Presentation

Q4’21 and full year 2021 Earnings Call Prepared Remarks March 15, 2022 8:30am ET

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Thank you,

Good morning, everyone, and welcome to dLocal's fourth quarter and full year 2021 earnings call. I hope you and your families are safe. I am Soledad Nager, the new Head of Investor Relations at dLocal. Let me start by saying that it is my pleasure to have joined dLocal, the leading technology payments platform focused on Emerging Markets. On the call today, I am joined by Sebastian Kanovich, our Chief Executive Officer, Sumita Pandit, our Chief Operating Officer and Diego Cabrera Canay, our Chief Financial Officer.

We are providing a slide presentation to accompany our prepared remarks. This event is being broadcast live via webcast and both the webcast and presentation may be accessed through dLocal’s website at investor.dlocal.com. The replay will be available shortly after the event is concluded.

Before proceeding, let me mention that any forward statements included in the presentation or mentioned in this conference call are based on currently available information and dLocal’s current assumptions, expectations and projections about future events. While the Company believes that our assumptions, expectations and projections are reasonable in view of currently available information, you are cautioned not to place undue reliance on those forward-looking statements. Actual results may differ materially from those included in dLocal's presentation or discussed in this conference call for a variety of reasons, including those described in the forward-looking statements and risk factors sections of dLocal’s filings with the Securities and Exchange Commission, which are available on dLocal's Investor Relations website.

Now I will turn the conference over to Sebastian.

Sebastian Kanovich, Chief Executive Officer

Thanks Soledad. Hello everyone, thanks for joining us today.

Before we dig into our Q4 and full year 2021 results, let me start this presentation by saying that our debut as a public company in June 2021 set the beginning of a new chapter for dLocal. We are extremely proud of what we have achieved since we started serving global e-commerce merchants over six years ago. Our priorities and values have remained unchanged. We remain laser focused on building infrastructure connecting the emerging markets to the rest of the world. We continue to turn the complex into simple for our global merchants and we continue to redefine the online payments experience in emerging markets. We also value the continued support of our global team and our investors as we have continued to grow and deliver despite the challenges posed by the pandemic.

Our strong performance in 2021 has laid a solid foundation to fulfill our long-term vision. We are literally just getting started.

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2021 was a record year for us with triple-digit growth in total payments volume, revenues, and EBITDA.

In 2021, total processed volume surpassed the US$6 billion threshold. We have almost tripled our TPV, increasing by 193% over prior year 2020. If we compare our TPV in 2021 versus 3 years back, we have increased it by 11 times.

Revenues for the year reached US$244 million, a 134% increase over prior year 2020. If we compare our revenues in 2021 with 2018, we have increased it by an impressive 7 times.

We reached an all-time high NRR of 219% in 2021 and 198% in the fourth quarter as we grew wallet share with our existing merchants and had minimal churn of merchants.

Adjusted EBITDA for the year 2021 grew 136% year-over-year to US$99 million. We posted a strong Adjusted EBITDA margin of 41% during the full year 2021. This was comparable to the 40% we posted in the full year 2020. Our EBITDA margin for Q4 2021 was 38% in line with our expectations for the second half of the year as we focused on growing with large global merchants and continued investing in infrastructure and people to support our long-term growth strategy.

These results were driven by the continued expansion of our relationship with both existing and new merchants using our platform, mainly driven by increased levels of digitization in emerging markets.

The inherent diversification of our business has continued to strengthen our business fundamentals. We serve a broad set of merchants across geographies, sectors, and products. We remain committed to agile decision-making helping our merchants achieve their growth plans in emerging markets.

We remain bullish and are optimistic about our prospects for 2022. Our relationship with our existing customers and our commercial pipeline is stronger than ever. We are not currently seeing a major change in our business from specific factors such as higher interest rates, higher inflation in some developed markets, challenges in logistics in specific geographies, the Russia - Ukraine conflict, or the return to work.

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As I have mentioned, our TPV has nearly tripled in 2021 year over year.

The significant increase has been supported by the fast growth of our global merchants. We are proud to count some of the largest global merchants and marketplaces as our customers such as Microsoft, Rappi, Mailchimp, Shopify, Dropbox and Deel, amongst various others we cannot name here given confidentiality clauses.

Besides, during the year we have onboarded high growth merchants who are looking to expand outside their home geographies such as Wish and Kuaishou, among many others.

Our TPV growth will continue to be supported by the strong organic growth of our merchants’ TPV, as well as our ability to expand wallet share, sell additional products to our existing merchants, and take them to new geographies and payment methods.

