Webcast Presentation

Q1 2023 Earnings Call Prepared Remarks May 18th, 2023 8:00 am ET

Slide 3 – Soledad Nager, Head of Investor Relations

Thank you very much operator. Good morning everyone and thank you for joining our First Quarter 2023 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. 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, CEO

Good morning, everyone. Thanks for joining the call today.

I am pleased to share that we had a very strong start to the year. Our TPV grew 70% year over year and 8% quarter-over-quarter reaching 3.6 billion dollars. Our revenue grew 57% year over year and16% quarter over quarter to 137 million dollars.

We continue to focus on growing our absolute gross profit and EBITDA dollars; we added 7 million dollars gross profit and 5 million dollars EBITDA in the first quarter of 2023. Both figures increased double-digit year over year and quarter over quarter. Gross profit grew by 42% year over year and 12% quarter over quarter to reach 62 million dollars and Adjusted EBITDA grew by 38% year over year and 13% quarter over quarter to reach 45 million dollars.

Slide 6 - Sebastian Kanovich, CEO

We have always been focused on delivering profitable growth while investing to achieve our long term ambition, capitalizing on the huge opportunity ahead of us. We are proud to share that during the last nine quarters, our ratio of Adjusted EBITDA to Gross Profit has remained consistently above 70%. This is because a disciplined investment approach is part of our DNA - we remain firmly focused on profitable growth at scale. We are still a young company in growth mode - over the long-term there are clear opportunities to deliver operating leverage.

Now Maria will discuss our operations and performance in Q1 2023.

Slide 7 - Maria Oldham, Head of Investor Relations and Corporate Development
Thank you Seba. Hi everyone.

During Q1 2023, we significantly grew our business with our top 10 merchants. In Q1 2023 our revenue from our top 10 merchants reached 80 million dollars versus 45 million dollars a year ago. Our top 10 merchant concentration actually increased in Q1 2023, because we delivered very rapid growth among our top 10, and with two merchants newly entering the top 10 list.

We work extremely closely with our merchants. During Q1 2023, our top 10 merchants on average processed payments with us in 10 countries (versus 8 a year ago), and all of them leveraged dLocal products in at least one country in Africa and Asia. This is a testament to our successful cross-selling strategy and to our merchants' trust in our solution. We are their partner of choice both when they decide to go local in a country and also when they operate cross-border - 8 out of our top 10 merchants process with us both on a cross-border and local-to-local basis.

Slide 8 - Maria Oldham, Head of Investor Relations and Corporate Development
Moving to the next slide, during the quarter we focused our efforts on deepening our presence in the countries in which we already operate, mostly in Africa and Asia, by establishing more direct connections with payment methods and acquirers and continuing to enhance our solution.

Slide 9 - Maria Oldham, Head of Investor Relations and Corporate Development
In our last earnings call, Jaco highlighted how excited we are about the growth opportunity in Nigeria. Let me share a little bit more of our journey in this country. We opened this country back in 2019 because one of our merchants needed us to help them accept local payment methods. As our roadmap is driven in great part by our merchant needs, and the request was within emerging markets, we made the launch of Nigeria a priority. We were then able to offer this to our entire merchant base and today our solution in Nigeria is used by 6 of our top 10 merchants.

One great benefit of choosing our solution is the wide access to non-traditional payment methods. According to Statista, in Nigeria only 3% of the population have a credit card, so merchants rely on us to connect to alternative payment methods and local card schemes such as Verve.

The opportunity in Nigeria is massive as the country has a huge and young population. Also from the perspective of our merchants, it is a market that is complex to operate in and they strongly benefit from our solution there.

As we mentioned in the previous quarter, gross take rate is significantly higher than average, while net take rate is largely in line with other markets in which dLocal operates. Gross profit margin is lower than average but we believe that over the medium to long-term as we go deeper into the region, developing more integrations and payment methods and gaining more efficiency in accessing the FX markets, the gross profit margin will expand. As we always emphasize, we focus on absolute dollar profit growth, even with lower margins in the short-term - maximizing absolute dollar profit will create the most valuable business in the long run.

Now I will pass on to Jaco to discuss our achievements in the different geographies.

Slide 10 - Jacobo Singer, President & COO
Thank you Maria. Africa and Asia have been a key engine of growth for us. Our merchants continue to signal strong demand for our solution in these geographies and these markets also have attractive economics. The results of our push into these regions speak for themselves - revenues in Africa and Asia in Q1 2023 grew by 297% YoY and 53% QoQ, reaching 39 million dollars, with a large part of the acceleration driven by Nigeria.

Asia and Africa already represent a relevant portion of our business, at 28% of our revenue in Q1 2023.

