

# Webcast Presentation

Q3'22 Earnings Call Prepared Remarks November 15, 2022 8:30 am ET

## Slide 2 – Soledad Nager, Head of Investor Relations

Thank you very much operator. Good morning everyone and thank you for joining our Third Quarter 2022 Earnings Call today. If you have not seen our Earnings Release, a copy is posted in the Financials section of our Investor Relations website. On the call today, I am joined by Sebastian Kanovich, our Chief Executive Officer; Jacobo Singer, our President and COO; Diego Cabrera Canay, our Chief Financial Officer and Maria Oldham, VP of Corporate Development and Investor Relations.

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](http://investor.dlocal.com). The recording will be available shortly after the event is concluded.

Before proceeding, let me mention that any forward-looking 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 given 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 5 – Sebastian Kanovich, Chief Executive Officer

Hello everyone, thanks for joining us today.

We are very pleased to report another strong quarter with record financial results, combining growth, disciplined investment, laser-focused execution and significant progress towards building the best financial infrastructure in Emerging Markets. We now operate in 39 markets, enabling our global merchants to reach over 2 billion consumers. All this, accessed through our One dLocal model, meaning one contract, one single platform, one API.

In Q3, our total processed volume reached U\$2.7 billion and we recorded US\$112 million in revenue. Despite the high baseline set in 2021, we saw robust growth in TPV and revenue, increasing by 51% and 63% year-over-year respectively. TPV grew by 12% quarter-over-quarter and revenue by 11% quarter-over-quarter. We continue to retain our clients with a solid NRR of 152% in Q3 2022.

Moreover, it is important to highlight that we continue to grow our gross profit and EBITDA dollar amount consistently quarter after quarter. Gross profit increased to US\$54 million, up 56% year over year; Adjusted EBITDA was up 58% year-over-year to US\$42 million. Both grew by 9% quarter-over-quarter.

We continue to operate with the philosophy of delivering disciplined profitable growth. We maintained our Adjusted EBITDA margin relatively stable at 37% compared to 38% in the past four quarters.

## Slide 6 – Sebastian Kanovich, Chief Executive Officer

Our geographic expansion efforts outside Latin America continue to yield outstanding results. During the quarter we saw unparalleled growth from Africa and Asia, with revenues increasing by 4 times year-over-year and 80% quarter-over-quarter, reaching \$25 million. This is more than the \$21 million revenue we recorded for the twelve months of 2021. We expect to continue to see solid growth as we

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cross-sell to merchants that originally started their relationship with us in Latin America going to Africa and Asia, and vice-versa. This illustrates the powerful network effect of our financial infrastructure and the quality of our solutions.

### **Slide 7 – Sebastian Kanovich, Chief Executive Officer**

Moving to our LatAm business, revenue in Latam increased by 39% year-over-year to US\$87 million; flat quarter-on-quarter due to temporary market limitations in the Argentine cross-border operations. If we exclude Argentina's cross-border business, LatAm revenue increased by a solid 43% year-over-year and 7% quarter-over-quarter. The Argentine government temporarily changed the conditions to access the foreign exchange market for the imports of certain goods and services, negatively impacting our Argentine cross-border volumes. The situation has improved during the quarter and we have managed to continue processing most of our TPVs.

Overall, our business continues to benefit from diversification across geographies, with no single country accounting for more than 20% of our total revenue in Q3 2022. I will now hand it over to Jaco to comment on our international expansion.

### **Slide 8 – Jacobo Singer, President & COO**

Thanks Seba. Hi everyone.

We continue to execute on our strategy to expand to new markets. I am happy to announce that this quarter we have added two more countries to our portfolio, meaning we now operate in 39 different emerging markets. During the quarter we added Nicaragua, bringing the total number of markets served in Latin America to 16. We have also added Saudi Arabia, to our financial infrastructure network bringing the total number of markets served in Asia to 10.

Our geographic expansion continues to be driven by two main factors: 1) addressing the needs of our merchants and 2) attractiveness of the market. Our investments into geographic expansion typically have a fast payoff, because, 1) we normally have a merchant-in-waiting when we add a new country, providing immediate demand - this was the case for both Nicaragua and Saudi Arabia; and 2) with our One dLocal platform, any new geography or payment method become immediately available to our entire merchant base.

We have been executing not only to add new countries, but also to deepen our presence in the countries in which we already operate, providing a best-in-class local solution for our global merchants. During the last quarter we continued to enhance our infrastructure and network, adding more than 10 new payment methods in Africa and Asia.

Our growth strategy continues to be fundamentally based on our organic growth. However, we continue to explore selective inorganic opportunities to improve our scale, network and products across key markets.

### **Slide 9 - Jacobo Singer, President & COO**

We power merchants from diverse verticals and from all over the globe. Our business model is not dependent on the performance and outlook of any single vertical as we operate across more than 10 of them. Over the years, we have seen different verticals go through cycles, but there are always winners and losers. We are constantly looking for new opportunities to further diversify our business and increase our resilience.

