dLocal Q3 2023 Earnings Call

Webcast Presentation Q3 2023

Earnings Call Prepared Remarks November 22, 2023 8:00 am ET

Good morning everyone and thank you for joining the Third Quarter 2023 Earnings Call today. If you have not seen the Earnings Release, a copy is posted in the Financials section of the Investor Relations website. On the call today, you have Pedro Arnt, co-Chief Executive Officer; Sebastian Kanovich, co-Chief Executive Officer; Sergio Fogel, co-President and Chief Strategy Officer; Diego Cabrera Canay, Chief Financial Officer, Maria Oldham, SVP of Corporate Development, Investor Relations and Strategic Finance and Soledad Nager, Head of Investors Relations.

A slide presentation has been provided to accompany the 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 Pedro Arnt. Thank you.

Pedro Arnt, co-Chief Executive Officer

Thanks for joining us today. Let me start by saying that, after my initial quarter at dLocal, I am enthusiastic about our future prospects and the promising opportunities that our business presents for us.

As we will cover briefly, our current performance, future pipeline, and market opportunity present a unique opportunity for sustained growth over a multi year period, driven by the powerful secular trends behind emerging market adoption of digital products and services. We need to remain focused on executing behind that opportunity, while constructing the foundational blocks as a company to ensure we can scale at the pace our merchants and our markets will demand.

Let me now walk us through some of the highlights of our Q3'23 results that are testament to these statements.

We delivered another quarter of solid performance. TPV grew 69% year-over-year reaching 4.6 billion dollars, supported by our well-diversified merchant and geographic base. Revenue grew 47% YoY despite the strong devaluation of the Nigerian Naira in the quarter. If we exclude Nigerian revenue growth came in at 58% year-on-year.

We remain focused on achieving gross profit growth as our key metric; and in 3Q 2023 we attained $75m dollars of gross profit, increasing by 38% YoY and 5% sequentially.

We are still delivering best-in-class profitability. Our ratio of Adjusted EBITDA to Gross Profit came in at 75% for the quarter. Our "rule of 40" framework, which adds our gross profit growth and our Adjusted EBITDA over gross profit margin, continues to exceed 100%, coming in at 113% during the quarter.

Free cash flow, which you can reconcile in the accompanying presentation, was $45M dollars, with a cash conversion ratio that still remains above 100%.

Our investments remain thoughtfully focused on expanding our global team and building the appropriate processes, tools and governance mechanics to ensure our business grows efficiently, and scales the right way.

During Q3 our team grew by 155 FTEs compared to the third quarter of 2022, or by 22% year-over-year to 867 employees. Hirings were evenly allocated across the company, as we have intensified ongoing efforts to strengthen support areas and further upgrade internal processes and tools, while maintaining our prior commitment to growing our engineering and sales teams.

We continue to expand our relationships with trusted financial partners, adding more Global Systemically Important Banks, pan regional and nationally market leading banks for our processing, FX and hedging activities. To place some data behind this, and as included in our quarterly presentation, 84% of all foreign exchange transactions in the quarter were carried out via GSIBs and pan regional and national banks, 7% via authorized broker dealers, 6% via payment processors, 3% via authorized net settlement of fund flows and 0.3% through alternative assets.

Before I turn things back over to Maria, I would like to share some additional news regarding key leadership changes within the company.

Firstly, our Chief Financial Officer, Diego Cabrera Canay, has decided to step down from his position to pursue new opportunities. Diego has played a significant role in our financial success during his period at dLocal. He has agreed to stay on through Q1 of next year to help us ensure a smooth transition.

As one Exec leaves, we are also strengthening our team. Daiana Beitler will be joining us as Senior VP of Strategic Partnerships and Government Relations. Daiana comes to us after 8 years at Microsoft and the Bill & Melinda Gates Foundation. We have also appointed Ricardo Breakwell as our Chief Accounting Officer. Ricardo joined the team after 12 years at Cielo, Brazil's largest publicly listed merchant acquirer, leading their accounting, treasury and control operations. I want to welcome both Daiana and Ricardo, and wish Diego the best in his future endeavors.

Let me now turn the call over to Maria to dive deeper into our business performance during the past quarter.

Maria Oldham, SVP of Corporate Development

Thank you Pedro. Hi everyone.

During Q3, we continue to see strong growth across all verticals.

We highlight triple-digit growth YoY in our commerce vertical, becoming our largest vertical since last quarter, as we continue to see strong traction through our platform solution for marketplaces, particularly in Brazil and Mexico. This growth was followed by ride-hailing, up 81%, streaming up by 59% and SaaS up by 54% YoY.

This quarter we observed a lower growth in the financial services vertical, increasing 23% YoY, driven by customer churn at two of our financial services merchants. In Q4, we anticipate sustained growth in the commerce vertical, driven by the festive season.

In terms of product, during Q3 2023, pay-ins increased by 68% YoY. Compared to Q2 2023, most of the growth came from pay-ins, which increased 8% QoQ. Our pay-outs volume remained stable QoQ as we saw lower growth from our financial services vertical. YoY growth was a very solid 73%.

In terms of service mix, our cross-border and local-to-local volumes showed strong growth YoY, with the latter doubling YoY. Sequentially, we continued to see higher growth in our local-to-local volume, increasing by 10% QoQ, while cross-border volume increased 2%. As a consequence, the share of local-to-local increased, reaching 51% in Q3 2023.

