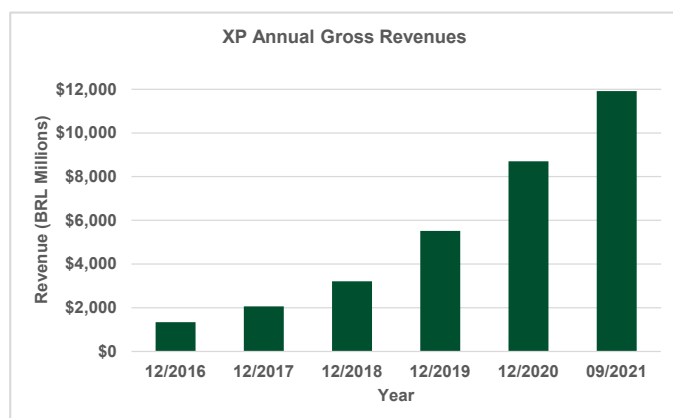
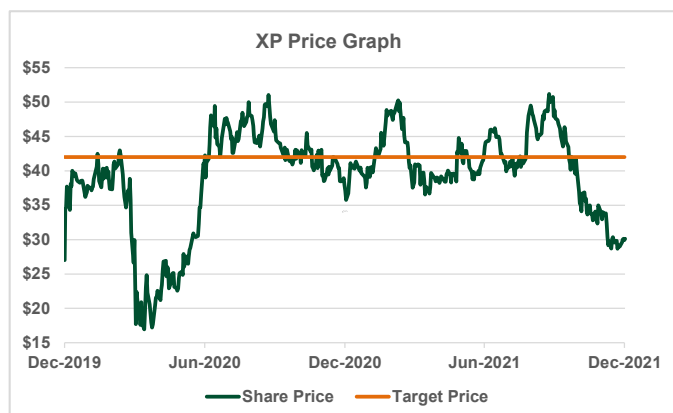


XP Inc. (NASDAQ: XP)**BUY**

Target Price:	\$42.0	Market Cap:	U\$17.2bn
Current Price:	\$30.1	P / E:	30x
YTD Change:	-24%	P / Book	7x
52-week L:	\$27.7	P / FCF:	19x
52-week H:	\$53.1	5Yr Rev CAGR:	58%

**CONTENTS**

Company Description:	1
Recent News and Results:	2
Macro Analysis:	4
Revenue Information:	5
Firm-Specific Information:	7
Risks:	8
Comparable Analysis:	9
Discounted Cash Flow Analysis:	12

EXECUTIVE SUMMARY

XP Inc. is given a buy recommendation with a target price of \$42, which implies a potential upside of 41%. The target price was based on a discounted cash flow analysis which demonstrated that XP is trading below its intrinsic value.

COMPANY DESCRIPTION

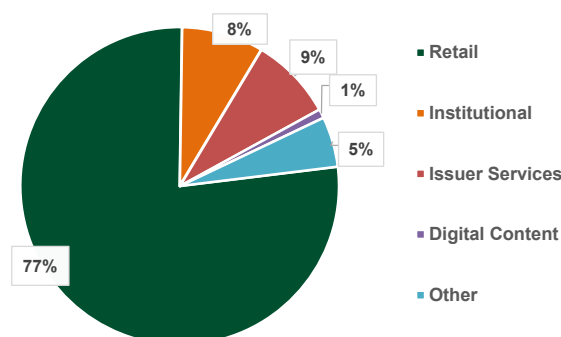
XP Inc is a financial technology company that started as an investment broker and now offers a wide range of financial services. After income from financial instruments, brokerage fees are still their largest revenue driver, followed by issuing services, and fund management fees. XP has recently entered the credit card and insurance business, and also provides educational services.

INDUSTRY STANDING

XP is the second-largest independent investment bank in Brazil with over R\$789 billion of assets under custody, and 3.3 million clients as of September 30, 2021. Main competitors include smaller banks such as BTG Pactual and Banco Inter and Brazil's largest financial institutions such as Itaú Unibanco and Bradesco.

Results for 3Q21 were reported on November 3, 2021

Gross revenues were R\$3.4 billion, a 50% increase YoY. EBITDA was R\$1 billion, an increase of 47.5% YoY. Net income totaled R\$936 million, an increase of 73% YoY. Retail investors accounted for 77% of revenues, investment banking services for 9%, institutional investors for 8%.

Revenue Breakdown - 3Q21

RECENT COMPANY NEWS AND RESULTS

XP Inc.**3Q21 Key Performance Indicators**

- Assets under custody decreased 3.4% QoQ to R\$789bn from R\$817bn. The decrease was caused by a market depreciation of R\$76bn.
- Total net inflows were R\$37bn on 3Q21 vs R\$75bn on 2Q21.
- Active clients increased 5% QoQ, and 25% YoY to 3.296mn.
- Gross additions of independent financial advisors totaled 1,188 in 3Q21. This amounts to a total addition of 4,865 additions in the last twelve months.
- Retail daily average trades decreased 1.5% QoQ to 2.6mn.
- Credit portfolio reached R\$8.6bn, an increase of 26% QoQ and 122% from 4Q20.
- Credit card total payment volume increased 55% QoQ to R\$3.3bn.

05/20/2021: Wise Investimentos, an independent financial advisory firm ended their partnership with XP to join the main competitor BTG Pactual. Wise had over R\$3bn of assets under advisory and over 40 offices throughout Brazil.

03/12/2021: Thiago Maffra, CTO, steps up as CEO of XP Inc and Guilherme Benchimol becomes executive chairman.

Recent Acquisitions

11/16/2021: acquisition of a minority stake in Vista Capital, one of the main independent equity and hedge funds managers in Brazil, with over R\$4.5bn in Assets Under Management (AUM).

10/19/2021: XP acquired a minority stake in AZ Quest, an asset manager that is part of Italian Azimut Group and has over R\$17.3bn in AuM.

09/09/2021: XP buys a minority stake in Virgo, a financial solution and capital markets service company. Virgo has over 105 institutional investors in their marketplace that are ready to provide capital for small and medium companies, allowing for fundraising up to R\$50 million in less than 12 hours. Also, the Virgo securitization platform is the largest in Brazil with over 38% market share in issuance volume in 2021 and a monitored portfolio of over R\$35 billion.

06/25/2021: XP acquired a minority stake in Jive Investments, the largest independent alternative investment manager in Brazil with over R\$8 billion in assets, R\$21 billion in face value with more than 1,300 investors.

