4Q 2023 Earnings - Transcript

Webcast Presentation Q4 2023

Earnings Call Prepared Remarks March 19, 2024 8:30 am ET

Good morning everyone and thank you for joining the Fourth 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 dLocal. Thank you.

INTRODUCTION

Looking back on 2023, dLocal is celebrating remarkable achievements. Within a span of 5 years, our company experienced an extraordinary 14-fold expansion, achieving a record TPV of $18 billion, increasing by 67% YoY. This is a testament to the trust our merchants, among the most demanding and sophisticated companies in the world, placed in our solution.

Most of the growth has been fueled by our existing merchants as we continue to gain wallet share. The trust our merchants place in our solution is also evidenced in our stellar NRR of 150%.

We are committed to unlocking the power of emerging markets. (pause)

In 2023, we enabled 154 million people in emerging markets to access global products and services. This is a 62% increase compared to 2022.

During 2023, we proudly served more than 600 merchants across 40 markets and we continued onboarding new merchants to our platform. Of the world's leading technology companies by market cap, we serve 5 of the top 6.

Revenue witnessed significant growth in Brazil (89%) and Mexico (72%), our most mature and highly competitive markets. Africa and Asia delivered an impressive 114% year-over-year increase.

We over-delivered on our revenue guidance, reaching $650M, +55% YoY. We remain focused on achieving gross profit growth, our key metric. Gross profit grew 37% YoY to $277 million. Our continued disciplined investment approach, coupled with a focus on sustainable growth, has delivered another outstanding year with a Rule of 40 at an impressive

110%. Our Adjusted EBITDA surpassed $200M in line with our guidance. Furthermore, we've maintained a best-in-class Adjusted EBITDA over gross profit margin of 73%, even amidst ongoing investments to support our long-term ambitions.

How did we achieve these remarkable results?

Through our strategy, focus on execution, and our people. We efficiently grew our global team from 726 to 901 people, located across 49 countries.

Very importantly, by continuing to be obsessed about our merchants and having them at the centre of everything we do. We delivered innovative solutions and products, against highly demanding merchant needs. In 2023, our platform solution gained traction, especially in marketplaces, expanding into 5 key markets in just one year. We have onboarded more than 230,000 sellers on behalf of our merchants, in our marketplaces, with automated KYC capabilities, and flexible settlements for complex platform configurations.

Last, and certainly not least, we are building upon our existing strengths by making investments in key capabilities, including growing our license portfolio, deepening our relationships with global banking partners, and ramping up our operations and back-office effectiveness. In 2023 alone, we were granted licenses in strategic markets, such as: Brazil, Nigeria, Kenya and Rwanda, and registries in South Africa, Philippines, Chile, Costa Rica, Panama, and Peru.

And we are carrying this momentum forward. In 2024, we are relentlessly focusing on serving our customers and solidifying our position as the preferred infrastructure solution for Global Merchants across Emerging Markets.

We are committed to making 2024 our most remarkable chapter yet!

dLocal: built for success in emerging markets.

Q4 2023 REMARKS

Pedro Arnt, co-Chief Executive Officer

Hi everyone. As the video illustrates, we just delivered an incredibly strong year that has finished on a high note with regards to increases in both TPV and revenue. As a growth company, these two metrics are really important to us, since they reflect our merchants choices, remembering that our TPV is their revenue, and is the best indicator of our ability to capture and retain share of wallet. We think in terms of decades, not quarters. Over the long run, which is what we are focused on, consistent growth in these two metrics drive operational leverage, which in turn drives increased profitability and cash flow, which is ultimately what generates shareholder value creation.

Now let me walk you through a more short term view, reviewing our fourth quarter of 2023 results.

We delivered what we consider stellar TPV growth of 55% year-over-year and 11% quarter-over-quarter, reaching 5.1 billion dollars; another quarterly record, proving our solution's strong competitive position.

The strong TPV performance we delivered translated into revenue growth of 59% YoY and 15% quarter-over-quarter reaching a record 188 million dollars. This growth was driven by very strong performance in our most competitive markets, Brazil, with revenues doubling year-over-year and up 12% QoQ, and Mexico, up 59% YoY and 18% quarter-over-quarter. Additionally, Nigeria revenues doubled year-over-year and increased by 3x quarter-over-quarter driven by the widening spread between the official and the market exchange rates, which conversely, also resulted in higher expatriation costs.