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Our business model is not dependent on the performance and outlook of any single industry vertical. As you can see, we have merchants from more than 10 different verticals. In the last two years, we have seen different verticals go through specific cycles but our overall business benefits from verticals showing strong growth while another vertical may go through a short term down cycle. Ride hailing and streaming during 2020 are great examples of this balancing trend.

We are constantly looking for new opportunities to further diversify our business following the best industry standards in terms of risk. We have added “Crypto” as a new vertical. We are still in our early stages of pilots that we are running as well as use cases we are exploring in multiple geographies with several merchants. We will continue to evaluate the risk framework and explore areas of growth.

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Our merchants are also well diversified on a geographical basis. We serve merchants located in more than 40+ countries.

We have continued to grow our presence in Africa and Southeast Asia, adding Pakistan, Tanzania, and Uganda to our infrastructure network during Q4 2021. For the full year 2021, we added 9 countries to our network, bringing the total number of countries in which we make our services available to 35 compared to 26 in 2020.

We have added new countries based on where our merchants want us to serve them as well as our internal view of the prospects for a new country across our merchant base and the wider industry. We typically have a merchant-in-waiting when we add a new country, and this enables us to generate a high ROI on our expansion into a new country. We believe that the infrastructure we are building across geographies is a key strategic differentiator for our business because adding new countries and establishing multiple local connections is complex and merchants value the infrastructure network we are creating.

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Our expansion efforts are reflected in our strong revenue growth across all geographies. Our dollar revenues in Latam increased by 140% year-over-year. LatAm accounted for 92% of the total revenues in 2021 whereas Asia & Africa accounted for 8% of the total revenues. This was despite the fact that Asia & Africa revenue increased by 86% year-over-year and grew almost 5x in the last 2 years. Our addressable market in our core markets in Latin America is immense and we are pleased to note that our core markets in Latam continue to see solid triple digit growth as we deepen our relationship with current merchants or add new logos. We expect our share of Asia & Africa revenue to gradually increase over time as we continue to cross sell to merchants that originally started their relationship with us in Latin America to countries such as Nigeria, Kenya, India, and Indonesia. We are also increasingly starting to see merchants initiate their relationship with us through markets in Asia and Africa and then expanding to Latin America. The opportunity remains significant across our different regions, and we will continue to take steps to further diversify our geographic footprint, especially in Africa and Asia.

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During the year, we have been able to not only upsell and cross sell to our existing merchants but also to onboard new merchants with solid prospects such as a leading US video streaming platform that launched 13 geographies with us, a leading Chinese short video social app that has seen explosive growth globally and a leading Latin American on-demand delivery platform.

Our total merchants on our platform have grown steadily from 300+ in 2020 to 400+ in 2021. If we focus on merchants with TPV greater than $100,000 annually as a threshold, we see that our merchant count increased massively, from 150+ in 2020 to 240+ in 2021. Going forward, we will focus on a minimum TPV threshold to provide a merchant count for our large global merchants, as it is a better indicator of the performance of our clients.

As we add new merchants and scale existing ones, our revenue share from our top 10 merchants has continued to decrease. Revenues from top 10 merchants dropped to 56% in 2021 compared to 64% in 2020 and 73% back in 2018.

I will now hand it over to Sumita.

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Thanks Seba. I am pleased to join you all today.

There is a lot of data on this slide so let me try to simplify the key messages.

We show the performance of each of our cohorts we have added in the last few years.

Let’s focus on the left-hand side. There are three key takeaways here:

1) Each cohort is posting solid TPV growth year after year
2) Each cohort starts at a higher starting point than the previous year. This demonstrates our ability to continue adding incremental volume from new merchants in the first year of our relationships
3) The 2018 and 2020 Cohorts showed the highest growth in 2021. The merchants we add in a given year typically take a few quarters to show relevant growth in our platform. These specific cohorts growth was driven by the performance of some blue-chip clients that have scaled their volume very fast, while we were able to add new geos and payment methods to them, thus gaining significant share of wallet on these customers

Let us now look at the right-hand side of this slide. You can see the trend for revenues over TPV, or take rate for each cohort during 2021. For those of you who have followed our post IPO journey, you have heard us say that we do not manage our business to maximize take rate and take rate is not an input to our model. It is an output based on business mix, volume per merchant and volume based pricing tiers for merchants with increasing volumes. Take rate also varies by region (LatAm is different from Africa versus Asia), product and payment method. Thus, our take rate has gone up as well as come down in the last few quarters given these factors.