06/14/2021 – XP acquired a minority stake in Capitania Investments. The asset manager has over R\$11 billion of AuM in 30 investment funds and 80 institutional investors.

06/04/2021: XP acquired a minority stake in Giant Steps. Giant Steps is the largest quantitative investment manager of Brazil with over R\$ 7 billion AuM.

06/02/2021: XP and Monte Bravo Investimentos announced the creation of a brokerage. This was part of a strategy by XP to retain their biggest independent financial advisory firm. Monte Bravo had more than 20 thousand clients and over R\$18 billion of assets under advisory at the time of this announcement. XP now owns 45% of the company.

BTG Pactual

BTG is the biggest independent investment bank in Brazil with over R\$942 billion in assets under custody. It is the main competitor of XP Inc and operates in virtually the same businesses.

3Q21 Results

- Gross revenues totaled R\$3.8 billion, an increase of 55% YoY.
- Net income was R\$1.8 billion, an increase of 77% YoY.
- Credit portfolio reached R\$98bn, an increase of 43% YoY.
- Assets under custody increased 7% QoQ to R\$942bn.

10/20/2021: BTG Pactual has signed an exclusivity agreement with Nomura Asset Management to help build Nomura's US Offshore UCITS distribution network.

09/21/2021: BTG Pactual announced the launch of its crypto platform Mynt. The solution allowed clients to trade bitcoin (BTC) and ether (ETH) directly. According to the company, more cryptocurrencies will be added in the future.

Recent Acquisitions

10/20/2021: Banco PAN, controlled by BTG Pactual, announced the purchase of Mosaico. According to the institution, the operation will create “the largest and most complete banking and consumption platform in Brazil”. Mosaico owns the brands Zoom, Buscapé and Bondfaro.

06/14/2021: BTG Pactual acquired a minority stake in Perfin, an asset manager with over R\$ 21 billion in assets.

05/31/2021: BTG Pactual will acquire Universa Group, which controls Empiricus Research, Vitreo Holding, Money Times, and Seu Dinheiro. The bank will pay R\$690 million initially, of which R\$440mn will be in cash and 250mn in BTG units.

04/06/2021: BTG Pactual agrees to buy Banco Pan's stake held by Caixa which represents 49.2% of the voting capital. BTG paid R\$ 3.7 billion and will consolidate control of the bank.

PagSeguro Digital.

PagSeguro is one of the largest acquirer companies in Brazil. Its consolidated TPV reached R\$125 billion in 3Q21 and its digital bank reached 12.2 million active users.

3Q21 Results

- Total revenues and income totaled R\$2.8 billion, an increase of 55.8% YoY.
- Net income was R\$322 million, an increase of 22% YoY.
- Acquiring TPV reached R\$66bn, an increase of 49% YoY.
- PagBank TPV reached R\$58.8bn, an increase of 158% YoY.
- 7.7 million active merchants. 1.4 million added LTM.
- 12.2 million active PagBank users, 5.5 million added LTM.

10/18/2020 - Bradesco BBI: Central Bank proposes a cap of 0.5% interchange fee on pre-paid cards – which currently operate with similar IC rates to that of credit cards (1.5-1.7%). We estimate the contribution for PagSeguro of pre-paid interchange fees to be in the vicinity of R\$500-R\$600mn per year with its pre-paid PagBank card – implying a potential reduction of R\$300-400mn (10-13% of pre-tax profit expectations for 2022) per year if the cap is applied.

MACRO ANALYSIS

Politics

Brazil's political scenario is currently chaotic due to the general impacts of the covid pandemic and the presidential elections that are coming in 2022. Polls show former president Lula on top of the results by large margins from the current president Jair Bolsonaro who is planning for another round of welfare payments next year. Small margins for fiscal spending and the worryingly high inflation suggest that this chaotic and unstable scenario will most likely continue until the elections.

Economy

Brazil's economy is currently going through tough times. The Brazilian Real devalued 30% against the dollar since January 2020 and LTM inflation peaked at 10.7%. The central bank is raising rates to contain the prices and the yield on 10Y Treasury bonds is around 11%. Debt to GDP peaked at 90% last year.

Higher interest rates and market volatility may hurt the equity markets in Brazil, but XP is well-positioned to handle these turbulent times. Clients do not tend to withdraw their funds invested, instead, they allocate them to other types of investments that XP offers, such as international and fixed income securities. BTG will have similar impacts as XP, but PagSeguro will suffer significantly more since their main revenue driver is payment transaction fees.

Expected inflation for 2022 is around 5.8% which shows that current conditions are not expected to last long. The fiscal balance is around the same as before the pandemic and foreign reserves of US\$ 350+ billion establish an important anchor for the economy.

COUNTRY DATA

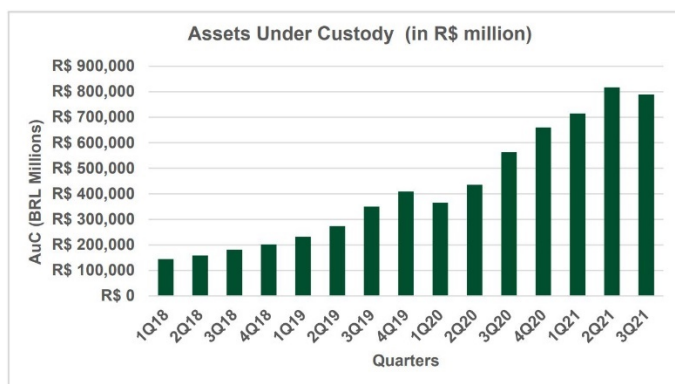
GDP	US\$ 1.6T
Population	213 million
Unemployment	12.6%
LTM CPI	10.7%
CB Rate	9.25%
10Y Bond	10.5%
Gross Debt /GDP	82%
Moody's	Baa2
2020 GDP Growth	-4.1%
BRL /USD	R\$ 5.6

Social and Technological Change

Lower interest rates in the past few years have generated a boom in retail investing. People started migrating from fixed-income securities to more risky assets, which created the perfect scenario for XP and other independent investment brokers to grow. Social media is something that is accelerating this process because financial education is now widely available for free, and influencers are becoming increasingly popular. For instance, XP has a minority interest in the biggest financial markets influencer of Brazil, O Primo Rico, who has 5.23 million subscribers on YouTube.

