

Q1 2025 Earnings - Transcript

Webcast Presentation Q1 2025

Earnings Call Prepared Remarks May 14, 2025 5:00 pm ET

Good afternoon everyone and thank you for joining the First Quarter 2025 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, Chief Executive Officer; Jeffrey Brown, Interim Chief Financial Officer; and Mirele Aragão, Head of Investor 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.

Pedro Arnt, Chief Executive Officer

Thanks everyone for joining us today.

Despite a more volatile global macroeconomic backdrop in 2025, the year has started broadly in line with our expectations. Building on the momentum of previous quarters, dLocal continues to demonstrate strong execution and to prove the resilience of our business model, once again achieving record highs across key financial and operational metrics, despite Q1 not benefitting from seasonal strength in e-commerce. We believe consistent sequential growth is a confirmation of our company's ability to compound growth over extended periods of time, consequently delivering shareholder returns.

Our net retention rate of TPV, reached an impressive 144%. This figure demonstrates the defensibility of our business with our merchant base. Additionally, we are encouraged by TPV that grew north of 50% for a second consecutive quarter, underscoring the success of our strategy and the increasing demand for our services. These results reflect our continued commitment to innovation, customer satisfaction, and expanding our footprint throughout emerging markets.

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Furthermore, we continue to carry out strategic investments in technology and operations that are directly fueling our strong results this quarter and building a robust foundation for sustained financial performance by strengthening our infrastructure, optimizing efficiency, expanding our service offerings, and elevating service quality.

Key accomplishments highlighted during the quarter include:

- Our TPV reached the milestone of \$8 billion, reflecting a 53% year-over-year growth, or 72% in constant currency, and a 5% quarter-over-quarter increase in volume. This performance has been driven by sustained expansion in cross-border payment volumes, supported by Chile, Pakistan, Nigeria, Turkey and Brazil, as well as robust growth across multiple verticals, with notable contributions from sectors such as remittances, commerce, financial services and streaming.
- Revenue and gross profit hit record highs of \$217 million and \$85 million, respectively. As in previous quarters, we continue to see the strength of continued geographic diversification, with a notable contribution from Other LatAm markets during the period.
- While we continue to invest in OPEX to support and accelerate our future growth trajectory, we are still driving operational efficiencies across the organization. The Adjusted EBITDA to Gross Profit Ratio reached 68%, a slight improvement when compared to the previous quarter, reflecting our ability to scale effectively. Despite ongoing investments, we have continued to improve our revenue per headcount over the last four quarters.
- Finally, we generated strong cash flow, with free cash flow to net income conversion at 85%, reinforcing our commitment to a high growth, expanding margin and cash generating financial model.

Now, moving on to our commercial update, we would like to share some of the highlights from the quarter. You will find additional detail in the accompanying slides. These results highlight our ability to maintain and strengthen these relationships over time, ultimately increasing our share of wallet with them.

- We continue to strengthen our partnership with Temu, enabling their customers to transact seamlessly across more than 15 emerging markets across Africa, Asia, and Latin America.
- The partnership with Zepz is ramping up across key markets, demonstrating strong growth in LatAm as well as in several African and Asian countries. We remain committed to supporting the merchant's global expansion efforts, launching operations in new markets in Africa, further strengthening their global footprint.
- Another noteworthy partnership has been Rappi, which has been achieving significant growth in both Colombia and Argentina, after a latest round of new feature deployments on their behalf.

On the technology front, our advancements were centered on leveraging automation and AI to drive operational efficiency and optimize performance across key areas.

- Artificial Intelligence: Implementation of AI significantly improved efficiency in customer experience, and compliance monitoring, by automating tasks previously handled manually.
- Process Automation: Automation was enhanced in handling chargebacks and refunds, substantially augmenting merchant win rate on chargebacks and accelerating refund flows.
- Integration Efficiency: A redesigned integration system dramatically accelerated the setup process for new integrations, cutting down the time required from days to just a few hours. We've

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also made advances in our MCP server and LLM-friendly API documentation for integrating to dLocal, aiming for a near future where simple prompts will allow our merchant's engineers to complete end to end integration with our systems through AI agents.