There are three key takeaways for the right-hand side of this slide:

1) For each cohort, the take rate remained almost unchanged versus 2020. Different cohorts have different pricing points depending on the business mix and we continue to see that there are multiple factors that make our merchants want to do business with us, and pricing is just one of them.
2) The drop in our average take rate from 5% in 2020 to 4% in 2021 is mainly explained by changes in the underlying business mix. The cohorts that grew the most in 2021 were the 2018 and 2020 vintages, and these cohorts came with a lower take rate mainly driven by their business mix of higher pay-outs and local to local payment flows.
3) Third, it is worthwhile to highlight that the 2021 cohort of merchants posted a higher take rate than our overall take rate in 2021.

We have included this slide to show our strong performance by cohort and going forward we expect to share this cohort data sporadically.

Before moving to the next slide, let me say that our focus is on increasing our gross profit dollar, as Diego will show you in the financial section. This is how we manage our business. We do not manage our business on a take rate basis. Our sales team is not incentivized to maximize gross take rate. Instead, they negotiate the contracts aiming to maximize the net dollar total value, after deducting processing costs, that the agreement will bring to dLocal.

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In slide 10, you can see that we have three primary vectors of growth: commercial efforts, product expansion and geographic expansion

a) Our commercial efforts are focused on a land-and-expand strategy. Our growth is driven by the organic growth of our merchants, our ability to cross-sell through account management and our ability to add new clients. Our NRR for the fourth quarter was an impressive 198%. We calculate NRR by measuring the $ revenues we earn from existing merchants we had on our platform on a year over year basis. As we have mentioned in the past, we expect the NRR to be at the 150%+ level in the next 12 months.

b) Our product innovation journey is never static. Emerging markets are constantly changing, and we need to remain vigilant and agile. This is what keeps us at the forefront of the industry. During the year we continued to enhance our product portfolio with improvements in our features for pay-ins and pay-outs, together with the development and launch of new product lines such as issuing-as-a-service.

c) On the geographic expansion vector, as Seba previously commented, we have added 9 new countries during 2021, of which 6 are outside of LatAm. We will continue to deepen our presence in the countries where we currently operate and add new countries. As an example of our commitment to growing our non Latam business, we have moved two senior executives to Singapore and South Africa to lead our commercial and expansion efforts in Asia and Africa, respectively. This allows us to retain our dLocal culture in a new geography and at the same time we are focused on hiring locally to grow faster.

We believe that the strong cash flow generation of our business supports a complementary inorganic strategy that will accelerate our time to market. We plan to pursue selective inorganic opportunities to accelerate any of our three growth vectors. The correction in valuation of fintech assets has made many more businesses more attractive and we continue to evaluate M&A though nothing is imminent.

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Slide 11 shows our continued success in bringing our merchants to more countries and payment methods. In 2021 our enterprise merchants, on average, processed payments in 7 countries and through more than 67 payment methods. In comparison, in 2018, on average, we were processing payments in 4 countries and through 29 payment methods.

Credit cards continue to account for about 35% of our volume, so a significant portion of our businesses includes a non-credit card-based payment method. As we offer more than 700 payment methods in 35 countries, our merchants value the convenience of a one-stop shop that gives them access to so many alternatives through a single API. This gives us an immense opportunity to continue scaling our customers and increase the barriers of entry for our competitors. We remain focused on continuing to monetize our existing client base and gaining share of wallet.

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Slide 12 shows the number of opportunities we have in our sales funnel for both existing and new clients and how this compares with the opportunities we had in March 2021, pre-IPO. We have seen a major increase in the opportunities for both existing and new clients in the last year. Our IPO has significantly enhanced the visibility of our company and capabilities to our merchants and it has reinforced our credibility as a solid and trusted payments partner.

Starting with our existing clients, we have an account management team solely focused on harvesting these relationships. This team works closely with our clients to solve their existing needs and cross sell new payment methods, new countries, and new product use cases.

We have over 190 open opportunities with existing clients to expand to new markets, products, or payment methods. These proposals are at different stages, having over 50 pricing proposals extended to our existing clients, and about 40-plus waiting to go live. The total number of open opportunities compares with 60-plus back in March 2021, representing a strong increase of 3 times in less than a year.

Moving to our new clients, we have seen that our sales funnel continues to expand given the rapid expansion and ramp up of merchants online, the growth of the creator economy, the emphasis our merchants place on digital marketing, that in many cases has no geographic boundaries, and the viral growth of users that some of our highest growth merchants experience.

We expect this trend to continue as we see new companies emerge and become dominant online much more quickly today than even a few years back. These companies, as we call them the “next tier of merchants”, are not the same size and type of the mega merchants we already have in our portfolio, but they are also not SMBs. They are mainly regional players that want to expand outside their home markets, and we enable them to access consumers anywhere in the world.