In Q1 2023, we saw strong growth in Nigeria, with revenues increasing by 16 times YoY and 91% QoQ. Nigeria accounted for 20% of our revenues in Q1 versus 2% a year ago. We are also very proud of the progress we have achieved in several other markets, such as Egypt, Morocco, Indonesia and Malaysia, all of them growing triple digits year over year and becoming more relevant to our business. It is still early days for us in these regions and we are very excited about what we believe to be a significant opportunity ahead.

Moving on to Latin America, we continued to see solid growth across the region in Q1 2023, with revenue growing by 27% YoY and 6% QoQ to 98 million dollars. Q1 2023 marked Argentina’s return to positive revenue growth, increasing by 41% QoQ albeit still at slightly lower levels than a year ago.

Latam excluding Argentina showed strong revenue growth of 38% YoY and was stable QoQ. On a quarter to quarter basis you may see revenue growth with geo vary, for example in the past quarter, Mexico outperformed other markets. We look at a 12-month view to see a normalized view in order to assess the development of a region. In the last twelve months to Q1 2023, each of the main countries individually showed significant revenue growth greater than 20% YoY and 62% growth on the aggregate.

It is important to highlight that the revenue distribution by market is a result of our merchants' strategy. Our commercial teams are internally organized by merchants and we do not optimize for targets by geography. We have global agreements with our merchants and we offer them access to all of the emerging markets in which we operate, supporting them in the markets in which they wish to grow.

Slide 11 - Jacobo Singer, President & COO
We continue to invest thoughtfully in expanding our global team. We have hired new talent, particularly in the areas of Sales & Marketing, Tech & Product and Operations, to pursue the opportunities we see in the market and to drive towards our long-term objectives. Tech-related roles now account for around 41% of our FTEs, supporting our rapid innovation of new products.

In Q1 2023 we grew our team by 201 FTEs, or by 36% YoY to 763 employees. We continue to recruit talent outside of the Americas, as we focus on hiring locally to leverage on-the-ground knowledge and develop deep understanding of local market idiosyncrasies. We reached 173 FTEs in Africa and Asia by the end of Q1 2023, representing 23% of our workforce.

We will continue to invest in talent in a disciplined way, staying lean and always ensuring that we onboard talent that has a strong cultural fit. We are proud of our team and believe it is as strong as ever.

Diego will now review our financial highlights.

FINANCIAL HIGHLIGHTS

Slide 13 - Diego Cabrera Canay, CFO
Thank you Jaco. Hi everyone.

We have seen a steady increase in pay-ins and pay-outs TPV quarter after quarter. During Q1 2023 pay-ins increased by 52% YoY and by 7% QoQ. Pay-outs increased by 133% YoY and 11% QoQ.

The product share remains relatively unchanged QoQ with pay-ins accounting for 70% of our TPV and pay-outs for the remaining 30%. The contribution from pay-outs has increased YoY as we have been successful in providing the last-mile payment service in emerging markets to global public payments companies, and we continued positioning ourselves as the payments services provider of choice in emerging markets for global payroll, ride hailing and on-demand delivery companies.

We are product agnostic - all our products bring incremental profit and when we combine them, they bring synergies both for our merchants and for us. Depending on which customers we onboard and their strategy in the quarter, the share of pay-ins vs. pay-outs may vary. We see product diversification as one of the strengths of our business. Going forward we are very positive about the continued growth of our products.

Slide 14 - Diego Cabrera Canay, CFO

Our cross-border and local-to-local volumes showed solid growth YoY and QoQ, with cross-border volume growing QoQ by 12%, increasing its share contribution from 53% in Q4 2022 to 55% in Q1 2023.

As Maria mentioned earlier in the call, we have seen that large merchants tend to have a combined strategy and we expect fluctuation between services to continue from quarter to quarter.

Slide 15 - Diego Cabrera Canay, CFO

Revenues also reached a record high of 137 million dollars in Q1 2023, growing 57% YoY and 16% QoQ.

We continued delivering strong revenue growth both from our existing and from our new customers. During Q1 2023, of the 57% YoY revenue growth, 47pp or 41 million dollars came from existing merchants and 10pp or 9 million dollars came from new merchants.

Our revenues over TPV, or gross take rate, was 3.8% during the quarter, compared to 3.6% in Q4 2022. Fluctuations from quarter to quarter are mainly driven by changes in the business mix, as Nigeria and Argentina, with higher than average gross take rate, were the main drivers of the quarter over quarter revenue and gross take rate growth.

We continued to deliver a strong NRR of 147% for the quarter. This is driven by very low churn (less than 1% YoY), the organic growth of our merchants in emerging markets and our ability to continue bringing them to new countries, products, payment methods and to increase share of wallet.