Also, growing smartphone adoption and technological advancements allowed smaller financial institutions to provide high-end platforms and apps. In the past years, several digital banks appeared making big changes in the industry that was historically dominated by only five institutions. Digital bank account openings exploded, and traditional banks are now trying to adapt.

Remarkably, there is still space to grow. The number of retail investors in the Brazilian stock exchange went from 600,000 in 2017 to almost 3,300,000 as of September 2021, but still represents less than 2% of the total population. Also, more than R\$ 1 trillion is sitting on savings deposits, 30 million people don't have a bank account and many more still do not use financial benefits such as credit, savings accounts, payment methods, and insurance.



Legal Challenges

As a financial institution, XP has to comply with several regulations by the Central Bank and also has higher taxes than regular companies. However, the company is not vulnerable to any of the regulations and does not present any significant legal challenges at the moment.

Coronavirus Impacts

XP, as one of the leading investment service providers in Brazil, didn't suffer a significant impact from the covid pandemic. Instead, 2020 was a wonderful year for the company which saw amazing growth in revenue and active clients who migrated to riskier securities amid the lowest interest rates Brazil has ever had.

International Operations

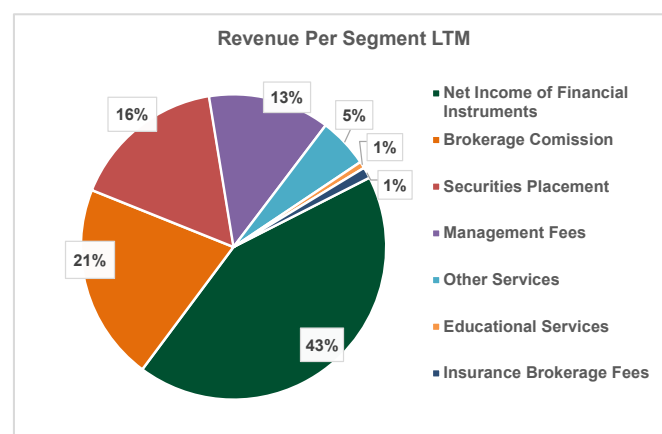
XP does not have significant operations abroad and they hedge foreign currency to operate entirely on the Brazilian Real.

REVENUE INFORMATION

Revenue Segments

As of September 30, 2021, net income from financial instruments represented 43% of LTM gross revenues at R\$5bn. Revenue from services accounted for the other 57% at R\$6.8bn.

Brokerage fees were the main services revenue at R\$2.5bn. Issuing services generated R\$1.9bn; fund management fees were R\$1.5bn. Educational, insurance and other services generated R\$84mn, R\$139mn, and R\$626mn, respectively.



Net Income from Financial Instruments

This includes the difference between purchases and sales earned on sales of corporate, bank and government fixed income securities; sales of structured notes and derivative instruments to retail clients; interest income on loans; and interest earned on uninvested cash balances which are allocated to liquid investments. In addition, a small portion of this revenue line is linked to principal trading operations, which in general consist of investing net cash balances in conservative securities.

Brokerage fees

Consist of commissions earned on the trading of stock, futures, and derivatives listed on the B3; commissions earned on the intermediation of non-deliverable-forward and other over-the-counter contracts; and commissions earned on the trading of US equities, futures, and derivatives by international clients.

Issuing Services

Consist of fees earned on sales of structured notes to retail clients; distribution and structuring fees related to issuer services where XP is hired by corporate clients placing fixed income, equity, or exchange-traded fund securities in the capital markets; and recurring fees charged to third-party financial institutions that offer CDs or other bank fixed income securities to retail clients.

Fund Management Fees

Consist of fixed and performance-based management fees from funds managed by XP's asset managers; fees from distributions of mutual and hedge funds managed by third-party asset managers; and fixed management fees from XP Advisory managed portfolios and exclusive funds for high net worth retail clients.

Insurance

Consist of fees from distributions of pension funds managed by third-party asset managers sold to retail clients; and rebates on Whole Life insurance products issued by third-party insurance companies.

Education and Other Services

Educational services revenue consists of fees charged in connection with the financial education and investment-related courses produced by XP Educação.

Other services consist of fees charged to retail clients with negative cash balances (typically as a result of margin calls related to equities and derivatives trading); advertising and other digital content fees generated by Infomoney; issuer services advisory fees from M&A and other financial advisory mandates; and commissions on short selling equity trades.

Catalysts

XP began offering three brand new services recently, credit cards, insurance, and collateralized loans, drastically increasing its total addressable market. These products already proved a success, preliminary data showed that total payment value on credit cards amounted to R\$3.3bn in 3Q21, a growth of 55% QoQ and credit portfolio reached R\$8.6bn, expanding 122% YTD.

XP plans to become a fully digital account by the end of 2021 with a complete ecosystem of services. The company plans to take advantage of the technological innovations the Central Bank of Brazil is promoting in the financial landscape with PIX (Instant money transfer) and open banking. XP calculates its total addressable market to increase from approximately R\$100 billion to around R\$400 billion of annual revenue with the new initiatives.

OTHER KEY FIRM-SPECIFIC INFORMATION**Independent Financial Advisors Network**

XP has approximately 80% of the total IFAs in Brazil, which is an important competitive advantage because the company can promote its new products directly through the network. The operational costs related to incentives and compensation to their IFAs totaled 891 million in 2Q21, about 30% of net revenues, virtually the same as all the other SG&A expenses.

As of December 31, 2020, XP had approximately 8,000 individual IFAs organized into approximately 670 entities, which were responsible for serving approximately 22% of XP active clients. XP's 20 largest IFA entities comprised 2,100 individual IFAs and were responsible for serving approximately 10% of XP's active clients.

Intangibles Assets

By having more than 20 years in the market, XP was able to build a spectacular reputation which is incredibly important for a company that manages and deals with people's savings. As of June 2021, XP NPS, a measure of customer satisfaction, was 76, which means that clients are extremely happy with the services provided by the company.

The company also invests massively in software and technology infrastructure, which is a crucial part of the business. The technology department which they call XP Innovation is comprised of 1,100 employees as of December 31, 2020. The department includes 16 XP Tribes, with two to three managers that help guide development priorities, and 84 XP Squads, comprised of autonomous teams of eight to ten people.