- Merchant Settlement: The implementation of an improved merchant settlement system streamlined operations and greatly reduced the need for manual intervention.

These automation and AI initiatives are beginning to deliver results. More importantly, this is not a side project; it's a core strategic imperative that will shape our future. Over the midterm, the results should deliver operational leverage and enhanced capabilities as we progressively integrate these technologies across the entire organization over the coming years. We anticipate these efforts will lead to a noticeable slowdown in mid term hiring growth, improved operational leverage, and ultimately, a more robust and scalable business.

Another key area of investment focuses on continuously optimizing performance to maximize conversion rates and TPV, while delivering trusted and agile services to our merchants. During the period:

- We enhanced our smart request strategies, a machine learning model that optimizes conversion rates by dynamically changing the API message to the acquirer during authorization, which resulted in a 1.2 percentage point increase in conversion rates.
- In some African markets, we deployed Smart 3DS, strengthening payment security protocols for high-risk transactions and driving a 6 percentage point improvement in conversion rates.
- We've continued to be a driving force behind network tokenization readiness and support across networks in Argentina, Colombia, Uruguay, and Peru, boosting system wide conversion rates, with notable gains in Colombia (+1.6 percentage points) and Argentina (+1.4 percentage points).

Lastly, it is important to highlight our continuous effort in growing our license portfolio, which increases our competitive advantage as our global merchants seek to navigate complex regulatory environments in emerging markets. During this quarter, we added three new registrations to our portfolio: two in Argentina as aggregator/payment facilitator and one in Chile as sub-acquirer cross-border system operator.

The first quarter of 2025 demonstrated strong execution across many of the levers of our strategic plan. Our commercial team effectively leveraged existing merchant relationships and established new partnerships. Financially, we executed our investment plan in a responsible and efficient manner. In addition, our operations and technology teams delivered improved effectiveness to our merchants, and our legal and regulatory teams focused on expanding our license portfolios.

With that intro, let me hand it over to Jeff to take you through a more detailed overview of our first quarter results.

Jeffrey Brown, Interim Chief Financial Officer

Good afternoon everyone. I am pleased to be with you today for my first earnings call as Interim CFO. I want to thank the Board and leadership team for their trust and support, and I look forward to working with all of you. Let's now turn to the results for the quarter.

As mentioned by Pedro, our first quarter has progressed as expected, continuing the trends observed since the second quarter of 2024. We have consistently executed our strategy, demonstrating strong

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operational performance by, once again, delivering record levels of revenue and gross profit, along with disciplined cost management and ongoing geographic diversification.

As a result, in the first quarter of 2025, TPV reached \$8.1 billion, representing a growth of 53% year-over-year and 5% quarter-over-quarter. In constant currency, TPV would have grown 72% year-over-year.

From a business line perspective, our cross-border flows grew 14% quarter-over-quarter and 76% year-over-year, reaching the milestone of \$4 billion for the first time, mainly driven by remittances, commerce, financial services and streaming across different markets.

Our local-to-local TPV decreased by 3% quarter-over-quarter and increased 33% year-over-year. The quarter-over-quarter comparison is explained by the commerce performance in Mexico, given the seasonality effect in the fourth quarter and partial loss of share of wallet with a large merchant.

Our pay-ins business grew 2% quarter-over-quarter and 49% year-over-year, with strong performance in on-demand delivery, commerce and streaming, partially offset by weakness in the advertising vertical.

Our pay-outs business grew 12% quarter-over-quarter and 61% year-over-year, driven by remittances and financial services.

Revenue

Moving on to revenue, it reached \$217 million in the first quarter, up 18% year-over-year or up 36% on a constant currency basis, driven by:

- The volume growth in Argentina; and
- The performance in other markets in LatAm and Africa and Asia, with strong growth across commerce, remittances and on-demand delivery verticals.