We are proud to partner and serve some of the largest global merchants and marketplaces, including Microsoft, Shopify, Dropbox, Shein, Spotify, Delivery Hero and Deel, as well as other high-profile global companies that have disclosure restrictions.

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As you can see on the left hand side of this slide, we continue to see more merchants joining our platform. Total enterprise merchants on our platform have grown to more than 600 and we currently manage around 200 key accounts actively.

Our merchants value our tech DNA and merchants first approach, addressing complex needs with a convenient, one-stop shop solution. The chart on the right shows our continued success helping our merchants operate in more countries and accept more payment methods. In the first nine months of 2022, our enterprise merchants on average processed payments in 8 countries, accepting on average 78 payment methods. This compares with an average of 6 countries and across 44 payment methods in 2020.

As you can see, on top of growing with our existing merchants organically and gaining share of wallet we have an immense opportunity to continue growing through new geographies, new payment methods and continuous development of our products. I will now pass it to Maria to comment on some relevant KPIs for our Top 10 merchants.

### Slide 10 - Maria Oldham, VP of Corporate Finance & IR

Thanks Jaco. Hi everyone. My name is Maria Oldham and I am very excited to be leading corporate development and Investor Relations at dLocal. I look forward to meeting many of you going forward.

The revenue from our top 10 merchants continues to increase quarter after quarter, reaching 59 million dollars in Q3 2022 and accounting for 53% of our total revenue. In the medium-term we see customer concentration decreasing, although in this quarter our top 10 merchants outperformed the average. Our Top 10 merchants may vary from quarter to quarter as we add new merchants and scale existing ones. In Q3 2022, our top 10 merchants were spread across various verticals including ride-hailing, commerce, streaming, advertising, financial services, and on-demand delivery.

The successful growth within our larger merchants is driven by a combination of continuous product innovation and a highly customer-centric approach. Our account managers have deep and trusting relationships with our merchants, giving us continuous insights into their needs and allowing us to keep developing and cross-selling products to fulfill those demands.

We have been successfully expanding our geographic footprint within our top merchants. Our Top 10 merchants in Q3 2022, processed payments with us in 10 countries on average versus 7 countries last year, with the maximum being 19 countries versus 11 last year. We continue to take our existing customers from Latin America to Africa and Asia. For instance, 9 out of our Top 10 merchants are already processing with us in these regions, compared to 5 out of 10 a year ago.

As you can see, we also have several growth levers within our top merchants. On top of growing through new geographies and new payment methods, we also maintain our focus on gaining share of wallet in order to further increase monetization within our existing merchants.

### Slide 11 – Maria Oldham, VP of Corporate Finance & IR

Now I will cover our team growth and distribution. First of all it is important to remind you about our culture and the way that we operate. Since day one we have had a lean culture, been highly disciplined with every dollar we spend and always focused on profitable growth. Additionally, given that we operate in very fast-growing emerging markets, staying lean has been essential for us to remain agile and to react fast. This has been an important competitive advantage that we are proud of and continue to build on, especially in a challenging macro environment.

Within the context of this lean culture, we continue to invest carefully in expanding our global team, responding to the new opportunities we see and driving towards our long-term objectives. At the end of Q3 2022, we had 712 employees, up 34% or by 180 FTEs year-over-year. Our headcount has significantly expanded outside the Americas, as we focus on hiring locally to leverage on-the-ground knowledge and develop deep understanding of local market idiosyncrasies. We reached 146 FTEs in Africa and Asia by the end of September 2022, corresponding to 21% of our workforce, an increase of 103% year-over-year.

Year to date we have grown in all areas to support our growth opportunities, including Sales & Marketing, Operations & Expansion and Tech & Product teams. Tech-related roles continue to represent

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around 40% of our FTEs, with our Sales & Marketing and Operations & Expansion teams each accounting for around 20% of our FTEs.

Diego will now review our financial highlights.

### **Slide 12 – Diego Cabrera Canay, Chief Financial Officer**

Thanks, Maria. Hi everyone. Let's begin with slide 12.

We continue to scale our business supported by a well diversified segment base. We saw strong TPV growth during the quarter, reaching US\$2.7 billion, up by 51% year-over-year, and 12% compared to the second quarter of 2022.

As you can see in the pie chart on the right, 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 low twenties percent of our TPV in Q3 2022. Thus, our business model is not dependent on the performance and outlook of any single industry vertical. 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"), advertising and financial services.

I would also like to highlight that we have experienced growth both in pay-ins and pay-outs during the quarter. Specifically, in Q3 '22 pay-ins have shown double-digit growth year-over-year and high single digit growth quarter-over-quarter.

We continue to see improvement in our payout volumes with double-digit growth quarter-over-quarter and also year-over-year, despite the hard comp as we had higher than average volumes from certain merchants running big marketing campaigns during that period.

Regarding our cross-border and local-to-local volumes, both showed solid growth YoY and QoQ. During this quarter we experienced higher growth in local to local TPV due to the strong performance of some of our merchants and as cross border volumes in Argentina slowed down as previously mentioned.

