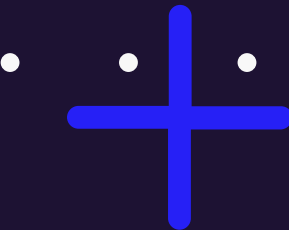


# StoneCo Pitch Update



STONECO

May / 2022



# Highlights



## + 01

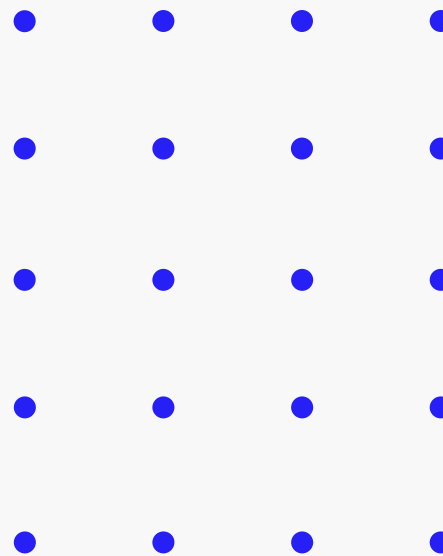
Stone's most relevant competitive advantage is logistic. Hub strategy is key for growth and profitability.

## + 02

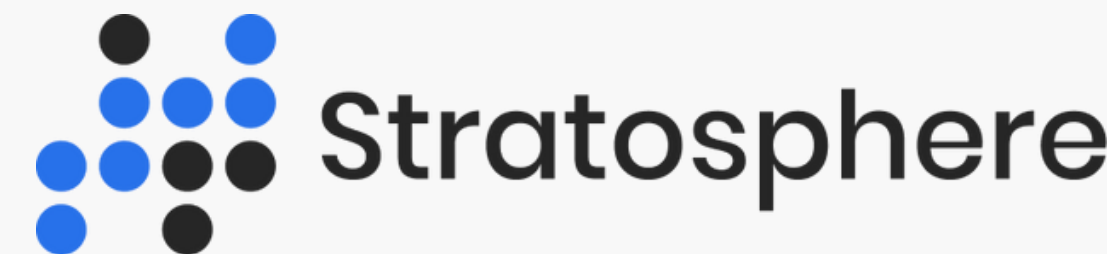
The new industry model revealed that MercadoPago is gaining a lot of share.

## + 03

Long-term growth deteriorated. Check the interactive model.