As shown on the slide, we have open opportunities with more than 640 new merchants, with over 250 pricing proposals extended to new clients, and over 100 waiting to go live. Once live, we typically take 3-6 quarters to ramp up volumes with a merchant. The number of opportunities has scaled significantly, by around 2 times, compared to the 350+ we had in March 2021. The merchants we expect to onboard during 2022 come from diverse businesses such as commerce, gaming, crypto, messaging apps, payroll, among many others.

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In this slide we show a recap of the main enhancements done during the year to our existing product portfolio.

On Payins, we started offering new integrations to add redundancy to our card processing in existing and new markets during the year.

We enhanced our solution with new features such as Network Tokenization, removing the need to handle sensitive cardholder data as network tokens are maintained and automatically updated.

We integrated PIX in Brazil, enabling instant payments for users, which provides better user experience, new integration options through full-API solutions, and even giving local merchants their own PIX keys. We recently received an award for our PIX integration, which you can find on our website, where we provide you with more details about that initiative.

We improved our tax manager to allow tax handling by payment methods, both debit or credit.

In Q4, we introduced a new auto-debit payment solution for subscription business models companies in India for both domestic and cross border transactions to comply with the latest auto-debit regulations.

We also increased our card and APMs acceptance rates, with better Smart Routing, Chaining, and UX improvements through rigorous A/B testing.

On the Payouts side, we expanded instant payouts offering in more countries, previously only available in Nigeria and Brazil and improved our PIX payouts solution with our PIX mobile app.

We also enhanced our logic and automations to overcome local rail’s processing limitations.

Besides, during the year we added 20+ direct connections with new partners/banks for processing redundancy and capability enhancements in both existing and new markets.

Slide 14: Product part 2 (SUMITA)

We also broadened our product portfolio.

We launched Defense Suite, including our Smart Defense and Defense Manager products. Additionally, we continued improving our fraud and data modules with new machine learning models tailored for retail and gaming verticals, adding profiling and fingerprinting tool live, Device ID live among other KYC improvements.

In Q2 2021, we launched our “Issuing-as-a-service” solution which enables merchants to create new lines of revenue and easily issue prepaid cards in local currencies to reach millions of consumers in emerging markets. This product comes to our offering as another building block for what we consider to be a one stop shop, particularly appealing when analyzing bancarization rates, which are significantly lower than in developed countries. We have launched this solution in four markets and have signed new deals that we are in the process of integrating and soon to go live. We have partnered with local banks as issuers to help grow the product. Although we are still at very early days, we remain bullish about the evolving use cases for our merchants.

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We continue to invest in our business responding to the incremental opportunities we face. At the end of 2021, we had 535 employees, increasing by 73% or by 225 FTE year-over-year. During the year, we grew significantly in all areas, with particular focus on Tech & Product and Sales & Marketing but also in our support areas to upgrade them to the standards and best practices of public companies.

We will continue hiring and scaling our team, with focus on Tech & Product and Sales & Marketing. We intend to do so with a balanced approach, making sure we identify talents that fit with our culture.

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Diego will now review our financial highlights.

Diego Cabrera Canay, Chief Financial Officer

Thanks, Sumita. Let's start with slide 17

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We have seen strong TPV growth during the year. In 2021, our TPV surpassed the US$6 billion threshold, increasing by 193% year-over-year, and in the fourth quarter of 2021, TPV has grown 145% year over year.

The growth is attributable to the performance and continued growth of our enterprise merchants across most verticals, particularly in ride hailing, streaming, advertising, SAAS ("software as a service"), on demand delivery and commerce.

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During 2021, both our pay-ins and pay-outs experienced triple-digit-growth.

For pay-ins we have seen a steady increase in TPV quarter after quarter. Specifically, in Q4 '21 Payins have grown 190% year over year and 14% compared to the third quarter of 2021.

Pay-outs TPV has seen short-term fluctuations resulting in a quarter over quarter drop in Q4 21, given higher than normal volume that came from certain merchants in Q2 and Q3 of 2021 as they decided to run big marketing campaigns in these quarters. On a year over year basis, our TPV for payouts still showed strong double-digit growth.

The strength of our business is best measured over slightly longer time periods as we continue to grow our relationship with our merchants.

Going forward, we expect our business to continue growing strongly in 2022, both in payins and payouts.

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Revenues also reached a new record high of 76 million dollars during Q4 2021 and 244 million dollars for the year 2021, having grown 120% and 134% year over year, respectively, and 11% over the third quarter of 2021.

