above the 18% growth implied in our full-year outlook. This acceleration was primarily driven by (i) strong adjusted gross profit growth, (ii) improved efficiency in administrative expenses, and (iii) a more balanced distribution of marketing spends throughout the year.

In addition, we repurchased R\$843 million or 15.1 million shares during the quarter, including 5.7 million shares repurchased in March, which were not included in the share count used in our guidance. Over the past twelve months, our distribution yield reached 12%, underscoring our strong conviction in our strategy, our business, and our ability to execute.

As a reminder, in our last earnings call, we laid out a disciplined capital allocation strategy based on three restrictive pillars—above which we would return excess capital to shareholders. With the close of 2024, we reached R\$3 billion in excess capital. Of that, approximately R\$1 billion has already been returned through share repurchases year-to-date. Today, we are announcing a new share repurchase program of up to R\$2 billion, replacing the previous program. This move reaffirms our commitment to the framework and distribution policy we shared with you just a few months ago.

With that, I believe we are well-positioned to continue executing our strategy, achieving our goals, and generating long-term value for our shareholders.

Now, I'll turn it over to Lia, who will take you through our first-quarter results in more detail.

Lia?

Lia Matos –Strategy & Marketing Officer

Thank you, Pedro and good evening, everyone.

Diving into our 1Q25 results, we are very excited with the milestones we have achieved. Such results reflect our execution in a less favorable macroeconomic environment, with interest rates trending higher, and we believe we have been successfully navigating this challenging scenario.

On slide 4, we highlight **our main financial metrics on a consolidated basis**. As you can see, we have shown good traction in revenues, gross profit and bottom line. Our revenues grew 19% year over year, and 2% quarter over quarter, despite seasonality in 4Q, resulting in revenues usually reducing sequentially in first quarters. This trend shows us that we are on the right path. Our repricing initiatives have started to yield positive results, despite the fact that it impacted in the quarter only partially. Adjusted gross profit also grew 19% year over year and decreased by 3% on a sequential basis, mostly on lower quarter over quarter TPV, timing mismatch between the increase in prices and cost of funding, and on higher cost of services. Finally, our Adjusted Net Income grew 23% year over year and decreased 17% quarter over quarter. This sequential reduction was mainly a result of our lower adjusted gross profit combined with higher investments in our distribution channels and higher effective tax rate. Looking on a per share basis, Adjusted basic EPS was R\$1.97 per share, 36% higher year over year and

13% lower sequentially. The better per share performance compared to nominal net income is a result of our commitment to returning excess capital to our shareholders, with R\$2.4 billion returned in share buybacks over the last twelve months and R\$843 million in this quarter.

On slide 5, we **dive deeper into our financial services segment performance**, starting with our payments business for MSMBs.

Our MSMB payments active client base increased 17% year over year and 4% quarter over quarter to 4.3 million clients. We also continue to see increased engagement of this client base with our different financial services solutions, with our heavy user metric reaching 38% in the first quarter compared to 37% in the previous quarter. This trend is a natural result of our execution with regards to bundling financial services solutions and offering new features that address our clients' specific needs.

MSMB TPV grew 17% year over year, even with repricing efforts throughout the quarter. Going forward, we expect some deceleration in volume growth as a natural outcome of changes in our pricing policy, which should impact volumes throughout the remainder of the year, as we prioritize profitability over pure volume growth in this scenario. Breaking down by types of transaction, MSMB card transaction volumes grew 10%, while MSMB PIX volumes grew 95% over the same period as PIX continues to cannibalize debit volumes. We believe this shift to be accretive to our results as we monetize PIX in line with debit and we see increased flow generating higher deposits with the usage of PIX.

Moving on to slide 6, we **dig deeper into our banking performance**. On the left side of the slide, we show the retail deposits evolution and breakdown. Our total client deposits reached R\$8.3 billion, 38% higher year over year and 5% down sequentially due to seasonality. Deposits continue to outpace MSMB TPV growth, reaching 6.9% of MSMB TPV in the first quarter. As payments and banking bundles already have a high penetration within our base, the focus shifts increasingly towards driving further engagement with our solutions, where we expect to see steady evolution going forward.

I would also like to recall that in our last earnings report, we have highlighted the changes in the mix of our time deposits going forward, aligned with what we call **our cash sweep strategy**. As we noted, we expected to convert a significant portion of our retail deposits into on-platform time deposits by issuing certificate of deposits. This will allow us to utilize such amounts to fund our operations, and thus, reduce our funding costs, in line with a reduction also in our floating revenues. Such strategy is accretive to our bottom line and also optimizes our capital structure. In line with this strategy, we have already started to ramp up time deposits, and by the end of the first quarter, R\$6.3 billion of our total R\$8.3 billion in retail deposits were already accounted as time deposits. The majority of such time deposits are a result of the cash sweep strategy and the remaining is related to investment products offerings to our clients. We expect this movement to finalize in the coming months, contributing to the diversification of our funding sources.