This strength in our biggest markets, combined with continued growth across other markets, was offset by a -26% YoY and -56% quarter-over-quarter contraction in Argentina. The weakness in Argentina was driven by two factors. First, a QoQ decline in our higher take rate cross border business as a consequence of tighter capital controls leading up to the year end government transition, which resulted in what we believe to be a temporary shift towards more local to local settlement. Second, the country's currency devalued significantly towards the end of the quarter, further affecting our performance in dollars, not unlike the impact felt by most other companies with relevant exposure to Argentina. Despite the short term headwinds, we continue with our long term view that Argentina is a relevant market for us and, more importantly, for our merchants. In complexity, we thrive and we will continue to serve global merchants and consumers in that market.

This impact carried over to the gross profit line, resulting in the quarterly decrease in total gross profit to 70 million dollars, down 6% quarter-over-quarter. However, if we exclude the Argentine segment, gross profit grew by 7% quarter-over-quarter. When we go to a year-over-year basis, gross profit grew by a sound 27% or by a very strong 48% when we exclude Argentina.

Our net take rate decreased during the quarter by 25 bps QoQ to 1.4%, as a result of shifts in business mix, with lower share of pay-ins and cross-border volumes. We believe that these results indicate that, although downward pressure on take rates continues as we have repeatedly signalled, it is happening at a slow pace, and more importantly driven primarily by mix shift, as we still continue to see limited pricing pressure derived from competitive dynamics.

Let's move on to our OPEX structure. During the quarter we continued to invest further in building out our team and establishing processes and systems to support our long term growth ambitions. As a consequence of these investments, overall OPEX increased to 29 million dollars. The main areas of expense increases were: (i) tech related expenses, including engineers, software licences and other IT and technology security expenses; (ii) non IT salaries and wages as we continue to strengthen our team, including important leadership positions; and (iii) office expenses as we've grown our global footprint. Overall OPEX represented 41% of gross profit, compared to 31% in Q3 2023. For a more detailed view, see slide 18 from the accompanying earnings material. I'd like to stress that we are convinced that these investments in technology, product and people are very relevant to continue building a sustainable, high growth business. As we continue to gain scale, we expect to see operating leverage in the mid term.

As we go down the P&L, all this resulted in Adjusted EBITDA of 49 million dollars, up by 22% YoY while down by 11% QoQ. Adjusted EBITDA margin contracted QoQ to 26%, primarily driven by previously noted gross profit compression.

Despite the slowdown in Adjusted EBITDA, we continue to deliver best-in-class profitability. Our ratio of Adjusted EBITDA to Gross Profit came in at 71% for the quarter, notwithstanding the investments undertaken I just walked you through.

Net income totaled 28 million dollars during the quarter, growing by 47% YoY. Sequentially, it decreased by 29% QoQ. As detailed in the accompanying presentation, the quarterly evolution of net income was negatively affected by lower EBITDA, inflation adjustments under IFRS, which are accounting impacts, and increased stock based compensation. We also observed an increase in our effective income tax rate, from 18% in Q3 to 21% in Q4, as a result of higher local-to-local share of pre-tax income and the fact that the IFRS inflation adjustments are non-deductible.

Moving on to cash flow, during the quarter we generated 36 million dollars of Free Cash Flow (own funds) and 166 million dollars during the year. Our net income to free cash flow conversion continued to be above 100%. Strong own funds cash flow generation was mainly driven by the net income profile of our financial model and also by the recovery of 13 million dollars of the restricted cash we held as guarantees for standby letters of credit. During Q4, we also used part of our own funds to acquire an additional 16 million dollars in Argentine dollar-linked treasury bonds, in order to successfully hedge against FX exposure in that market.

Consequently, we ended the year with a robust liquidity position of 326 million dollars including 223 million dollars of available cash for general corporate purposes and 103 million dollars of short term investments. We remain committed to evaluating opportunities to take advantage of our differentiated financial profile, that combines profitable growth with very strong cash generation, which allows us to explore (i) inorganic growth, (ii) possible buybacks, and (iii) instituting a dividend policy.

Overall, we are very proud of what we achieved in 2023 and we are also excited about our outlook for 2024 and even beyond. As I said before, I came to dLocal with the strong belief this is an outstanding business with significant opportunities ahead. That conviction has done nothing but increase in my time here.

As a team we remain focused on capturing the huge market opportunity ahead of us by continuing to execute our land-and-expand strategy with our merchants, maximising opportunities and gaining share of wallet from them. We will continue investing behind and tightening foundations for future growth because we trust that there will be a lot of future growth. First of all, we will further strengthen the dLocal team, investing in human capital, with a particular emphasis on the engineering pool. Second, we will further upgrade our back office capabilities and third, we want to continue investing behind our licence portfolio throughout emerging markets, which we are convinced can become a unique asset in coming years. On this last point, it is worth pointing out that we were granted incremental licences and registries across 10 markets during 2023 as the initial video shows. These three factors will contribute to further widening our competitive position over the long run.