Indebtedness

XP has outstanding financial health with equity comprising approximately 90% of the total capital structure. Its level of debt which they calculate as the sum of bonds, structured financing, borrowings, and lease liabilities, amounted to R\$8 billion as of September 30, 2021. Cash, which was calculated as the sum of cash, securities purchased under agreements to resell, and certificate of deposits, amounted to R\$3.6 billion, implying a net debt of R\$4.4 billion. The market value of equity is currently around R\$94 billion and the book value of equity is R\$13.5 billion.

Capex, Depreciation and Personnel Expenses

XP does not invest a significant percentage of revenues in capital assets, so depreciation is not a significant expense.

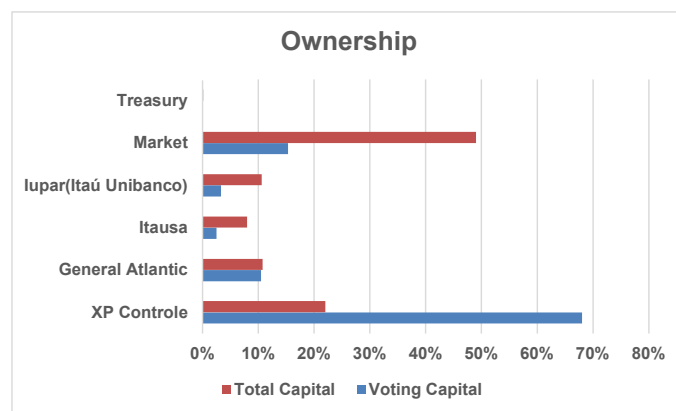
Also, the company tends to spend more on compensation, because attracting and keeping talent is hard amid such a competitive sector. Personnel was the largest expense totaling R\$924 million in 3Q21, which is approximately 29% of net revenues. If added IFAs compensation, total people expenses amounted to 52% of net revenues. Shared-based compensation totaled R\$165 million in 3Q21, approximately 5% of net revenues.

Investments and Joint Ventures

XP has a 20% minority stake in O Primo Rico, the biggest financial influencer in Brazil with over 5 million YouTube subscribers and 5.5 million Instagram followers. The company also has a 49.9% stake in WHG, a wealth management firm focused on high-net-worth individuals formed by former credit Suisse wealth specialists. XP also formed a joint venture with Velt, a securitization company, to form Du Agro, a company that provides credit lines for Brazilian rural producers. XP has 49% ownership of Du Agro.

Governance Features

XP Inc is controlled by XP Controle Participações S.A, which holds 68% of the voting rights and is ultimately controlled by a group of individuals. The board is composed of twelve members, in which XP Controle has the right to choose seven, Itaú chooses two members, General Atlantic chooses one and there are three independent members. Guilherme Benchimol, former CEO and founder of the company, is the current chairman of the board.



RISKS

IFA Network

There have been many legal proceedings in the past asserting that IFAs should be treated as employees rather than as independent contractors. Even though none of them succeeded, it is not certain that this may not change in the future. If the company is required to classify IFAs as regular employees, they would incur significant additional expenses, potentially retroactively to the past five years.

Also, in July 2019, the Securities and Exchange Commission of Brazil (CVM) issued a Public Hearing Release which aims to initiate discussions with market entities and IFAs about potential amendments to CVM resolutions. This could include terminating the exclusivity provision of IFAs, allowing them to work with competitors.

Intense Competition

The financial services market is highly competitive so it could be necessary to reduce fees charged to retain market share. Also, competitors may be more successful in investing in new technologies and making better developments to their platforms. The financial sector has been under rapid and significant changes in the past years, so XP must continuously invest to develop more products and features.

No Long-term Contracts with Institutional Clients

Some XP clients account for a significant portion of their transaction fees and can stop using their platforms and solutions at any time. These institutional brokerage clients buy and sell a variety of products using XP's platforms.

Macroeconomic Risk

Potentially the biggest threat to XP is macroeconomic. The company generates most of its revenues in Brazil, a country that was historically haunted by high inflation and high interest rates. This could significantly impact the company by depressing the equity markets or making the Brazilian real weaker.

COMPARABLE COMPANY ANALYSIS

Fourteen companies that operate in the financial technology sector were selected to provide an insight into how XP Inc is currently priced. All of the companies selected have their main operations in Brazil, except two, TIGR and FUTU, which are investment brokers in China. Country of operation was the primary factor to find peers because they are under the same country risk, so multiples will not be distorted by macroeconomic and political causes. The analysis used seven value drivers but with a larger focus on revenue growth expectations.

	B3SA3	BPAN4	TOTS3	NGRD3	BPAC11	BOAS3	XP US	PAGS	SQIA3	STNE	MELI	BIDI11	TIGR	FUTU	CASH3
Exp. Rev. Growth	8%	8%	16%	18%	19%	21%	31%	33%	40%	44%	46%	60%	62%	71%	75%

	BPAC11	BIDI11	CASH3	BPAN4	B3SA3	SQIA3	MELI	PAGS	BOAS3	XP US	NGRD3	TOTS3	STNE	FUTU	TIGR
Gross Profit Margin	0%	0%	0%	0%	0%	38%	42%	44%	46%	64%	66%	70%	72%	81%	81%

	BIDI11	CASH3	MELI	BPAN4	TIGR	SQIA3	NGRD3	TOTS3	PAGS	XP US	STNE	BOAS3	FUTU	BPAC11	B3SA3
EBITDA Margin	1%	5%	10%	12%	18%	19%	24%	25%	29%	31%	45%	46%	50%	51%	82%

	BIDI11	CASH3	MELI	SQIA3	BPAN4	NGRD3	TOTS3	TIGR	BOAS3	PAGS	XP US	STNE	FUTU	BPAC11	B3SA3
EBIT Margin	-3%	4%	6%	7%	10%	17%	17%	17%	20%	22%	29%	36%	50%	50%	70%

	BPAC11	BIDI11	STNE	CASH3	TOTS3	NGRD3	SQIA3	MELI	PAGS	XP US	B3SA3	BPAN4	BOAS3	TIGR	FUTU
OCF Margin	-160%	-150%	-6%	-4%	3%	9%	11%	11%	17%	20%	27%	38%	42%	256%	346%

	BIDI11	BPAC11	STNE	TIGR	TOTS3	PAGS	SQIA3	NGRD3	CASH3	XP US	MELI	B3SA3	BOAS3	BPAN4	FUTU
FCF Margin	-150%	-69%	-9%	0%	2%	8%	8%	9%	11%	13%	17%	27%	35%	37%	345%