Our revenues over TPV, or take rate, decreased from 5% in 2020 to 4% in 2021 mainly explained by changes in the underlying business mix toward larger global merchants and higher share of local-to-local payments, as explained before by Sumita. Particularly in Q4 we see a slight increase in take rate from 3.8% to 4.1%, when compared to the third quarter of 2021, mainly explained by a higher share of payins.

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Zooming in on our revenue, we continued delivering strong revenue growth both from our existing and from our new customers.

Revenues from existing merchants are those revenues that are driven by merchants that were already processing in the same period of last year, and revenues from new merchants are those revenues that are driven by merchants that started operating with us after the same period of last year. As our merchants typically have a 3 to 6 quarters ramp-up period, we believe the revenues from new merchants are just an initial indication of the potential of our new customers.

During 2021 of the 134% year-over-year revenue growth, 119% or 124 million dollars came from existing merchants and 15% or 16 million dollars came from new merchants. For Q4 2021, of the 120% year-over-year revenue growth, 98% or 34 million dollars came from existing merchants and 22% or 8 million dollars came from new merchants.

As some fast-growing merchants onboarded in late 2020 moved into the Existing Merchants bucket during 2021, they contributed to the high NRR of 219% for the year and 198% in the fourth quarter.

Our high net revenue retention is driven by having minimum levels of churn, by the growth of our merchants, and by the result of our own performance in terms of gaining share of their wallet.

However, we do not expect to maintain the same NRR levels in 2022, as 2021 represented an all-times high in terms of revenue and TPV growth and therefore the comparisons get tougher particularly since the second quarter of 2022. Thus, in the next 12 months, we expect to maintain a healthy NRR north of 150%, in line with what we have been able to achieve in the previous years.

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As Sumita mentioned, our commercial focus is to increase our gross profit dollars per merchant. As a result, our gross profit continues to grow at a healthy rate. In 2021, we more than doubled our gross profit, increasing 117% year-over-year to $130 million. And we were able to scale our gross profit each quarter, reaching $39 million in Q4 2021, up by 88% year-over-year and by 13%, when compared to the third quarter of 2021.

Our cost of services for the full year 2021 represented 1.9% of our TPV compared to 2.1% in 2020. This decrease was mainly driven by an increase in the share of local-to-local payins with a cost below our average.

In the fourth quarter of 2021 our cost of processing was 2%, compared to 1.9% in the third quarter of 2021 and 1.8% in the fourth quarter of 2020. These sequential increases were mainly driven by a higher share of payins both local to local and cross border, with higher average cost than payouts.

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Our Adjusted EBITDA for the fourth quarter of 2021 was 29 million dollars, increasing by 112% year-over-year. Our Adjusted EBITDA margin was 38%, compared to 39% in Q4 2020, and flat on a quarter-over-quarter basis.

Adjusted EBITDA for the year increased by 136% year-over-year to $99 million and represented 41% of revenue compared to 40% in 2020. This shows our commitment to continue driving profitable growth.

If we look at operating expenses for the year excluding one time or non-cash items, in line with our adjusted EBITDA calculation, we see that they have grown 81% year over year, slightly above our headcount increase of 73% as we added more senior members to our team and we increased our professional services as part of becoming a public company.

We expect our EBITDA margin for 2022 to remain north of 35%. In the medium term, as we grow our top line and gain scale, we continue to expect operating leverage in our business and therefore the ability to expand our margins.

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With that I will turn the call back to Seba to conclude.

Sebastian Kanovich, Chief Executive Officer

Thanks Diego.

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As we look ahead, we are very excited with the opportunities we foresee. We remain focused on our large and expanding TAM, our direct integrations with our merchants, our scalable infrastructure, our exposure to a diverse mix of verticals and our focus on growth and profitability.

We do not anticipate a change in our expectations for our overall business for 2022 from specific factors such as higher interest rates, higher inflation in some developed markets, challenges in logistics in specific geographies, the Russia - Ukraine conflict, or the return to work. While individual merchants may have idiosyncratic exposure to these factors, we continue to benefit from the diversity of our merchants, geographies, and consumer behavior patterns as we expand our payments infrastructure across 35 countries and 700+ payment methods.

We remain bullish about our business and our expectations for 2022 from both our existing clients as well as the addition of new clients. As mentioned in our previous quarterly earnings calls, we reiterate our expectation of our Net Retention Rate to be at the 150%+ level in the next 12 months and we expect a healthy new client revenue based on the current pipeline we see. We expect our EBITDA margin for the full year 2022 to be north of 35%. In the medium term, we continue to expect operating leverage in our business and therefore the ability to expand our margins.

We are immensely grateful to our merchants, employees, and investors for your continued support.

I’ll now turn it back to the operator to open it up for questions.