Moving on to slide 7, we **give some color on our credit product evolution**. Our total credit portfolio keeps growing consistently, reaching R\$1.4 billion by the end of the quarter. Out of the total, R\$1.3 billion relates to our merchants solutions, mainly comprised of working capital offerings to our SMB clients, and R\$161 million amounts to credit card offerings with a special focus on micro-merchants.

This steady portfolio growth continues to be supported by the **good quality of our cohorts**, with 15-90 days NPLs at 2.61%, and NPLs over 90 days of 4.57%, increasing as a natural outcome of our portfolio maturation process.

In terms of provisions, we have stabilized at the 12% provision level relative to our portfolio, as we outlined in our last earnings call, and as a result, we **will now transition to a cost of risk view, which was 10% in the quarter**. Finally, our coverage ratio was 256% in the period, converging to more meaningful levels versus previous quarters.

To wrap up, on slides 8 and 9 we bring our **segmented view between financial services and software**.

Our financial services segment revenue grew 20%, accelerating from 11% in 4Q24 as a direct effect of repricing initiatives throughout the quarter, which led to a sequential increase in revenues despite strong seasonal effects. Our adjusted EBT for the segment grew 21% year over year, reaching R\$637 million and a flat margin despite macro headwinds. The improved year over year results, combined with the repurchase of R\$2.4 billion in shares in the last twelve months, also led to an enhanced ROE of 27% for financial services in 1Q25, compared with 23% in the same quarter of last year.

Lastly, on the **software segment**, we saw revenues growing 11% year over year, mainly driven by higher software recurring revenues, led by an increase in our software active client base combined with a higher average ticket. Stronger revenues combined with gains in costs and expenses led to software Adjusted EBITDA growing 12% year over year, and posting a slight EBITDA margin expansion compared to 1Q24.

We are also starting to share our software capex, which has shown improvement compared to software Adjusted EBITDA, having reduced from 71% of EBITDA in 1Q24 to 51% this quarter, contributing to stronger cash conversion in our software business.

To sum it up, this quarter's results present one more step towards achieving our short-and-long-term targets. We believe we are on the right track to continue to help our clients' by providing superior service and solutions and further generate value to our shareholders.

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

Mateus Scherer – Chief Financial and Investor Relations Officer

Thank you, Lia, and good evening, everyone.

On slide 10, we detail the **evolution of our consolidated P&L on an adjusted basis**.

- **As Lia mentioned, total revenue grew 19% year-over-year and 2% sequentially.** This quarter, I'd like to re-emphasize a notable shift within our revenue composition. Beginning in late 2024, we've optimized our bundled offerings, significantly shifting revenue from Transactional Revenues to Financial Income. Consequently, Financial Income has increased notably, while Transaction Revenue has decreased on both quarterly and yearly comparisons. As we've consistently highlighted, that's another reason why it's important to track gross profit rather than individual revenue lines for a comprehensive understanding of our business.

Now, moving to our cost and expenses lines:

- **Cost of Services** increased 15% year-over-year translating to a decrease of 90 basis points as a percentage of revenues. This was driven primarily by (i) lower provisions for loan losses

reflecting reduced provisioning requirements as we aligned working capital provisions more closely with our expected credit loss models and (ii) efficiency gains in customer service.

- **Administrative expenses** increased 5% year-over-year, resulting in a reduction of 90 basis points as a percentage of revenues as a result of continued cost discipline within G&A expenses.
- **Selling expenses** increased 12% year-over-year, and down 100 basis points as a percentage of revenues. This decrease was primarily due to a more balanced distribution of marketing spends throughout the year.
- **Financial expenses** increased 23% year-over-year, representing a 90 basis point rise as a percentage of revenues. This increase was primarily driven by the higher average CDI during the period. On the other hand, our cash sweep strategy allowed us to begin using client deposits as an additional funding source, which helped partially offset this impact by contributing positively to our funding costs.
- **Our Other Expenses** line increased by 109% year-over-year or 140 basis points, primarily driven by a positive, non-recurring share-based expense reversal recorded in 1Q24.
- **Our effective tax rate** was 19.7% in the quarter, down from 20.6% in 1Q24, and in line with the level provided in our guidance. The year over year decrease was driven primarily by higher benefits from Lei do Bem combined with unutilized tax loss carryforwards generated in the sale of PinPag in 1Q24 which did not happen again this quarter.

Turning now to slide 11, **our Adjusted Net Cash position** was R\$3.8 billion at the quarter-end, representing a sequential decrease of R\$0.9 billion. This decrease mainly reflects ongoing share repurchases totaling R\$843 million in the quarter, in addition to investments to grow our credit book.

Before we move on to questions, I'd like to thank everyone for your continued support. We remain fully committed to executing our strategy and creating sustainable long-term value for our clients, team, and shareholders.

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