POWERED BY

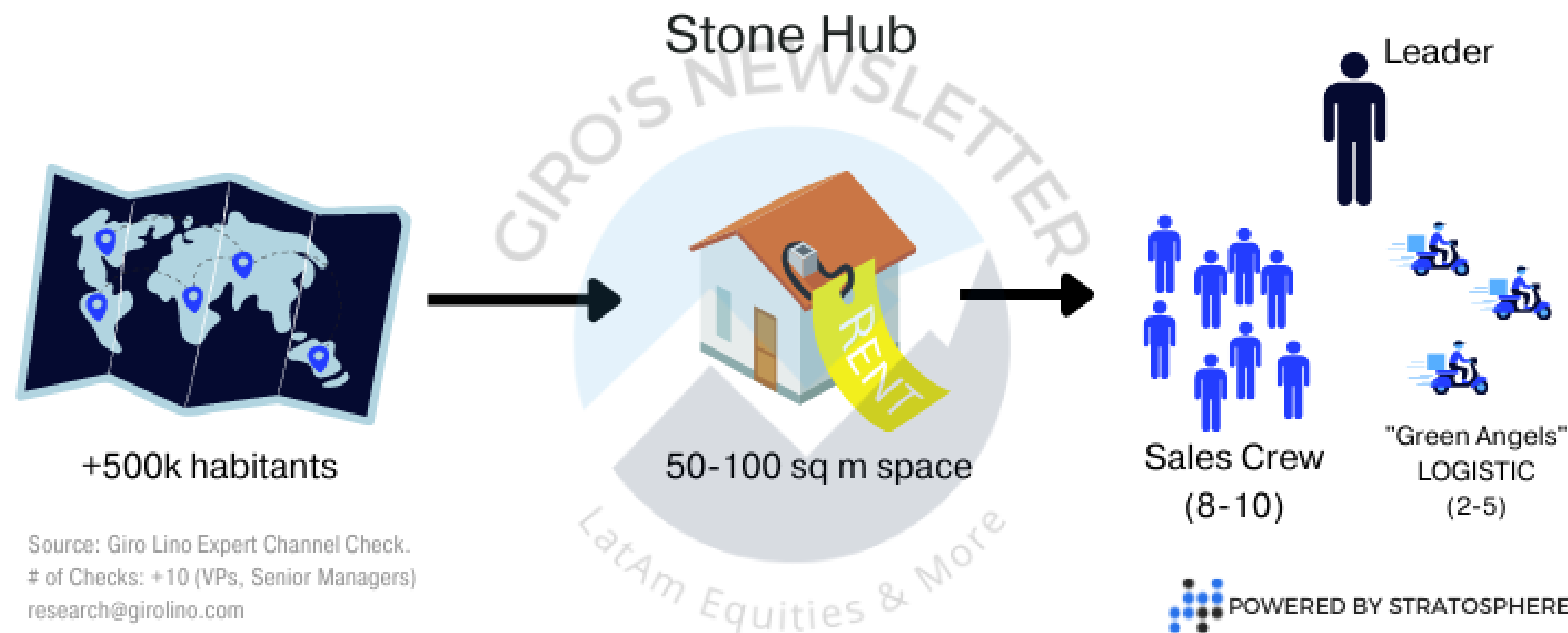


# + Distribution is key

## Hub Strategy

By far, the hub is the most extensive business that Stone has. According to our channel check, +90% of the sales force focuses on the hub strategy.

Stone's strategy is looking for cities with +500k inhabitants in Brazil as a possible spot for a hub. Usually, they place ten sales representatives, three logistic employees and one leader for 100sqm rented spaces.