These results were partially offset by:

- Brazil, despite experiencing year-over-year volume growth, reported a decline in revenue primarily due to the migration to the Payment Orchestration model, which brings lower take rates, and a shift in the payment mix from a large merchant.
- Furthermore, Egypt demonstrated strong year-over-year volume growth; however, its revenue performance faced tough comps due to a wider gap between the official and market exchange rates during the first two months of Q1 2024.

On a quarter-over-quarter basis, revenue grew 6%, above TPV growth, positively impacted by higher cross-border share in the mix. The positive result was partially offset by Mexico as I explained earlier.

Gross Profit

Turning to gross profit dynamics, we continue to benefit from the increasing geographic diversification of our operations. This diversification, as highlighted in previous quarters, enables the company to sustain strong growth momentum, even in the face of short-term challenges in certain markets.

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During the quarter, gross profit reached a record level of \$85 million, up 35% year-over-year or close to 60% on a constant currency basis, driven by the volume growth in Argentina, performance in Egypt, and growth in other markets, particularly Chile and Turkey.

These results were partially offset by Brazil, which, in addition to the revenue effects previously explained, was also impacted by one-off incremental processing costs.

On a quarter-over-quarter basis, gross profit increased by 1%, driven by:

- Argentina, with gross profit following revenue trends, in addition to increasing advancement volumes (which have higher take rates) and wider gap between official and parallel FX in Q1 2025 vs Q4 2024.
- Other LatAm markets, with highlights being the positive performance in Chile.

This result was offset by the drivers in Brazil and Mexico, as explained previously. In addition, despite volume growth across various countries, Other Africa and Asia was adversely affected by increased processing costs in South Africa and Nigeria.

Net take rate was down 4 bps quarter-over-quarter driven mostly by (i) weakness in key advertising merchant; and (ii) the one-off increase in costs in Brazil, as I just explained. Those effects were partially compensated by higher FX fees in Argentina, higher share of cross-border and the growth in frontier markets.

Moving down our P&L, we maintained our disciplined expense management, improving operational leverage this quarter. While planned investments in technology and operations are expected to increase through the rest of the year, these results demonstrate our company's frugal culture and the inherent leverage within our business model.

With this, for the first quarter our total operating expenses reached \$39 million, a 6% decrease quarter-over-quarter and a 8% increase year-over-year. On an annual comparison, most of the OPEX growth is explained by the increase in headcount, as we continue to invest in our capabilities.

On a quarterly basis, the decrease in OPEX is primarily attributed to a reduction in G&A and Technology & Development expenses, driven by the decrease in third-party services and travel expenses, combined with the timing of implementation of new initiatives. This decrease was partially offset by (i) growth in headcount within both technology and operations - particularly through the hiring of engineers and the expansion of our operational footprint in strategically important markets; and (ii) an increase in Sales & Marketing expenses, driven by key commercial events that typically occur in the first half of the year.

As a result, we delivered an Operating Profit of \$46 million for the quarter, up 8% quarter-over-quarter and 70% year-over-year. Adjusted EBITDA reached \$58 million, up 2% quarter-over-quarter and 57% year-over-year, representing an Adjusted EBITDA margin of 27%. The ratio of Adjusted EBITDA to Gross Profit was 68% for the quarter, slightly above the fourth quarter, marking the fourth consecutive quarter of improvement.

Moving on to Net Income, Net income was \$47 million for the quarter, up 57% quarter-over-quarter and 163% year-over-year. Compared to the prior quarter, the result was impacted by a positive non-cash mark to market effect related to our Argentine bond investments and lower finance costs.

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Our effective income tax rate ended at 10% for the quarter compared to 27% in the fourth quarter 2024 or 16% when excluding the tax settlement (as mentioned in the last earnings release), as a result of higher cross-border share of pre-tax income and a lower pre-tax income in Brazil given the higher costs, as explained previously.

Lastly, free cash flow for the quarter, which is the net cash from operating activities, excluding merchant funds, less CAPEX, amounted to \$40 million, up from \$33 million in the fourth quarter of 2024, representing a 22% increase. We ended the quarter with Cash and Cash Equivalents totaling approximately \$512 million, up \$86 million versus the previous period, and \$125 million of short term investments. Related to cash, you have probably already seen in our filings that the Company has announced a dividend.