	MELI	BIDI11	CASH3	SQIA3	BPAN4	NGRD3	TOTS3	TIGR	BOAS3	PAGS	STNE	XP US	BPAC11	FUTU	B3SA3
Normal. Profit Margin	1%	1%	3%	4%	7%	10%	12%	12%	14%	14%	17%	26%	35%	45%	51%

	BIDI11	BPAN4	FUTU	CASH3	TIGR	B3SA3	MELI	SQIA3	BPAC11	BOAS3	NGRD3	TOTS3	STNE	PAGS	XP US
Count	0	0	0	1	1	1	2	2	2	3	4	4	4	6	7

After sorting for the value drivers seen above, the companies that had the most similar value drivers to XP were chosen and colored in light green. The six companies found to be the most similar to XP were: PagSeguro Digital, StoneCo, Totus, Neogrid, Boa Vista Serviços and BTG Pactual. BTG had only two value drivers that were close to XP but was selected instead of Mercado Libre (NYSE: MELI) and Sinquia (B3: SQIA3) because it presents the most similarities based on its business model, and it is considered the main competitor of the company.

We can see the multiples of XP's closest peers in the table below.

Multiple	BPAC11	BOAS3	NGRD3	TOTS3	STNE	PAGS	Mean	Median	% Diff
P/Earnings	17.1x	130.0x	45.5x	59.9x	95.5x	56.1x	67.3x	58.0x	13.9%
P/Book Value	3.2x	3.4x	2.5x	7.9x	3.6x	6.7x	4.5x	3.5x	23.4%
P/Tangible Book Value	3.5x	6.7x	5.3x		3.9x	7.7x	5.4x	5.3x	1.5%
P/Operating Cash Flow	9.1x	22.4x	57.3x	59.6x	34.5x	48.0x	38.5x	41.3x	7.3%
P/Free Cash Flow	9.2x	22.4x	59.0x	65.2x	63.0x	348.3x	94.5x	61.0x	35.4%
EV/Revenue	7.6x	7.4x	4.1x	7.9x	17.9x	7.8x	8.8x	7.7x	12.4%
EV/EBITDA	13.2x	19.4x	17.0x	31.0x	27.4x	27.2x	22.5x	23.3x	3.5%
EV/EBIT	13.3x	59.2x	24.3x	46.0x	31.9x	35.9x	35.1x	33.9x	3.5%

DIRECT VALUATION

Of the five price multiples analyzed, P/E and P/OCF were selected to derive a share price for XP Inc. These multiples had the smallest difference between the mean and the median, meaning that they were the most consistent multiples and did not present significant outliers. P/ Tangible Book Value was disregarded because these companies rely heavily on software services and intangible assets, so removing these items may not be ideal to estimate the value of these companies. For example, Totvs (B3: TOTS3), one of the companies analyzed, have intangible assets about 30% larger than total equity.

Selected Metric	P/E	P/OCF
XP Metric	\$1.02	\$1.77
Median Multiple	58.0x	41.3x
Price	\$59.1	\$73.1
Weight	0.5	0.5
Implied Share Price	\$66.1	

The median P/E multiple of 58x was utilized along with XP LTM EPS of U\$1.02 to find an implied share price of U\$59.1. The median P/OCF multiple of 41.3x was used with XP OCF per share of U\$1.77 to find an implied share price of U\$73.1. A weight of 0.5 was applied to each multiple leading to a weighted average price per share of \$ 66.1.

INDIRECT VALUATION

An indirect valuation was performed using EV/EBIT multiple as it was the most consistent multiple and presented the smallest difference between the mean and the median. XP EBIT along with the median multiple of 33.9x resulted in an implied enterprise value of R\$ 116,547 million.

Debt and equivalents of R\$ 36,532 million were subtracted and cash and hidden assets were added, resulting in the implied equity value of R\$164,163 million. After multiplying by the current exchange rate of U\$0.18 USD / BRL and dividing by the fully diluted shares outstanding, the implied share price was found to be \$ 51.7.

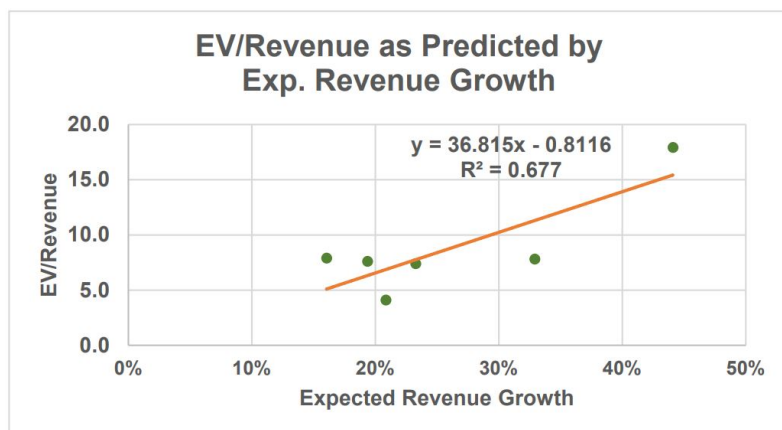
Selected Metric	EV /EBIT
Median Multiple	33.9x
XP EBIT	\$3,440
Estimated EV	\$116,547
Debt and Equivalents	-\$36,528
Minority Interest	\$4
Plus Cash	\$3,371
Hidden Assets	\$ 80,769
Implied Equity Value	\$164,163
USD / BRL	\$0.18
Equity Value (USD)	\$29,549
Dil. Shares Outstanding	572
Implied Share Price	\$51.7

CORRELATION VALUATION

Lastly, a correlation analysis was conducted utilizing the valued drivers as independent variables and multiples as dependent variables. The correlation of EV/Revenue and expected revenue growth was the highest at 0.82, so it was used to derive an EV/Revenue multiple for XP Inc. In addition, P/OCF and FCF margin was also used since they had the highest correlation between the price multiples.