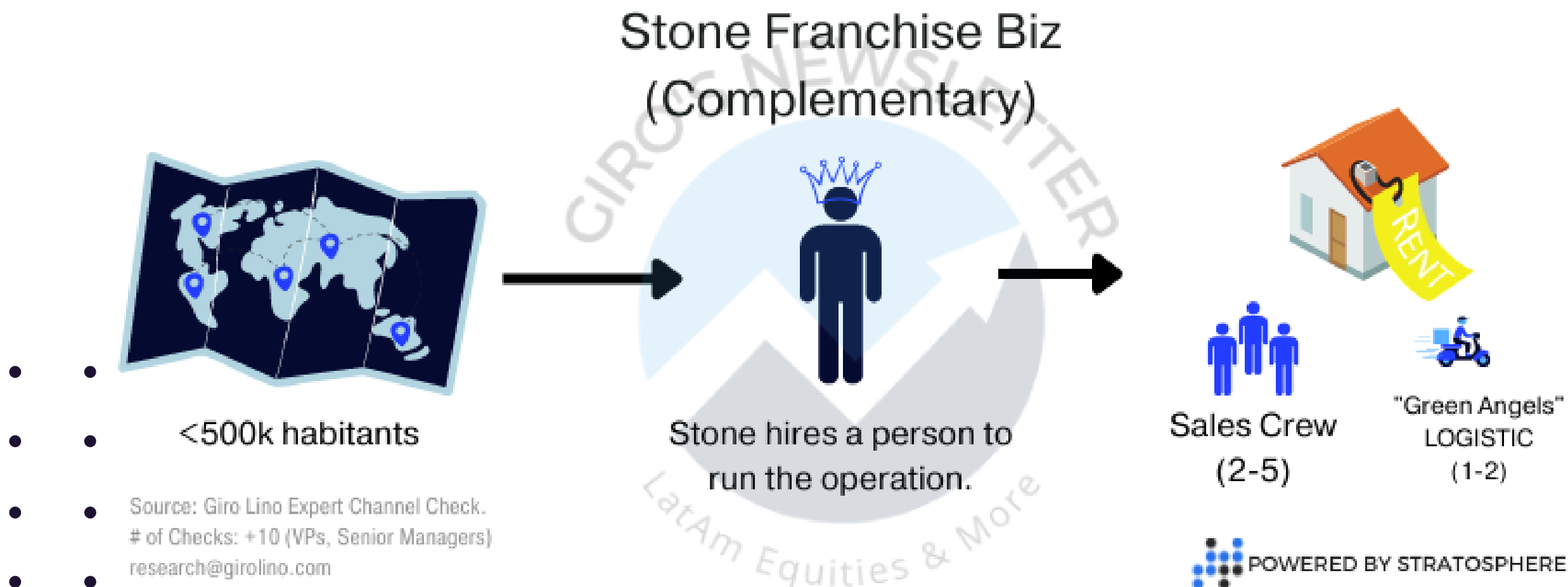


POWERED BY

# Franchise Strategy

Stone has a complimentary sales force under a franchising model. Unlike the hubs, the franchises focus on cities with <500k inhabitants, where building infrastructure doesn't make sense.

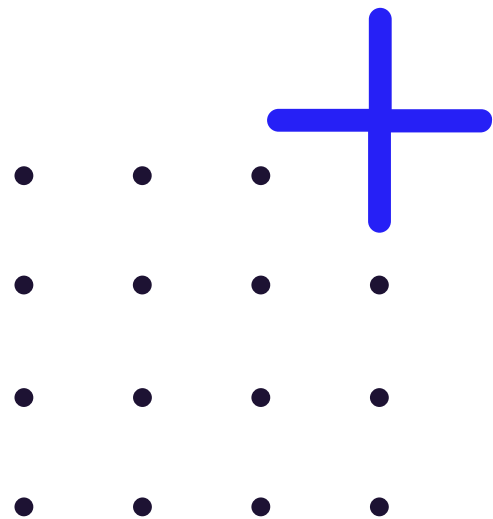
In this case, the headcount is roughly a third of the hub, and they run an internal process for selecting the franchise owner, who will be the only person proactively contacting Stone.



POWERED BY

# Key Advantages

- POS Machine is a high-touch product. The relationship between merchant and agent matters;
- Stone can replace POS Machines in a matter of minutes, while incumbents could take hours;
- Franchise model is key for expansion and hard to be implemented by incumbents;
- Long-term incentives between Stone and the Sales team are aligned. Goals are objective and align with shareholders;
- In smaller cities, Stone operates under franchise licenses, providing skin in the game for the business operator.



POWERED BY



# + Payment Industry Model

We built a simple, though it’s robust, a top-down model for card spending for estimating the TAM for acquirers.

Even though it sounds complicated, it’s straightforward. We considered the Personal Consumption Expense (“PCE”) for estimating the card (credit+debit) expense.

From 2015 to 2021, the PCE grew a shy 0.1%. Inflation consumed all the value generated. Also, since 2016, economic performance has never contributed more than product substitution for card spending growth.