I'll turn it over to Pedro to tell you more.

Pedro Arnt, Chief Executive Officer

Thanks, Jeff.

So, on that capital allocation front. We are announcing that our Board of Directors has approved both a dividend policy, as well as the payment of an extraordinary cash dividend. The one off dividend will be of approximately US\$0.525 per common share, for a total cash outlay of U\$ 150 million dollars. This decision reflects our commitment to returning value to our shareholders while maintaining a disciplined approach to capital allocation.

After careful consideration of our capital allocation strategy, we concluded that a dividend policy aligns with our long-term objectives. Our company expects to generate consistent cash flows over time. This cash generation will suffice to meet our strategic goals, including possible inorganic growth through targeted mergers and acquisitions (M&A), increases in CAPEX when required, and investments in larger business development deals.

The dividend policy which we are launching will provide an annual dividend payment equal to 30% of the company's free cash flow. This approach will allow us to return capital to shareholders while ensuring that we maintain flexibility to reinvest in growth opportunities as they arise. The first dividend under this policy would be payable in 2026 based on our free cash flow performance for the preceding year, once FY 2025 audited financials are released and pending Board approval at that time.

The 2025 extraordinary dividend will be paid to all shareholders as of the record date of May 27, with a payment date of June 10.

In evaluating the most efficient way to return capital to investors, we carefully weighed the option of a dividend versus share buybacks. Given the current limited liquidity in our stock, we, along with our advisors, determined that a dividend was the optimal choice. A buyback program in the order of \$150 million, with future repurchases in the order of 30% of our FCF, would have placed further liquidity constraints on our trading volumes, potentially impacting the stock's performance. By opting for a dividend, we ensure a direct and equitable return of capital to our shareholders while preserving the

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flexibility needed to execute our strategic initiatives effectively, without placing additional strain on the daily liquidity of trading in dLocal shares.

Before we wrap up, I would like to take a step back and reflect on the bigger picture as we announce how our 2025 has started.

While short-term macroeconomic headwinds persist across emerging markets, we remain deeply confident in the strength of the secular growth trends shaping these regions. Our long-term investment thesis is built around a massive and expanding addressable market, supported by powerful demographic and technological shifts.

Nearly 90% of the global population under the age of 20 will reside in emerging markets by 2050. These regions are also projected to account for approximately 65% of global economic growth by 2035. This youthful, tech-native population is driving the rapid adoption of digital solutions, especially in areas like mobile payments, digital wallets, and embedded financial services.

This demographic momentum reinforces our investment thesis: massive addressable market, high topline growth, attractive margins, strong cash generation, and a robust innovation pipeline that allows us to be a market leader.

At the same time, global trade dynamics are evolving. The ongoing discussions around tariffs and the fragmentation of traditional trade models are creating opportunities for both emerging markets and dLocal. We are seeing a shift to a more multilateral, diversified global trading environment. This shift is prompting developed economies to engage with emerging markets more strategically and with greater urgency, an environment that plays directly into dLocal's mission of empowering global merchants to localize and optimize their payment strategies in these high-growth regions.

While global players such as many of the mega cap companies have already embraced localization and alternative payment methods, a significant portion of the market remains underserved. As emerging markets gain prominence, demand for seamless, localized payment solutions will only accelerate - substantially expanding our total addressable market.

Crucially, this shift also underscores the importance of flawless execution. Competition in this space is expected to intensify, but we continue to differentiate ourselves through our ability to deliver reliable, cost-effective, and frictionless payment solutions. Our ongoing improvements in Net Promoter Score, which results from our focus on addressing emerging market specific payments fragmentation and merchant pain points through bespoke financial infrastructure solutions, evidences stronger relationships with our partners and the fact that we are uniquely positioned to capture the incremental volume arising from these structural shifts.

The opportunity ahead is both massive and tangible, and we are confident in our ability to seize it. That's why we are reaffirming our full-year guidance and remaining fully committed to disciplined execution and with relentless focus on long-term, sustainable growth.

Thank you for your continued trust and support, and with that, we are happy to take your questions.