Webcast Presentation

Q2’22 Earnings Call Prepared Remarks August 23, 2022 9:00am ET

Slide 2 – Soledad Nager, Head of Investor Relations

Thank you, good morning, everyone, and welcome to dLocal's second quarter 2022 earnings call. On the call today, I am joined by Sebastian Kanovich, our Chief Executive Officer, Jacobo Singer, our President 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 Seba. Thank you.

Slide 4 – Sebastian Kanovich, Chief Executive Officer

Hello everyone, thanks for joining us today.

2Q22 marked our first anniversary as a public company. During the past year, we have proven that going public was just the beginning of a new chapter for dLocal. We continue to build the best financial infrastructure to connect the emerging markets to the rest of the world, making our services available in 37 countries and offering more than 700 local payment methods. Our merchants value the convenience of a one-stop shop solution and this gives us an immense opportunity to continue scaling with our customers and increase the barriers of entry for our competitors. We remain humble and focused on providing the most comprehensive solution for our merchants in emerging markets. Big thank you to our global team, our customers and our investors for their continued support.

Slide 5 – Sebastian Kanovich, Chief Executive Officer

Moving into our Q2 2022 results, I am happy to say that we had another quarter of strong results, reaching new records during the quarter.

Despite the challenging global macro context, including rising interest rates and inflation, our business has shown resilience and sustained growth, supported by the diversity of our merchants across industry verticals, geographies, and products.

Our total processed volume reached U$2.4 billion in Q2 and we achieved the US$100 million revenue milestone in a quarter, as we continue to bring new merchants to our platform and monetize our existing ones. We saw robust growth in TPV and revenue, increasing by 67% and 72% year-over-year, respectively, despite the high comparison base from last year. Both TPV and revenue accelerated by 16% quarter-over-quarter. We continue to retain our clients with a healthy NRR of 157% in Q2 2022 as we grew wallet share with our existing merchants.

We continue to operate with the philosophy of delivering disciplined profitable growth. Adjusted EBITDA was up by 47% year-over-year and 16% quarter-over-quarter to US$38 million, and for the fourth consecutive quarter we maintained our Adjusted EBITDA margin stable at 38%. Our strong performance of the quarter has led us to a combined year-over-year revenue growth rate plus EBITDA margin of 109%.

Slide 6 – Sebastian Kanovich, Chief Executive Officer

We continue to see more merchants joining our platform. Total merchants on our platform have grown to more than 500 and we currently actively manage around 200 key accounts.

As we add new merchants and scale existing ones, our revenue share from our top 10 merchants has continued to decrease, from 63% in Q2 2021 to 51% in this quarter. Top 10 merchants in 2Q22 were spread across diverse verticals including ride hailing, commerce, streaming, advertising, financial services, and on-demand delivery. Besides that, our Top 10 merchants vary from quarter to quarter. For instance, compared to 2Q21, there are 3 different merchants among our top 10 which shows the value of our customer diversification and the strength of our commercial team.

We have built trust with our merchants, successfully taking them to new geographies. The chart on the right shows our continued success in bringing our Top 10 merchants to more countries. As of 2Q22 our Top 10 merchants in terms of revenue, on average, processed payments with us in 9 countries, with the maximum being 17 countries per merchant and the minimum 4 countries per merchant. As we offer our services in 37 countries, and we keep adding new geographies, we see an immense opportunity to continue scaling our existing customers. Therefore, we remain laser focused on monetizing our existing client base and gaining share of wallet which we believe is still low across our most relevant customers.

I will now hand it over to Jaco.

Slide 7 – Jacobo Singer, President

Thanks Seba. I am delighted to join you all today from Cape Town and share more about our expansion plans.

Growing our business outside Latin America remains a key strategic priority and that’s why a few months ago I decided to make South Africa my base for the near future. We believe that, in the future, further diversifying our geographical footprint will strengthen our business as merchants look for a single API and a single integration to access multiple emerging markets including fast growing, large markets in Africa and Asia. Besides, 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.