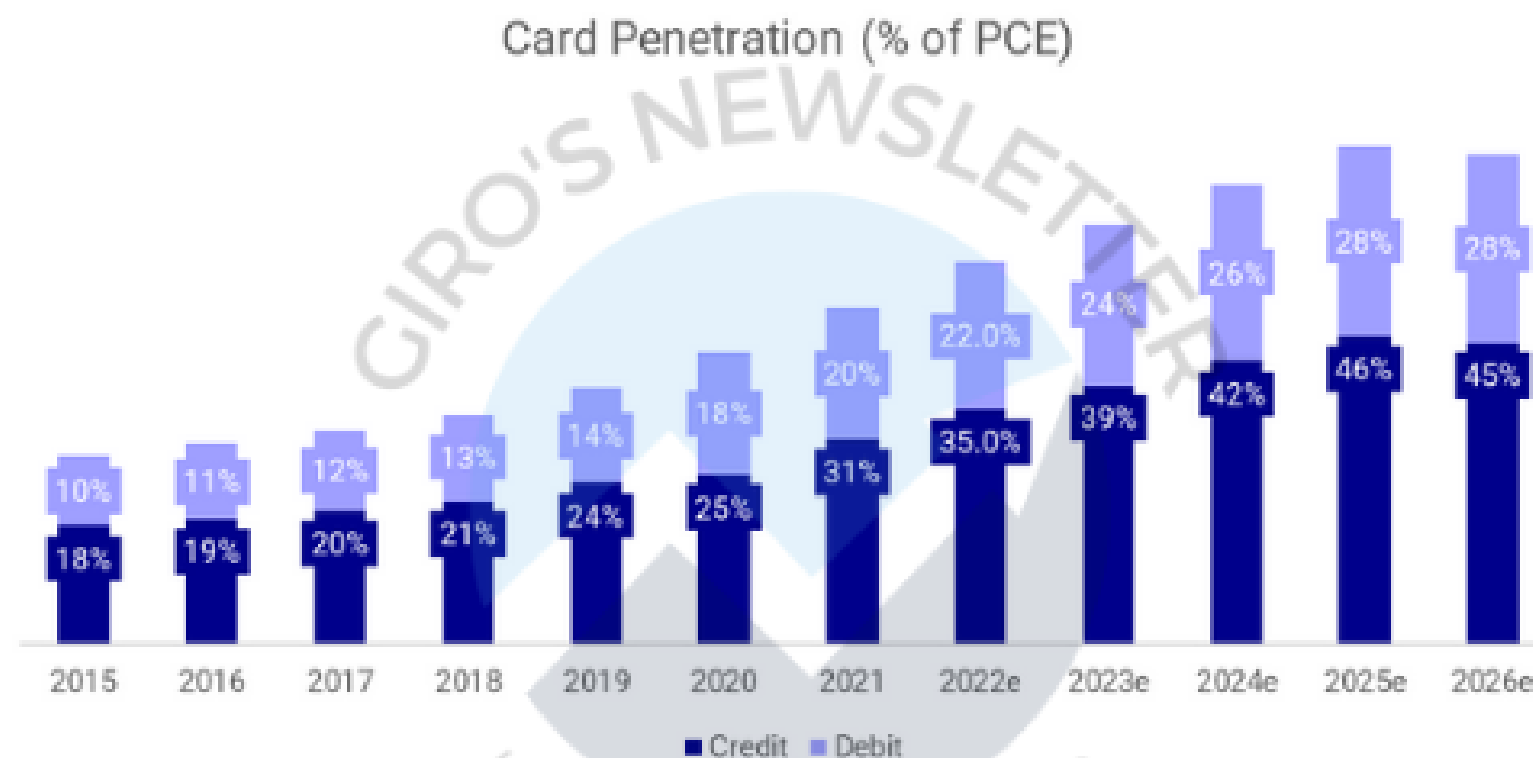
Source: Giro Lino, BCB, ABRAC.  
Proprietary Modeling  
research@girolino.com

# + Payment Industry Model

In the following illustration, we show our estimates for card penetration in Brazil as a percentage of PCE. Again, we expect that credit card momentum will keep playing out since we do not believe Pix will take its place.

However, based on historical growth, we observed that Debit and Prepaid Card growth decelerated since Pix was launched, raising whether Pix isn't stealing the incremental volume directed to Debit.