In terms of geography, in Latin America, which is our largest region, we continue to experience sustained strong revenue momentum in Brazil and Mexico as we continue to grow with our existing customers and gain share of wallet. Growth in both countries has been driven mostly by merchants from commerce, on-demand delivery, streaming, and travel verticals.

We saw lower revenues in Chile mainly driven by the slowdown in the financial services vertical as explained earlier. In Argentina we saw higher revenue driven by the widening spread between the official and the parallel exchange rate, while gross profit remained fairly flat, despite the devaluation in the quarter. We continue to see strong growth in other countries in Latin America including Dominican Republic, Colombia and Guatemala.

Our business in Africa and Asia continues to perform very well. In Q3 revenues in Africa and Asia increased 14% YoY, despite being negatively affected by the devaluation of the Naira. Excluding Nigeria, this region grew 79% YoY mainly driven by Egypt, Kenya, Vietnam, South Africa, Philippines and Saudi Arabia. In Q3 2023 Nigeria revenues decreased by 39% YoY and 59% QoQ.

The continued strong growth of our diverse merchant base across multiple emerging markets translates into solid NRR, which was 141% in Q3 2023. We have built strong merchant relationships and we have a tremendous opportunity to continue capturing more volume as our wallet share with our largest merchants is still low double digits.

Diego will now review our financial highlights.

Diego Cabrera Canay, Chief Financial Officer

Thank you Maria. Hello everyone.

As Pedro mentioned, I have decided to step down as Chief Financial Officer of dLocal to pursue new challenges. This is a personal decision that I have been discussing with the Board and I believe that now is the right time. It has been an honor to serve as the company CFO for the past 3 years working with such talented individuals, and I am very thankful for the trust and the support of the Board and the senior management of dLocal.

During the forthcoming four months, I will remain fully engaged and committed to facilitating a smooth handover process. I am confident in the company's prospects and firmly believe that, under the continued guidance of the board leadership, dLocal will persist in its trajectory of growth and success.

With that, let's get into the quarterly results.

Revenues reached a record high of 164 million dollars in Q3 2023, growing 47% YoY, while quarterly growth remained positive at 2% QoQ, even after a particularly strong Q2

We remained focused on growing absolute gross profit dollars. Our gross profit reached 75 million dollars in Q3, up 38% YoY and 5% QoQ Gross profit margin increased from 44% in Q2 to 45% in Q3 positively impacted by a higher share from Africa & Asia driven by countries with higher than average gross profit margin and lower expatriation costs in Nigeria.

Net take rate remained stable at 1.6%, showing our pricing power continues to hold steady despite continued TPV growth. Compared to Q2, we saw a positive contribution from the higher share of pay-ins and from certain countries in Africa & Asia with higher than average net take rate. This was offset by the higher share of local-to-local volume.

Profitable growth remains a top priority. During the quarter we were able to grow our Adjusted EBITDA to 56 million dollars, up 34% YoY and 7% QoQ. Adjusted EBITDA margin increased by 2p.p. QoQ to 34% in Q3. Our Adjusted EBITDA over gross profit increased to 75% QoQ.

Net income totaled 40 million dollars during the quarter, growing by 25% YoY. Sequentially, it decreased by 10% QoQ. As detailed in the accompanying presentation, quarterly net income was negatively affected by the impact of the Argentine devaluation on intercompany loans denominated in US dollars, inflation adjustments under IFRS and stock based compensation. This was partially offset by gains from hedged bonds acquired to protect from that devaluation.

We also observed an increase in our effective income tax rate, from 16% in Q2 to 18% in Q3, as a result of the country mix, with higher local-to-local share of pre-tax income and the non-deductibility of IFRS inflation adjustment.

Moving to cashflow, during the quarter we observed strong cash flow generation of our own funds mainly driven by our net income and also by the recovery of 20 million dollars of the restricted cash we held as guarantee for standby letters of credit, decreasing the amount of Other Assets to 28 million dollars in Q3. We used part of our own funds to acquire an additional 52 million dollars in Argentine dollar-linked treasury bonds, as the final part of our investment plan for Argentina. Merchants' funds decreased QoQ, mainly driven by a decrease in net trade payables, particularly due to a reduction in the settlement periods to certain merchants.

As Pedro mentioned earlier, our net income to free cash flow conversion continued to be above 100% with 45 million dollars of Free Cash Flow generated during the quarter. We believe that our strong cash position remains a competitive advantage as it allows us to continue investing in the business.

Pedro, the floor is yours.

Pedro Arnt, co-Chief Executive Officer

Thanks Diego.

Everyone here at dLocal is proud of the strong set of results we delivered year-to-date. We are reaffirming our outlook for FY 2023. We expect to end the year in the upper range of the revenue guidance between 620 and 640 million dollars and in the mid range of the adjusted EBITDA guidance of 200 million dollars to 220 million dollars.

We continue to be incredibly constructive about the growth potential that the company has. There is plenty of more growth to come and opportunities to unlock across emerging markets. We have a massive long-term opportunity ahead of us and we will continue to execute on it. Let me remind everyone, dLocal is only getting started!

One last thought, I want to send a big thank you to our entire global team for the work done, to our customers and our investors for their continued support and trust in us.

And with that let me hand things back over to the operator to open up for the Q&A, which Seba and Sergio will also be joining us to take. Thank you.