Presentation

Q1’22 Earnings Call Prepared Remarks May 18, 2022 9:00am ET

Slide 2

Thank you,

Good morning, everyone, and welcome to dLocal's first quarter 2022 earnings call. 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.

Slide 3 - Sebastian Kanovich, CEO

Hello everyone, thanks for joining us today.

I am pleased to share that we are off to a strong start to the year, delivering record Q1 results. Our business continues to show strong growth trends and we continue to execute our business plan with both our existing and new merchants across our various markets.

Our business continues to show resilience to specific factors impacting the global economy such as challenges in logistics in specific geographies, the Russia - Ukraine conflict, or changes in consumption from the return to work, higher inflation in some developed markets as well as a higher interest rate environment. As discussed in our annual 2021 results, our business benefits from the inherent diversification across geographies, sectors, and products and has no exposure to Russia or Ukraine.

Therefore, and despite the challenging global macro context, our total processed volume surpassed the US$2 billion threshold. We more than doubled our TPV, increasing by 127% year-over-year.

For the fifth consecutive quarter we grew our revenue triple digits, reaching US$87 million for the quarter, an 117% increase over prior Q1 2021. We continued to retain our clients with a strong NRR of 190% in Q1 2022 as we grew wallet share with our existing merchants and had minimal churn.

Adjusted EBITDA for the quarter grew 84% year-over-year to US$33 million with a strong Adjusted EBITDA margin of 38% in line with our margin levels in the second half of 2021. This was achieved while we continued to make disciplined investments in our infrastructure and people to support our long-term expansion strategy.

Our performance this quarter reinforces our strong growth momentum, and we expect to continue delivering growth supported by the performance of our existing and new merchants using our platform.

Slide 4 - Sebastian Kanovich, CEO

We have always operated with the philosophy of delivering disciplined profitable growth. Our Adjusted EBITDA for the first quarter of 2022 reached 33 million dollars, increasing by 84% year-over-year.

If we look at our Adjusted EBITDA for the last twelve months of 2022, it has more than doubled compared to the last twelve months of 2021, reaching 114 million dollars, that's a 118% increase.

In the last few quarters, given our strong profitability, we have continued to strengthen our cash position and our balance sheet. We believe this gives us continued flexibility to execute our long-term growth strategy.

Slide 5 - Sebastian Kanovich, CEO

As I have mentioned, in the first quarter of the year, our TPV has more than doubled year over year. The significant increase has been supported by the fast growth of our global merchants.

Our business model is not dependent on the performance and outlook of any single industry vertical. We have merchants from more than 10 different verticals and every vertical is well balanced in our portfolio. No single vertical accounted for more than 20% of our TPV in Q1 2022.

Although Q1 2022 has been marked by a challenging global macro environment due to the specific factors I have mentioned, our business continues to benefit from the diversity of our merchants across industry verticals, geographies, products, and consumer behavior patterns. 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, balancing each other out. So, while individual merchants may have idiosyncratic exposure to these factors, when we look at our overall volume, it remains quite stable.

As you can see on the right-hand side of the slide (I am on slide 5), all our verticals showed strong year-over-year growth in Q1 2022, with Consumption experiencing the highest growth, increasing by more than 5 times year over year driven by both on-demand delivery and commerce. On-demand delivery experienced high growth as we onboarded a leading Latin American on-demand delivery platform last year and we also grew existing customers by taking them to new geographies. Regarding commerce, we have seen our merchants scale their volume quickly, and we have continued to gain wallet share with these customers by adding new geographies and payment methods with them. Mobility increased by more than 2 times year over year, especially as travel picked up pace around the world. Entertainment and services also experienced high growth, increasing by more than 1.5 times year over year.

I will now hand it over to Sumita to discuss our expansion strategy.

Slide 6 – Sumita Pandit, COO

Thank you Seba.

Our merchants are not only well diversified across diverse verticals but also on a geographical basis. An important strategic priority for us is to continue to grow our business outside Latin America. We believe in the long run, this will further strengthen our business as merchants look for a single API and a single integration to access multiple emerging markets including markets in Africa and Asia.

We have continued to grow our presence outside Latin America, adding Ivory Coast and Rwanda to our infrastructure network during Q1 2022, bringing the total number of countries in which we make our services available to 37.