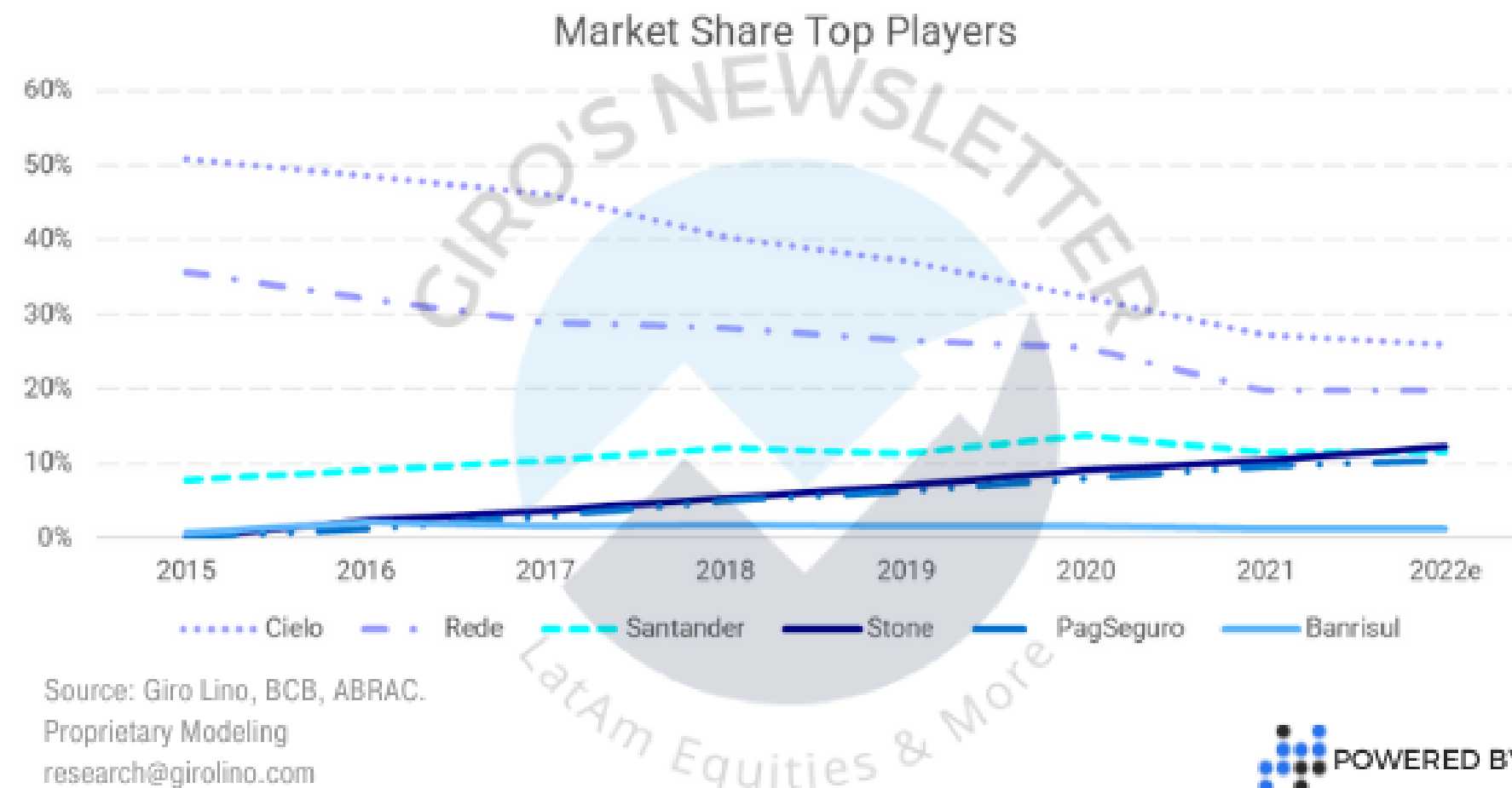
If that is the case, and the argument sounds reasonable, Debit card penetration should slow in the following years, which we considered in our modeling.



Source: Giro Lino, BCB, ABRAC.  
Proprietary Modeling  
research@girolino.com

# + Payment Market Share

Jumping to the company level, we extended our model for estimating the market share for the dominant players in the acquiring market share. Probably, this is the same image you could ask for any sell-side analyst.