I’d like to now hand it over to Maria who will walk you through how everything I’ve just outlined for you translates in terms of our financial outlook for 2024.

Maria Oldham, SVP of Corporate Development

Thank you Pedro. Good morning everyone. I would like to share our expectations for the full year 2024.

We are adding TPV expectations this year, as we believe this is the most relevant operational metric for our Company. It is the cleanest indicator of market share. As we mentioned earlier, ultimately our merchants choose us by routing more and more volume through our systems than other alternatives they may have.

We are guiding for TPV growth of 40% to 50%, surpassing 26 billion dollars of TPV at the midpoint.

As we currently see things, incremental volume growth will be back ended in the year, starting off at a similar level to how we exited 2023 and picking up pace as the year progresses, given our growth in the highly seasonal ecommerce vertical, and how we currently see our late stage pipeline panning out.

This strong TPV growth will be driven mainly by increased share of wallet from existing merchants and continued scaling of tier 0 merchants. We continue to benefit from structural tailwinds associated with the digital economy and the growth of the middle class in emerging markets.

Africa and Asia are expected to grow at a faster pace, signaling the long term potential for global growth.
Verticals with most expected growth are: e-commerce, advertising, and ride hailing.

As we always emphasise, our main financial focus is on maximising absolute dollar gross profit growth. Thus, we decided to guide for gross profit instead of revenue as we believe this metric better reflects how we run our business. We see gross profit for 2024 between 320 and 360 million dollars.

Our gross profit range assumes:

1. increased mix coming from Tier 0 merchants as we continue to ramp up those global relationships, driving incremental TPV and wallet share from the world's leading tech companies, but at lower take rates.
2. sustained growth in our local to local business. We see this as validation of our orchestration approach to

payments, and proves that we are competitive versus local acquirers.

3. normalisation, or tightening of fx spreads in certain dual currency rate markets such as Argentina and Egypt that generated windfall benefits in 2023. Despite the tightening of FX spreads being a headwind for our 2024 plan, it also represents a more sustainable and lower risk gross profit profile.
4. and mix of growth shifting to less mature markets, where we haven't scaled yet.

Final guidance is on Adjusted EBITDA. We are committed to running a financial model that combines robust mid term Gross Profit growth with an EBITDA margin that is among the best in our comp set. This is our model of highly profitable growth. As such we are re-affirming our mid term guidance of:

a. 25% - 35% Gross Profit growth
b. 75%+ Adjusted EBITDA to Gross Profit margin

The trajectory towards that mid-term guidance comes in for 2024 at around 70% Adjusted Ebitda to Gross Profit. This is an Adjusted Ebitda of 220 to 260 million dollars.

We foresee OPEX increasing around 45% YoY. When compared to Q4 run rate, OPEX growth will be around 25%, despite a 2X growth rate expected for TPV in 2024, confirming the operational leverage existent in our business model, and indicating that much of the incremental OPEX spend necessary for the long-term growth has already been incurred during H2 2023.

This growth in YoY OPEX will be driven primarily by tech investments, as we aim to grow our talent pool by around 50%. Other main areas of OPEX growth will include Sales and Operations.

As our short term guidance indicates, we are investing with discipline, so as to not deviate significantly from our mid-term margin guidance. And, by reiterating our mid term outlook, as we look beyond 2024, we are signalling that once we conclude our short term investment cycle in tools, processes, and people to secure our ability to scale the company for long-term growth, we believe we will start to see the operational leverage inherent to our business model kick in even more clearly.

As mentioned in the opening remarks, that kind of scaling is what generates the cash flows that drive shareholder value creation over time. The clear potential of dLocal becomes obvious if one compounds our growth in line with our mid term targets, over a multi year period.

Let me now hand it over to Seba.

Sebastian Kanovich, co-Chief Executive Officer

In my carefully planned transition that has been unfolding since August, Pedro is now set to take on the role of sole CEO.

My commitment to dLocal remains strong, and I will actively lead the newly established Commercial and M&A Committee as part of the company's board of directors.

Over the past few months, Pedro and I have not only worked together but learned from each other, capitalising on our complementary skills to enhance the company's performance, especially in navigating intricate situations.