We continue to add 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 makes us an important partner for our merchants to achieve their own growth objectives. We are focused on growing with our merchants as they grow organically. Adding new countries and establishing multiple local connections is complex and merchants value the infrastructure network we are creating.

Slide 7 – Sumita Pandit, COO

Slide 7 - Our focus on building a global footprint has continued to yield results. We continue to see strong revenue growth across all geographies. Dollar revenues in Latam increased triple digits by 116% year-over-year to US$78 million.

Dollar revenues in Africa and Asia also increased triple digit by 127% year-over-year and represented 11% of our total revenues in this quarter. Our revenues from Asia and Africa was US$10 million in the quarter. As a comparison, for the full year 2021, our revenues from Africa and Asia were $21 million.

We are pleased with our run-rate expectations for our business in Asia and Africa. 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, South Africa, 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.

Slide 8 - Sumita Pandit, COO

We continue to invest in our business responding to the incremental opportunities we face. We are fully committed to further diversify our geographic footprint, especially in Africa and Asia. To accelerate this growth, Jacobo Singer, President of dlocal, is making South Africa his base for the near future, to build the team, develop the dLocal culture and enhance our infrastructure and network, setting the foundations for our long term growth in the region.

In early 2022, we moved senior leaders to become general managers of our businesses in Asia and Africa. They have moved to Nigeria and Singapore respectively in the last few months. Having senior executive members in these new geographies also helps us emphasize and retain our dLocal culture.

At the end of 1Q22, we had 562 employees, increasing by 54% or by 197 FTE year-over-year. During the quarter, we grew significantly in all areas, with particular focus on Tech & Product and Sales & Marketing. Our headcount has significantly expanded outside the Americas, as we focus on hiring locally to grow faster, reaching 100+ FTE outside the Americas by the end of March 2022, increasing by 104% year-over-year.

We are also proud to share that during the quarter we have added more than 50+ new payment methods in Asia and Africa.

We continue to evaluate select M&A opportunities to accelerate our growth in those regions.

Slide 9 – Sumita Pandit, COO

Moving to slide 9, during the quarter, we continue to onboard new merchants with strong prospects. We have added 10+ new significant merchants to our portfolio, out of which 5 have started to process with us in Africa or Asia.

We have been able to not only add new countries but also to deepen our presence in the countries where we currently operate by bringing new merchants and upselling and cross selling to our existing merchants. We have included a few examples in EMEA and Asia to show our successful land-and-expand strategy. The increase in the total numbers of merchants in India, Indonesia, Nigeria and South Africa shows our continued success in scaling our business in new geographies. For example, in India we started our operations back in 2018, and during the first year we provided our services to 5+ merchants. Today we are processing payments to 55+ merchants in India. Our operations in Indonesia, Nigeria and South Africa are more recent but we have more than doubled the number of merchants in these three countries since we opened up these markets.

Given our broad offering in terms of products, payment methods and geographies, our merchants value the convenience of a one-stop shop and this gives us an immense opportunity to continue scaling our customers and increase the barriers of entry for our competitors. We remain laser focused on monetizing our existing client base and gaining share of wallet.

Diego will now review our financial highlights.

Slide 10 - Diego Cabrera Canay, CFO

Thanks Sumita. Let's start with slide 10

We have seen strong TPV growth during the quarter. In Q1 2022, our TPV surpassed the US$2 billion threshold, increasing by 127% year-over-year, and 13% compared to the fourth quarter of 2021.

As mentioned in slide 4, the growth is attributable to the performance and continued growth of our merchants across most verticals, particularly in on-demand delivery, travel, commerce, advertising and SAAS ("software as a service").

I would also like to highlight that we have experienced growth both in pay-ins and pay-outs during the quarter.

For pay-ins we have seen a steady increase in TPV quarter after quarter. Specifically, in Q1 '22 pay-ins have tripled year over year.

As we commented during our last earnings presentation, pay-outs TPV had seen short-term fluctuations in Q4 '21. We are already starting to see improvement in our payout volumes with double-digit growth year over year and mid single digit growth quarter over quarter.