POWERED BY

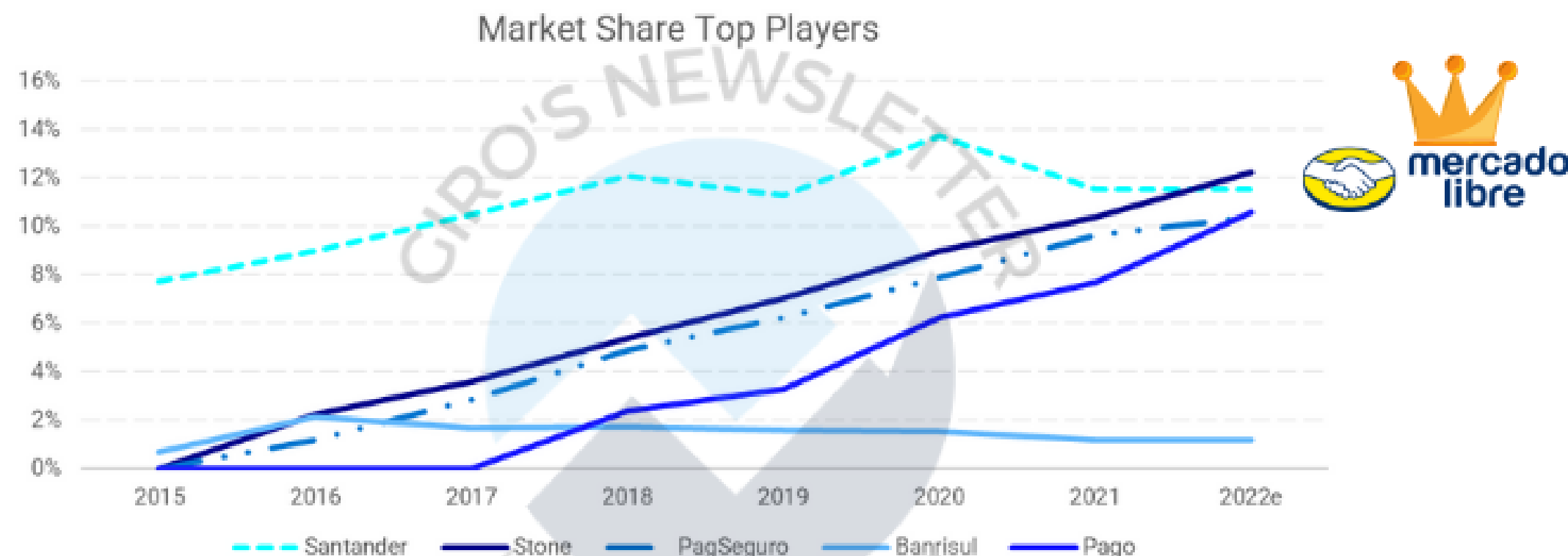


# + Payment Market Share

However, there is a massive mistake in the image above we didn't notice before. If you take a deep dive into the market share breakdown and start matching winners and losers, the sum is different from zero.

The answer is obvious: MercadoLibre. Our little beast. Hold your chair, dude. Since 2017, Meli has taken +10% of the market share in the payment industry. 🤖

We didn't realize that because Pago's CAC is so small, we didn't relate it to TPV growth. It's remarkably astonishing how much Meli grew in the past five years and how cheap they paid for so much growth.