As we progress to the next phase of our transition plan, emphasising efficiency in daily decision-making, we are confident that Pedro is the ideal person to oversee dLocal's day-to-day operations. His instrumental role in scaling one of the most successful emerging market technology companies speaks volumes about his capabilities.

Pedro's focus will be on the ongoing mission of "company building," while my attention turns towards identifying pivotal growth opportunities for dLocal in the future.

Now, I'll hand it back to Sergio to unveil further details about upcoming management changes.

Sergio Fogel, Co-Founder and Chief Strategy Officer

Hi everyone. Thank you, Seba, for sharing this news with us. On behalf of dLocal's Board of Directors and the shareholders, I express our deep gratitude for your significant contributions to our company since inception. Working with you has been and will continue to be an absolute pleasure. Witnessing your journey, steering dLocal from its humble beginnings to a thriving startup in Latin America, and now to a global powerhouse, fills me with pride.

As we move forward, we anticipate a shift in the leadership style needed by the company, according to the various stages in its evolution. The challenges of 2023 prompted a defensive approach, leading to operational consolidation.

With these changes now on track, we are transitioning to an offensive strategy. Our focus is on re-accelerating our long term growth prospects through a combination of innovation with new product launches, expanded coverage in high potential verticals and growing our Commercial team to ensure it is fit for purpose, and when the right opportunities arise, inorganic growth through M&A. Sebastian's pivotal role in leading the newly constituted Commercial, Business Development & M&A Committee will be instrumental in executing this more assertive strategy, geared towards long-term value creation for our shareholders.

In my capacity as founder, principal shareholder, and active manager, it's immensely gratifying to observe Pedro, Seba, and the Board collaborating to navigate this transition seamlessly. Our unwavering objective remains to preserve the core values and the capabilities that fueled our growth while embracing new opportunities as we scale into a much larger organisation that can best serve our merchants throughout emerging markets. We firmly believe in this strategy. As proof of this, during 2023, as the main shareholders of the company, we have bought back 160 million dollars worth of dLocal shares, showing our confidence in the long-term success of the business.

In many ways, I see myself as the custodian of our company's legacy and culture, steering the course to maintain continuity while also bridging the path towards the essential changes that will secure our future success.

With this, let me hand it over back to Pedro.

Pedro Arnt, Chief Executive Officer

Thanks Sergio. As we reconfigure our leadership structures, I am also pleased to announce the newest addition to our team.

Mark Ortiz will be joining the company as Chief Financial Officer, starting his role in April, overseeing various functions within dLocal.

As we continue our upward trajectory, we sought a robust financial leader capable of guiding us through the next phase of our growth trajectory. Mark brings a wealth of experience in that sense, boasting over 30 years of senior financial leadership, primarily at GE Capital, where he held roles as Global FP&A Leader, and Global Controller across multiple departments. Mark's extensive background includes not only key financial expertise that fit to our current requirements, but also working assignments across over 20 markets, making him well suited for the global complexity that our company presents.

I trust Mark is the optimal CFO choice to propel us to the next level of growth and reinforce our standing as a frontrunner in payment solutions for emerging markets. I hope everyone has the chance to meet Mark over the coming years and share the same enthusiasm we have with his arrival.

I also want to make sure we all extend our gratitude to Diego Cabrera Canay for his invaluable contributions to dLocal. Diego played a pivotal role in establishing numerous finance functions at the company, prepping it for substantial international expansion and growth, and guiding the company through its public listing process. Over the last 3 and a half years, Diego has been the steward of a business that has grown 10X in TPV, opened over 20 country operations, and multiplied its market cap by 4X. We wish Diego the best.

In summary, I would like to thank our global team, our valued customers, and our investors for their continued support.

And before we head back to your questions, I'd like to wrap up today's prepared remarks with one last thought. 2023 was a watershed year for dLocal. Despite facing significant market tests and macro challenges, we believe we have demonstrated the resilience of both our value proposition to our merchants and also of our business model, persistently growing and thriving through turbulent times. We believe we emerge strengthened and focused on tapping into the immense business opportunity ahead of us. We are committed to realising the long-term company purpose of unlocking the potential of emerging markets. What we mean by this is building a bridge between the growing base of billions of consumers in the Global South and the products and services they demand, but that until very recently were exclusive to the minority of consumers who had access to payment mechanisms from developed markets. And as we accomplish this mission of closing the digital divide for emerging market consumers, we are also tapping into the incredibly attractive long term market opportunity that is the one that underlies the investment thesis in dLocal. I look forward to giving you updates on our progress along this journey as the quarters evolve.