Revenues also reached a new record high of 87 million dollars during Q1 2022, having grown 117% year over year and 15% over the fourth quarter of 2021. As we add new merchants and scale existing ones, our revenue share from our top 10 merchants has continued to decrease, from 62% in Q1 2021 to 52% in this quarter.

Our revenues over TPV, or take rate, was 4.2% during the quarter, slightly better than our 4th quarter 2021 take rate of 4.1% and fairly in line with the levels seen in 1Q ´21 of 4.3%.

In this quarter, we saw a slight increase in the local to local share of TPV compared to Q1 21. The local to local and cross border split for this quarter was in line with what we processed in Q4 2021.

Slide 11 - Diego Cabrera Canay, CFO

Let's move to slide 11.

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 Q1 2022 of the 117% year-over-year revenue growth, 90% or 36 million dollars came from existing merchants. Our revenue from existing merchants continues to grow from quarter to quarter, reaching $77 million in Q1 2022, more than doubling the $33 million that we achieved in the same period of last year.

Our NRR for the first quarter of 2022 was a strong 190%. We calculate NRR as the revenues from existing merchants over the total revenues of the same period of last year. As we commented in previous earnings presentations, we do not expect to maintain the same NRR levels in 2022. 2021 represented an all-times high in terms of revenue and TPV growth and therefore we expect the comparisons will get tougher starting from the second quarter of 2022.

We reaffirm our expectations that we provided during our previous earnings in March 2022 that we expect to maintain a healthy NRR north of 150% in the full year 2022.

The remaining 27% year-over-year revenue growth or 11 million dollars came from new merchants. This compares to the $7 million recorded in the same period of 2021 and $8 million in the fourth quarter of 2021, increasing by 61% year-over year and 43% quarter over quarter.

Slide 12 - **Diego Cabrera Canay, CFO**

Moving to slide 12, we continue to expand our gross profit & EBITDA.

Starting with our gross profit, as we have mentioned in the past, 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. We were able to scale our gross profit to $44 million in Q1 2022, up 87% year-over-year and 12% quarter-over-quarter. Gross margin came at 50%, in line with the margin levels seen during the second half of 2021.

Our cost of processing for the quarter represented 2.0% of our TPV compared to 1.9% in the fourth quarter of 2021 and 1.7% in the first quarter of 2021. These increases were mainly driven by a change in business mix. Pay-ins, which have higher processing cost, increased their relative contribution, particularly year over year.

Moving to our Adjusted EBITDA, it was 33 million dollars for the first quarter of 2022, increasing by 84% year-over-year and 13% quarter-over-quarter. We are pleased that our Adjusted EBITDA margin was 38% in line with our margin in the second half of 2021. For 2022, we affirm our expectations that we provided during our last earnings that we expect our EBITDA margin to remain north of 35%.

If we look at operating expenses for the quarter excluding one-time or non-cash items, we see that they have grown 95% year over year, as we expanded our team and added more senior members. In addition we increased our travel and *in person* marketing events as things went back to normal and we also increased third party professional services as part of becoming a public company.

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

Slide 13 - Sebastian Kanovich, CEO

Thanks Diego.

Before moving to the Q&A section of today's earnings call, let me say that we are very excited about the opportunities that we foresee for the rest of 2022 to continue expanding our payments infrastructure across emerging markets. We remain committed to agile decision making and providing tailored solutions for our merchants to help them achieve their growth plans in emerging markets.

As shown throughout the presentation, our business truly benefits from the diversity of our merchants, geographies, and consumer behavior patterns, therefore, we reaffirm our expectation of our Net Retention Rate to be at the 150%+ level in 2022 and we expect a healthy new client revenue based on the current pipeline we see, despite the global and macro uncertainties.

Disciplined growth will continue to rule our business. We focus on making every merchant dollar accretive. Our strong performance of the quarter has led us to a combined revenue growth rate plus EBITDA margin of 155%.

We continue to expect our EBITDA margin for the full year 2022 to be north of 35% and we continue to expect operating leverage in the medium term and therefore the ability to expand our margins.

Our business is stronger than ever before, but our aspirations are even greater. We are just getting started! Thank you to our merchants, employees, and investors for their continued support.

With this, I turn it back to the operator to open it up for questions.

Thank you.