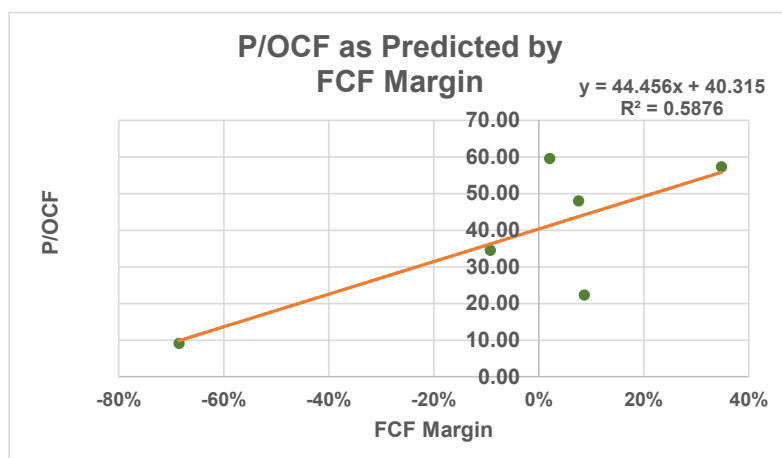
	Exp. Rev. Growth	EBITDA Margin	EBIT Margin	OCF Margin	FCF Margin	Net Profit Margin
P/Earnings	0.373512808	-0.554137817	-0.484310159	0.50636386	0.415183353	-0.106225869
P/Book Value	-0.110880473	-0.65257119	-0.392517563	0.215763437	0.113287446	-0.271740693
P/(Operating*) Cash Flow	-0.069072255	-0.320736783	-0.69601998	0.767263389	0.766539752	-0.517957069
P/Free Cash Flow	0.364479178	-0.324965487	-0.262965001	0.345379595	0.279723634	-0.191566602
EV/Revenue	0.822775144	0.191296168	0.358013113	-0.053215893	-0.228697551	0.810618386
EV/EBITDA	0.367325425	-0.560650199	-0.452121113	0.516269652	0.351797016	-0.020007681
EV/EBIT	-0.032143579	-0.911544153	-0.761669016	0.566357535	0.494382802	-0.503217118

The regression equation between EV/Revenue and expected revenue growth was found to be $y = 36x - 0.81$ with an R^2 value of 0.68, which means that approximately 68% of the variability in EV/Revenue can be explained by the variation in expected revenue growth. By using the expected revenue growth of XP Inc, the implied multiple was found to be 10.7x. After the calculations seen in the figure below, an implied share price of XP Inc was found to be \$ 52.8.



Selected Metric	EV /Rev
Correlation Multiple	10.7x
XP Revenue	\$11,214
Estimated EV	\$120,310
Debt and Equivalents	-\$36,528
Minority Interest	\$4
Plus Cash	\$3,371
Hidden Assets	\$ 80,769
Implied Equity Value	\$167,926
USD / BRL	\$0.18
Equity Value (USD)	\$30,227
Dil. Shares Outstanding	572
Implied Share Price	\$52.8

The regression equation between P/OCF and FCF margin was found to be $y = 44.5x + 40.3$ with an R^2 value of 0.58, which means that approximately 58% of the variability in P/OCF can be explained by the variation in FCF margin. By using the FCF margin of XP Inc, the implied multiple was found to be 51x. After the calculations seen in the figure below, an implied share price of XP Inc based on the price multiple was found to be \$89.5.



Selected Metric	P/OCF
Multiple	51.0x
XP OCF	\$ 5,577
Equity Value	\$284,531
USD/BRL	\$ 0.18
Equity Value (USD)	\$ 51,216
Dil. Shares Outstanding	572
Implied Share Price	\$ 89.5

CONCLUSIONS FROM COMPARABLE ANALYSIS

A comparative valuation can be simple but may not be effective in determining the intrinsic value of the company. It is made with the assumption that peers are currently trading at a fair value and are similar enough to be compared. However, it provides a perspective of how the company is currently traded relative to the market. According to the three valuation methods completed, the company is currently undervalued. It was considered a weight of 0.34, 0.33, and 0.33 for the direct, indirect, and correlation valuations, respectively. The implied share price found was \$57.

Method	Weight	Target
Direct	34%	66.1
Indirect	33%	51.7
Correlation	33%	52.8
Final Target	100%	57.0

DISCOUNTED CASH FLOW ANALYSIS

A discounted cash flow analysis was conducted to complete the valuation of XP Inc. The historical data of XP and its two closest peers, BTG Pactual and PagSeguro, were gathered and presented in the images below.

XP Inc.					
Historical Percentages:	2017	2018	2019	2020	Current 2021 LTM
Net Revenue	\$1,907	\$2,958	\$5,128	\$8,151	\$11,214
% Revenue Growth	52.3%	55.1%	73.4%	59.0%	37.6%
EBITDA	\$636	\$766	\$1,721	\$2,617	\$3,656
EBITDA Margin	33.4%	25.9%	33.6%	32.1%	32.6%
Depreciation and Amortization	(\$27)	(\$53)	(\$91)	(\$143)	(\$216)
D&A/Revenue	-1.4%	-1.8%	-1.8%	-1.8%	-1.9%
EBIT	\$609	\$713	\$1,630	\$2,474	\$3,440
EBIT Margin	31.9%	24.1%	31.8%	30.3%	30.7%
Interest Expense	(\$61.0)	(\$72.0)	(\$84.4)	(\$52.6)	(\$85)
Interest Expense/Revenue	-3.2%	-2.4%	-1.6%	-0.6%	-0.8%
EBT	\$548	\$641	\$1,546	\$2,421	\$3,355
EBT Margin	28.7%	21.7%	30.1%	29.7%	29.9%
Cash Taxes	(\$152)	(\$202)	(\$403)	(\$519)	(\$576)
Tax Rate	-25.0%	-28.3%	-24.7%	-21.0%	-16.7%
Net income	\$396	\$439	\$1,143	\$1,902	\$2,779
Net Profit Margin	20.8%	14.9%	22.3%	23.3%	24.8%
Depreciation and Amortization	\$27	\$53	\$91	\$143	\$216
D&A/Revenue	1.4%	1.8%	1.8%	1.8%	1.9%
Capex	\$0	(\$83)	(\$73)	(\$145)	(\$213)
Capex/Revenue	0%	-2.8%	-1.4%	-1.8%	-1.9%
Change in NWC	\$0	(\$61)	(\$105)	\$292	\$386
NWC/Revenue	0%	-2.1%	-2.0%	3.6%	3.4%
Shared Based Compensation +	\$0	\$0	\$8	\$294	\$688
Shared Based Comp/Rev	0.0%	0.0%	0.1%	3.6%	6.1%