### **Slide 13 – Diego Cabrera Canay, Chief Financial Officer**

Revenues also reached a new record, having grown 63% year over year and 11% quarter over quarter to 112 million dollars in 3Q 2022.

Our revenues over TPV, or gross take rate, was 4.1% during the quarter, compared to 4.2% in the second quarter of 2022 and to 3.8% in 3Q '21. Fluctuations from quarter to quarter are driven by changes in the business mix. The small drop compared to Q2 2022 is driven by a higher share of payouts and local-to-local flows, whereas take rate increased compared to Q3 2021, 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 Q3 2022 of the 63% year-over-year revenue growth, 52% or 35 million dollars came from existing merchants. Our revenue from existing merchants continues to grow quarter after quarter, reaching \$104 million in Q3 2022, increasing by 83% compared to the \$57 million that we achieved in the same period of last year.

Our NRR for the third quarter was 152%. This is the result of having almost no churn (less than 1%), the organic growth of our merchants in emerging markets and our ability to continue bringing them to new countries, payment methods and to increase share of wallet. This NRR is in line with our yearly guidance of 150% plus for 2022.

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The remaining 11% year-over-year revenue growth or 8 million dollars came from new merchants. This compares to \$9 million recorded in the second quarter of 2022 and to \$12 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 14 – Diego Cabrera Canay, Chief Financial Officer**

Moving to slide 14, we remain focused on growing Gross Profit and EBITDA dollars. During the quarter we were able to scale our gross profit to \$54 million, up 56% year-over-year and 9% quarter-over-quarter.

Gross margin came in at 48%, relatively in line with the 49% margin levels seen during the first half of 2022. The slight decrease in gross margin is a reflection of country and product mix.

Our cost of processing for the quarter represented 2.0% of our TPV, stable quarter-over-quarter and compared to 1.8% a year ago. The increase versus Q3 2021 was driven by business mix, particularly an increase in pay-ins, which have higher processing costs than payouts.

Moving on to our Adjusted EBITDA, it was 42 million dollars for the third quarter of 2022, increasing by 58% year-over-year and by 9% quarter-over-quarter.

Our Adjusted EBITDA margin was 37%, relatively in line with the 38% margin seen in the past four quarters. This is in line with our yearly guidance of +35% for 2022.

If we look at operating expenses for the quarter, we see that they have grown 26% year over year, as we saw an increase in salaries as we continued expanding our team with focus on sales, expansion and technology. In addition, we increased our travel and marketing expenses. We operate a hyper growth business and want to keep investing in building the infrastructure and harvesting long term sustainable growth with a very disciplined and lean approach.

### **Slide 15 – Diego Cabrera Canay, Chief Financial Officer**

Before handing the call back to Seba for the closing remarks, I will briefly touch on our net income and liquidity.

Net income totaled 113 million dollars in the last twelve months, compared to 78 million in the full year 2021 and 28 million in 2020.

Our net income in Q3 2022 reached 32 million dollars, increasing by 64% year-over-year and by 5% quarter-over-quarter.

Net income for the quarter includes 2.5 million dollars of net financial losses as a result of higher cost of hedges, as we adapted to certain changes in FX regulations and faced higher interest rates. We follow a disciplined hedging strategy covering any relevant balance that we temporarily hold in local currencies.

We continue to deliver positive free cash flow, generating 121 million dollars of own funds in the last twelve months, compared to 59 million in the full year 2021, excluding the PrimeiroPay acquisition, and 44 million in 2020, with a strong net income to own cash conversion of 107% for the LTM period.

Besides, we continue to strengthen our cash position. As a result, as of September 30, 2022, we had a robust cash position of 320 million dollars of own funds and 222 million dollars of merchant funds.

Our strong balance sheet and continuous positive free cash flow generation remain a key competitive advantage and gives us flexibility to pursue our long-term growth strategy.

Seba, the floor is yours.

### **Slide 16 – Sebastian Kanovich, Chief Executive Officer**

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Thanks Diego, to summarize, our performance in this quarter shows the distinctive strengths of our business that we continue to build focused on long term profitable growth, combining:

i. From a financial standpoint - robust dollar amount growth on a TPV, revenue, gross profit and adjusted EBITDA; with solid NRR for the 9 months of 2022 at 166%.

ii. From a strategic standpoint, a proven track record on executing our merchant cross-sell strategy and outstanding geographic expansion capitalizing on the huge opportunity in Africa and Asia, all that underpinned by our Tech DNA and merchant centric approach. Revenue from Africa and Asia accumulated 48 million dollars in the first nine months of the year.

iii. Last and most importantly our lean and disciplined culture, we delivered all that with a team of 712 people continuously striving for excellence. Our culture is a key factor for us to continue delivering our long term ambitions

We are very proud of what we achieved this past quarter and even more excited with what is ahead of us, we have just started!

We will continue to remain humble and focused on providing the best and 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.

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.