Source: Giro Lino, BCB, ABRAC.  
Proprietary Modeling  
research@girolino.com

POWERED BY STRATOSPHERE

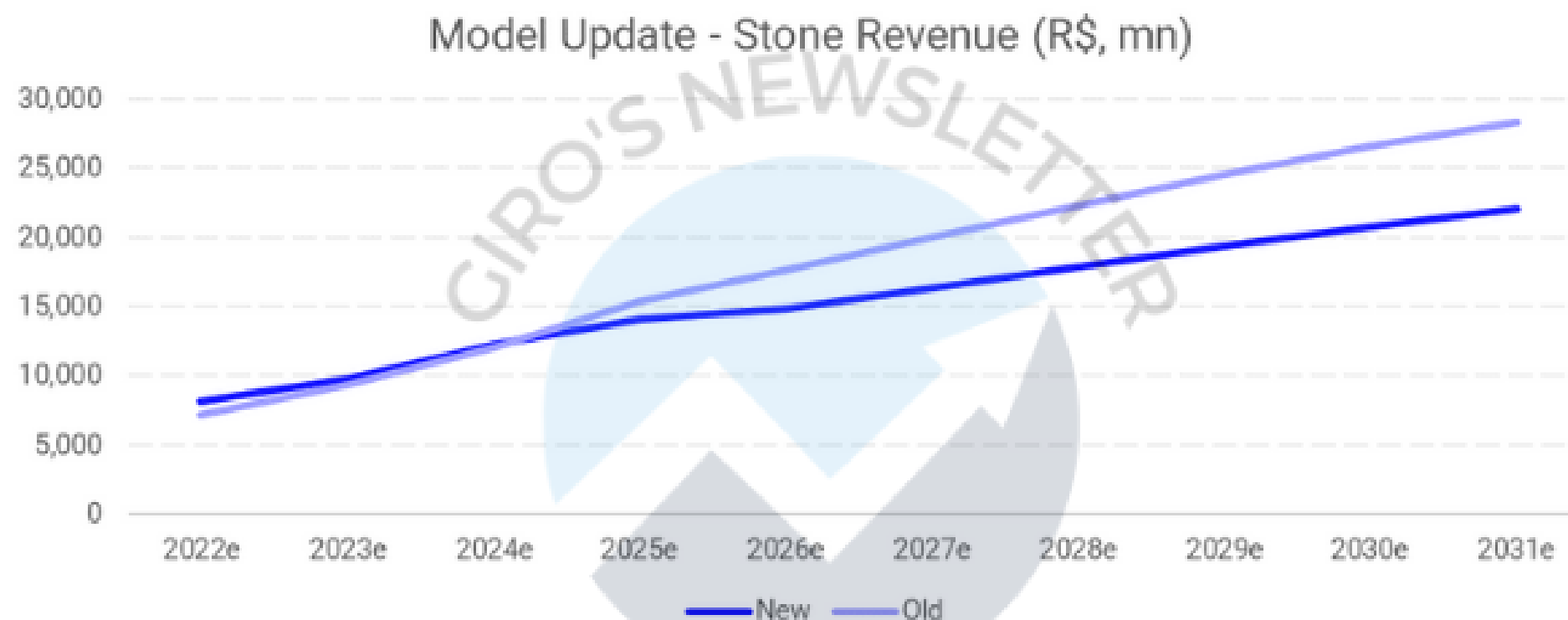
POWERED BY  
**Stratosphere**

# + Model Update

Our approach to growth is a little different from the traditional. We estimate the capital the company needs for maintaining its operation and use the excess cash for growth. That is it.

It's much more complex because it takes time to figure out how the different engines work together, but modeling becomes more robust.

So, what we changed that affected our growth for Stone was the CAC. We kept an elevated CAC for a longer time, impacting our long-term growth expectations.