As of today, 22 out of the 37 countries in which we make our services available are outside Latin America, compared to 16 a year ago; and with prospects of opening new countries in these regions in the near future. We started with one country in Africa, Turkey, back in 2016, adding Morocco two years after, and today we have a presence in 13 countries in Africa. In Asia we followed a similar journey, and today we operate in 9 countries. Our presence in these countries is already relevant, with 3 countries from Asia and Africa being among our Top 10 countries in terms of TPV and revenue.

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 cross selling to our existing ones. For instance, 9 out of our Top 10 merchants in terms of TPV, are already processing with us in these regions and we see significant opportunities to continue scaling.

During the last quarter we continued to enhance our infrastructure and network, adding more than 10 new payment methods in Africa and Asia. Adding new countries and establishing multiple local connections is complex and merchants value the infrastructure network we are creating. This, in turn, improves our moat.

We continue to explore selective inorganic opportunities to improve our scale, network and products across key markets.

Slide 8 – Jacobo Singer, President

Moving on to slide 8, we continue to see strong revenue growth across all geographies. Dollar revenues in Latam increased by 63% year-over-year to US$88 million. Our expansion efforts outside Latin America continue to yield solid results, as once again, our revenues in Africa and Asia outpaced the growth in Latam, increasing triple digit by 155% year-over-year or a strong 38% quarter over quarter. Our revenues from Africa and Asia were US$14 million in the quarter, having accumulated $23 million during the first 6 months of the year. As a comparison, for the full year 2021, our revenues from Africa and Asia were $21 million and we are pleased with our Q2 run-rate revenues for our business in Africa and Asia of around $60 million.

Our share of Africa and Asia increased to 13% of total revenue and we expect to see a gradual increase over time as we continue to cross sell to merchants that originally started their relationship with us in Latin America. Besides, we continue to see merchants initiating their relationship with us through markets in Africa and Asia and then expanding to Latin America.

Slide 9 – Jacobo Singer, President

We continue to invest in expanding our global team, responding to the incremental opportunities we face. At the end of Q2 2022, we had 632 employees, increasing by 48% or by 205 FTE year-over-year. Our headcount has significantly expanded outside the Americas, as we focus on hiring locally to grow faster, reaching 118 FTE outside the Americas by the end of June 2022, increasing by 2.1x year-over-year.

During the year, we grew in all areas, with particular focus on Tech & Product, Sales & Marketing and our Operations & Expansion teams. Tech-related roles, including those outside of the Tech & Product team, continue to represent around 40% of our FTE.

Diego will now review our financial highlights.

Slide 10 – Diego Cabrera Canay, Chief Financial Officer

Thanks, Jaco. Let's begin with slide 10.

We continue to see strong TPV growth during the quarter. In Q2 2022, our TPV reached US$2.4 billion, increasing by 67% year-over-year, and 16% compared to the first quarter of 2022.

As Seba highlighted, we have a fast growing and resilient business that continues to benefit from diversification. As you can see in the pie chart on the right, 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 with no single one accounting for more than 20% of our TPV in Q2 2022.

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

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 Q2 '22 pay-ins have doubled year over year.

We continue to see improvement in our payout volumes with double-digit growth quarter over quarter. Year-over-year payouts experienced mid-single digits growth, as in the second quarter of last year, we saw higher than average volume that came from certain merchants that ran big marketing campaigns in that period.

Regarding our cross-border and local-to-local volumes, their relative contribution has remained stable in the past three quarters, both showing solid growth YoY and QoQ.

Slide 11 – Diego Cabrera Canay, Chief Financial Officer

Revenue also reached a new record, surpassing for the first time the US$100 million threshold in a quarter, having grown 72% year over year and 16% over the first quarter of 2022.

Our revenues over TPV, or take rate, was 4.2% during the quarter, stable quarter-over quarter, and slightly above the 4.1% seen in 2Q ´21, mainly driven by a change in business mix as pay-ins increased their relative contribution year over year.