BTG Pactual				
2018	Date 2019	2020	Current 2021 LTM	
\$5,707	\$8,606	\$10,858	\$18,478	
-9.1%	50.8%	26.2%	70.2%	
\$3,029	\$5,229	\$6,021	\$9,334	
53.1%	60.8%	55.4%	50.5%	
\$57	\$59	\$61	\$88	
1.0%	0.7%	0.6%	0.5%	
\$2,973	\$5,170	\$5,960	\$9,246	
52.1%	60.1%	54.9%	50.0%	
\$0	\$0	\$0	\$0	
0.0%	0.0%	0.0%	0.0%	
\$2,973	\$5,170	\$5,960	\$9,246	
52.1%	60.1%	54.9%	50.0%	
\$153	\$1,003	\$958	\$2,358	
5.1%	19.4%	16.1%	25.5%	
\$2,820	\$4,167	\$5,002	\$6,888	
49.4%	48.4%	46.1%	37.3%	
\$57	\$59	\$61	\$88	
1.0%	0.7%	0.6%	0.5%	
-\$3	-\$14	-\$90	-\$119	
0.0%	-0.2%	-0.8%	-0.6%	
\$0	\$0	\$0	\$0	
0.0%	0.0%	0.0%	0.0%	

PagSeguro				
2018	Date 2019	2020	Current 2021 LTM	
\$4,335	\$5,707	\$6,815	\$9,301	
66.6%	31.7%	19.4%	36.5%	
\$1,351	\$2,080	\$2,237	\$2,740	
31.2%	36.4%	32.8%	29.5%	
\$95	\$128	\$376	\$676	
2.2%	2.2%	5.5%	7.3%	
\$1,256	\$1,952	\$1,861	\$2,064	
29.0%	34.2%	27.3%	22.2%	
\$0	\$0	\$0	\$0	
0.0%	0.0%	0.0%	0.0%	
\$1,217	\$1,912	\$1,774	\$1,633	
28.1%	33.5%	26.0%	17.6%	
\$307	\$546	\$482	\$393	
25.2%	28.5%	27.2%	24.1%	
\$910	\$1,367	\$1,292	\$1,240	
21.0%	23.9%	19.0%	13.3%	
\$95	\$128	\$376	\$676	
2.2%	2.2%	5.5%	7.3%	
-\$62	-\$328	-\$1,522	-\$1,306	
-1.4%	-5.7%	-22.3%	-14.0%	
-\$3,651	\$36	\$25	-\$130	
-84.2%	0.6%	0.4%	-1.4%	

Assumptions used in the analysis:

Revenue Growth: The median of estimates of nine analysts found in Bloomberg was used until 2023. Then, the growth rate was 5% less every year until the long-term growth rate was reached.

EBITDA Margin: For 2021, it was considered the same as the LTM margin. For 2022, the same as the 2020 margin. After that, 1% was subtracted from the EBITDA margin every two years.

D&A/Sales: Has been stable since 2018 around 1.8%. So straight line from LTM D&A/Sales of 1.9% was used in the forecast.

Taxes: In 2016, XP paid 34.7% of EBIT. In 2020, XP paid 21% and LTM indicates a significant decrease from 2020 to 17%. However, keeping at 21% seems a good conservative estimate based on the 40% marginal tax rate for financial firms in Brazil.

Share-Based Compensation: Began in XP's IPO at the end of 2019. In 2020, they paid 3.6% of net revenues in options. LTM data shows a sharp increase to more than 5% of net revenues. So, the average of 2020 and 2021 estimate of 4.5% was used for a straight-line forecast.

Capex: Average of last 3 FY was almost the same as LTM Capex/Sales of 1.9%. So, a straight line forecast of 1.9% was used.

Change in Non-Cash Working Capital: The average of the last three fiscal years was -0.2%. In the last twelve months, it was 3.4%. So, keeping at -0.2% seems a good conservative estimate.

Long-Term Normal Growth Rate: Nominal GDP in Brazil considered in this estimation was 5%. Beta for a mature financial institution in Brazil was considered to be 1.

Operating Scenario	2020	2021	2022	2023	2024	2025	2026
Net Revenue	\$8,151	\$12,235	\$15,685	\$19,292	\$22,765	\$25,724	\$27,525
% Sales Growth	59.0%	50.1%	28.2%	23.0%	18.0%	13.0%	7.0%
EBITDA	\$2,617	\$3,988	\$5,019	\$5,981	\$7,057	\$7,717	\$8,258
EBITDA Margin	32.1%	32.6%	32.0%	31.0%	31.0%	30.0%	30.0%
Depreciation and Amortization	(\$143)	(\$227)	(\$291)	(\$358)	(\$422)	(\$477)	(\$510)
D&A/Sales	-1.8%	-1.9%	-1.9%	-1.9%	-1.9%	-1.9%	-1.9%
EBIT	\$2,474	\$3,762	\$4,728	\$5,623	\$6,635	\$7,240	\$7,747
EBIT Margin	30.4%	30.7%	30.1%	29.1%	29.1%	28.1%	28.1%
Taxes	(\$519)	(\$628)	(\$993)	(\$1,181)	(\$1,393)	(\$1,520)	(\$1,627)
Tax Rate	-21.0%	-16.7%	-21.0%	-21.0%	-21.0%	-21.0%	-21.0%

Unlevered Free Cash Flow	2020	2021	2022	2023	2024	2025	2026
EBIAT	\$1,955	\$3,133	\$3,735	\$4,442	\$5,242	\$5,720	\$6,120
Depreciation and Amortization	\$143	\$227	\$291	\$358	\$422	\$477	\$510
D&A/Sales	1.8%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Share Based Compensation	\$294	\$673	\$709	\$271	\$319	\$349	\$373
Share Based Compensation/Sales	3.6%	5.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Capex	(\$145)	(\$232)	(\$298)	(\$367)	(\$433)	(\$489)	(\$523)
Capex/Sales	-1.8%	-1.9%	-1.9%	-1.9%	-1.9%	-1.9%	-1.9%
- Increase (+ Decrease) in non-cash NWC	\$292	\$416	(\$31)	(\$39)	(\$46)	(\$51)	(\$55)
NWC/Sales	3.6%	3.4%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Unlevered Free Cash Flow to the Firm	\$2,539	\$4,217	\$4,406	\$4,665	\$5,505	\$6,006	\$6,426