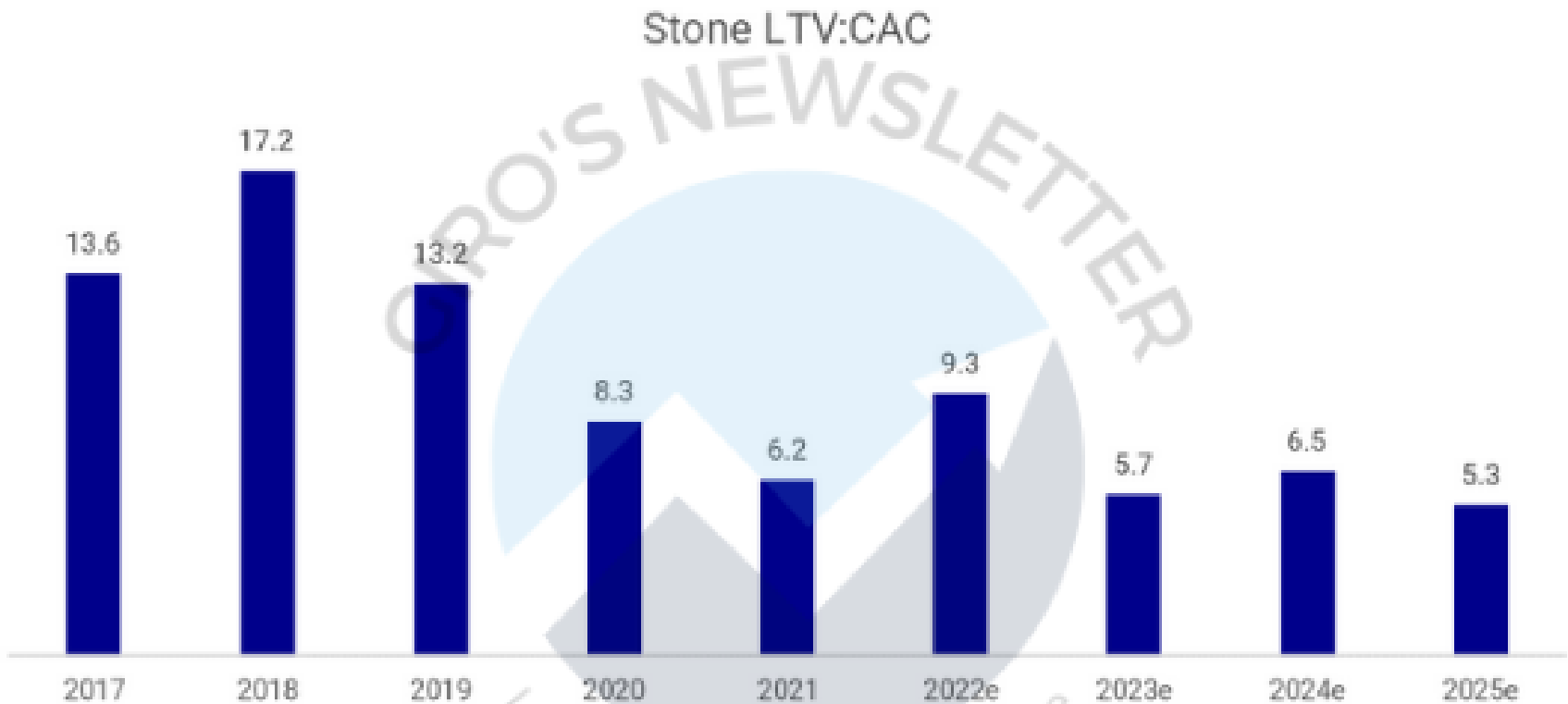
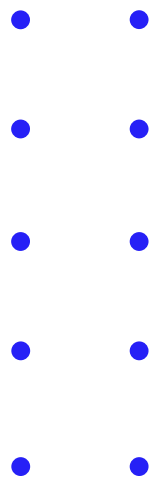
Source: Giro Lino, Stone.  
Proprietary Modeling  
research@girolino.com

# + Model Update

There is another way to demonstrate the impact we're estimating. Instead of looking at growth and margin composition, we estimated Stone's LTV:CAC, a standard indicator these days.

We're considering a base case where the LTV:CAC should keep a similar level since Meli started to expand aggressively. But, we cannot estimate further impacts in the industry dynamics due to the lack of evidence.

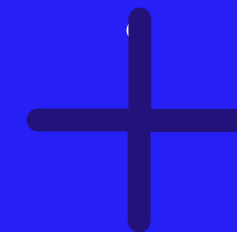
Finally, we strongly recommend using the interactive model if you have questions about the estimated output. If you have any further question, don't hesitate reaching us out.



Source: Giro Lino, Stone.  
 Proprietary Modeling  
 research@girolino.com



# Contact Us



research@girolino.com