Zooming in on revenues, 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 with us 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.

During Q2 2022 of the 72% year-over-year revenue growth, 57% or 33 million dollars came from existing merchants. Our revenue from existing merchants continues to grow from quarter to quarter, reaching $92 million in Q2 2022, more than doubling the $40 million that we achieved in the same period of last year.

Our NRR for the second quarter of 2022 was 157%. 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, the second quarter of 2021 represented an all-time high in terms of revenue and TPV growth and therefore, in this quarter we start to have a tougher comparison with last year. For the full year 2022, we continue to expect a NRR north of 150%.

The remaining 15% year-over-year revenue growth or 9 million dollars came from new merchants. This compares to $11 million recorded in the first quarter of 2022 and to $19 million in the same period of 2021.

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.

Slide 12 – Diego Cabrera Canay, Chief Financial Officer

Moving to slide 12, we were able to scale our gross profit to $50 million in Q2 2022, up 47% year-over-year, while experiencing the largest quarter-over-quarter expansion of the past four quarters, increasing by a solid 14% or $6 million compared to Q1 2022.

Gross margin came in at 49%, pretty in line with the margin levels seen during the second half of 2021 and Q1 2022.

Our cost of processing for the quarter represented 2.0% of our TPV, stable quarter over quarter and compared to 1.6% a year ago. The increase versus Q2 2021 was mainly driven by a change in business mix as pay-ins, which have higher processing cost, increased their relative contribution.

Moving on to our Adjusted EBITDA, it was 38 million dollars for the second quarter of 2022. It followed the same trend as gross profit, increasing by 47% year-over-year and experiencing the highest quarter-over-quarter growth of the past four quarters, increasing by a strong 16% or $5 million compared to Q1 2022.

Our Adjusted EBITDA margin was 38% in line with our margin in the second half of 2021 and in 1Q ‘22. For the full year of 2022, we continue to 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 36% year over year, as we expanded our team and added more senior members, in line with our strategy to keep investing in building the infrastructure and harvesting long term sustainable growth. 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.

Slide 13 – Diego Cabrera Canay, Chief Financial Officer

Before handing the call back to Seba for the closing remarks, let me say that our cash generation and our balance sheet is stronger than ever.

We have continuously delivered positive free cash flow, generating 168 million dollars in the last twelve months, compared to 99 million in the full year 2021, excluding the PrimeiroPay acquisition, and 85 million in 2020, with a solid cash conversion of 168% for the LTM period, or 103% when excluding funds from merchants.

As a result, as of June 30, 2022, we had a robust cash position of 454 million dollars, which comprises 270 million dollars of own funds and 184 million dollars of merchant funds.

Seba, the floor is yours.

Slide 14 – Sebastian Kanovich, Chief Executive Officer

Thanks Diego.

I’d like to conclude by saying that we are very excited about the opportunities that we foresee for the rest of 2022 to continue expanding our financial infrastructure across emerging markets and providing tailored solutions for our merchants to help them achieve their growth plans.

As I previously highlighted, our business has shown resilience and sustained growth, supported by the diversifications of our business. We have been able to keep delivering high growth in a profitable way, increasing our TPV and revenue by 91% and 90% year-over-year, respectively, in the first half of 2022, with a strong NRR rate of 177% and with an Adjusted EBITDA margin of 38%.

Our top execution capabilities, combined with our strong cash generation, give us confidence that we are well-placed to consolidate our leading position as the online payments solution of choice in emerging markets, amid the challenging and uncertain global environment.

We do not anticipate a change in our expectations for our overall business for 2022. Thus, we reiterate our expectation of our Net Retention Rate to be at the 150%+ level in 2022 and we expect our EBITDA margin for the full year 2022 to be north of 35%.

We will continue to execute with discipline into the massive opportunity ahead of us. We reiterate we are just getting started.

I’ll now turn it back to the operator to open it up for questions. Thank you all for listening. It was a pleasure being here today.