Slide 16 - Diego Cabrera Canay, CFO

Moving on to slide 16, we remain focused on growing absolute gross profit dollars. During Q1, our gross profit reached 62 million dollars, up 42% YoY and 12% QoQ, with a net take rate stable quarter over quarter at 1.7%.

During the quarter we registered an increase in processing cost from 1.8% in Q4 22 to 2.0% in Q1 23, which is in line with the increase in gross take rate from 3.6% to 3.8%. These increases are mainly attributable to the increase in TPV in Nigeria, which has higher fees and higher expatriation costs.

Slide 17 - Diego Cabrera Canay, CFO
From a gross profit margin perspective, margins dropped to 45% compared to 47% in Q4 2022 and 50% in Q1 2022. The waterfall chart on the right shows the main changes in our gross profit margin. Product, service mix and cost optimization contributed favorably to the margin, as we had a higher share of cross-border and payout QoQ. In contrast, the country mix reduced the margin, as we experienced strong growth in Nigeria, which brings positive gross profit dollars with net take rate largely in line with other markets but a lower than average gross profit margin.

Excluding Nigeria, gross profit margin would have been above 50% in the previous quarters, reaching 54% in Q1 2023, increasing from 51% in Q4 ‘22 also excluding Nigeria.

Slide 18 - Diego Cabrera Canay, CFO
We also remain focused on growing our EBITDA. During the quarter we were able to grow our Adjusted EBITDA to 45 million dollars, up 38% YoY and 13% QoQ.

Adjusted EBITDA margin was 33% in Q1. The year over year and quarter over quarter decrease is driven by the gross margin decrease. Particularly, in Q1 2023, the main driver of that decrease was the high growth in Nigeria, with lower than average gross margin.

Net income totalled 35 million dollars during the quarter, growing by 35% YoY. Sequentially, it increased by 83% as in Q4 2022 we incurred non-recurring expenses of 8 million dollars.

Slide 19 - Diego Cabrera Canay, CFO
Before handing the call back to Seba for the closing remarks, I will touch on liquidity.

In Q1 2023, we observed strong net cash generation of $ 50 million, even considering that we acquired USD 37 million of our own shares as part of the USD 100M buyback program.

The two main drivers of our cash flow generation were our profits and a sequential normalization of funds advanced or held in escrow as guarantees for merchants and partners and the main use of cash was the buy back.

During our last earnings call we shared with you that we had taken extraordinary short term measures, in the forms of guarantees and advancements of funds, to bring additional comfort to our merchants and partners, using our own funds. We also mentioned that we expected the situation to normalize over the next quarters.

In Q1 we have already collected USD 10 million out of the 13 million in advances we gave to some of our merchants and we recovered USD 4 million of the restricted cash we held as guarantee for standby letters of credit, decreasing the amount of Other Assets from 57 million to 43 million.

Finally, we observed a sequential normalization of the settlement periods of our merchants that were in a few cases reduced in Q4 and we continued generating cash as we grew our TPV, altogether generating an inflow of USD 32 million from the variation in net trade payables and receivables.

We ended March 31, 2022, with a consolidated cash position of 518 million dollars with 233 million dollars of our own funds and 285 million of merchant funds.

We believe our strong cash position remains a competitive advantage.

Seba, the floor is yours.

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Slide 20 - Sebastian Kanovich, CEO

Thanks Diego. We are very proud of our strong start to 2023 and continue to be excited with the runway ahead of us. Our performance shows the distinctive strengths of our business, which we continue to build focused on long-term profitable growth, combining:

i. A robust dollar growth on a TPV, revenue, gross profit, adjusted EBITDA and net income basis;

ii. From a strategic standpoint, a proven track record in executing our merchant cross-sell strategy and outstanding geographic expansion, capitalizing on the huge opportunity ahead of us. This is all underpinned by our Tech DNA and merchant centric-approach;

Iii. Last and most importantly - our lean and disciplined culture - we deliver all this with a lean team, continuously striving for excellence. Our culture is key to continue delivering our long term ambitions

We reaffirm our outlook for the rest of the year: revenue between 620 and 640 million dollars; with an implied NRR between 140% and 150%; and adjusted EBITDA in the range of 200 million dollars to 220 million dollars.

We remain humble and focused on providing the best and most comprehensive solution for our merchants in emerging markets.

I am thrilled to share more about our business and our trajectory in our first ever Investor Day on June 8th. We will be celebrating 2 years as a public company. A lot has changed since the IPO and we are excited to see you again and share an update on the next chapter of our story.

Big thank you to our global team, our customers and our investors for their continued support.

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