Discounting of Annual Free Cash Flow	2020	2021	2022	2023	2024	2025	2026
Discount Period (Mid-Year Convention)			0.5	1.5	2.5	3.5	4.5
WACC			11.0%	11.0%	11.0%	11.0%	11.0%
PVLS Factor			0.95	0.85	0.77	0.69	0.62
Present Value of Free Cash Flow			\$4,182	\$3,988	\$4,239	\$4,166	\$4,015

Net Debt Calculation (As of Sep 30, 2021)

Gross Debt and Equivalents	
Borrowings, Bonds and Leases	(\$6,475)
Financial Bills	(\$2,342)
Structured Financing	(\$1,000)
Pension Liabilities	(\$26,711)
Minority Interest	(\$4)
Nonoperating Assets	
Cash	\$2,823
Repo agreements	\$548
Hidden Assets	\$80,769
Net Debt	\$47,609

Net Debt Calculation:

Structured financing relates to the maintenance of financial assets required to perform financial transactions. Hidden assets are the market value of investments held by XP. This was calculated as the sum of securities classified at fair value through profit or loss, securities at fair value through other comprehensive income, and securities evaluated at amortized cost. These are mostly government and corporate bonds, investment funds, and stocks issued by publicly held companies.

Terminal Value - Perpetuity Approach	
Exit Year Free Cash Flow	\$6,426
Long Term Normal Growth Rate	5.00%
Terminal Value	\$112,144
Discount Factor	0.59
Present Value of Terminal Value	\$66,502
% of Enterprise Value	76.4%
Cumulative PV of Stage 1 UFCF	\$20,590
Total Enterprise Value	\$87,092
Implied Exit EV/Sales	4.07x
Implied Exit EV/Ebitda	13.58x
Implied Exit EV/Ebit	14.48x

Enterprise Value - Perpetuity Approach	
Enterprise Value	\$87,092
Net Debt	\$47,609
Implied Equity Value	\$134,701
BRL / USD	0.18
Implied Equity Value USD	\$24,246
Fully Diluted Shares Outstanding	572
Implied Price Per Share	\$42
Market Price	\$30
Return Potential	41%

WACC CALCULATION

Cost of equity and cost of debt was first calculated in US dollars and then adjusted to Brazilian reals using Damodaran's differential inflation method. The method divides the expected inflation in the company's country with the expected inflation in the US and then multiplies it by the cost of capital in US dollars. The expected inflation values for 2022 were taken from Bloomberg and were based on the median of the responses of 74 private contributors for the United States and 31 contributors for Brazil. As of December 12, the expected inflation for 2022 was 3.7% and 5.8% for the US and Brazil, respectively.

Cost of Equity:

CAPM equation was used to calculate the cost of equity. The following assumptions were used:

Risk-free rate: The current market yield on U.S. Treasury securities at 10-year constant maturity is 1.49%. However, it is significantly lower than the average yield of the past 10 years, probably reflecting the strong bond purchases by the federal reserve in response to the Covid-19 pandemic. So, a long-run risk-free rate of 2% was chosen.

Beta: The beta was calculated as the average of brokerage, investment banking, and asset management industries. The data was taken from the website of NYU professor Damodaran and resulted in a beta of 1.03.

Market Risk Premium & Country Risk Premium: Both values were taken from Damodaran's website. Market risk premium was the trailing twelve-month cash yield for December 2021 and was 4.79%. Country risk premium most recent data is from July 2021 and was 2.52%.

Cost of Debt:

Credit Spread: The spread between corporate bonds rated Ba2/BB was used to calculate the cost of debt because XP had no long-term bonds outstanding. The spread of 3.6% was based on the ICE BofA BB US Emerging Markets Liquid Corporate Plus Index Option-Adjusted Spread available on the Federal Reserve Bank of St. Louis website. The index measures the yield of US dollar-denominated bonds from emerging market companies rated between BB1 and BB3. Moody's current credit rating for XP is Ba2.

Tax Rate: The marginal tax rate for financial companies in Brazil is 40%.

Weighted Average Cost of Capital:

The market value of equity as of December 12 and the book value of debt as of September 30 were used in the calculation, which resulted in a WACC of 11%.

Cost of Equity	
Risk free rate	2.00%
Beta	1.03
Equity Risk Premium	4.79%
Country Risk Premium	2.52%
Cost of Equity (Ke)	9.46%
Inflation Adjusted Ke	11.67%

Cost of Debt	
Risk Free Rate	2.00%
Ba2/BB Spread	3.60%
Pre-Tax Cost of Debt (Kd)	5.60%
Inflation Adjusted Kd	7.74%
Marginal Tax Rate	40%
Inflation Adjusted Kd	4.64%

WACC		
	Current	% of Total
Equity	\$95,364	90.7%
Debt	\$9,817	9.3%
Cost of Debt		4.6%
Cost of Equity		11.7%
WACC		11.02%

CONCLUSION FROM DISCOUNTED CASH FLOW ANALYSIS

The discounted cash flow analysis leads to a final target price of \$42, which implies a potential upside of 41% as of December 12, 2021. XP is a hard firm to analyze due to the complexities involved in the operations of financial institutions. It is difficult to define what should be treated as debt and cash and even harder to identify net working capital. Also, the calculation of the cost of capital and long-term normal growth rate is another challenge due to the unstable macroeconomic scenario in emergent countries.

Sensitivity Analysis						
		Long-Term Normal Growth Rate				
		4.0%	4.5%	5.0%	5.5%	6.0%
WACC	8%	\$57	\$63	\$70	\$79	\$94
	9%	\$49	\$52	\$56	\$61	\$68
	10%	\$43	\$45	\$48	\$51	\$55
	11%	\$39	\$41	\$42	\$44	\$47
	12%	\$36	\$37	\$38	\$40	\$41
	13%	\$34	\$35	\$36	\$37	\$38
	14%	\$32	\$33	\$33	\$34	\$35

FINAL RECOMMENDATION

XP is a company that is leading the revolution in Brazil's investment landscape. The recent boom in retail investing caused by record-low interest rates has helped the company achieve exponential growth in the past five years. They became the biggest online investment broker in a country where still less than 2% of the total population own stocks. Even though current macroeconomic and political conditions in the country may have an impact in the short run, the company is prepared and capitalized to keep expanding and investing in new business segments. Also, the social and behavioral changes that helped XP attain extraordinary performance will most likely continue. For this reason, a recommendation of BUY was given.