Q4 2024 Earnings - Transcript

Webcast Presentation Q4 2024

Earnings Call Prepared Remarks February 27, 2025 5:00 pm ET

Good afternoon everyone and thank you for joining the Fourth Quarter 2024 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; Mark Ortiz, 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.

Intro video

At dLocal, we're unlocking the power of emerging markets, enabling businesses to transact and thrive where immense growth potential is just beginning to unfold.

The year 2024 has been a testament to the strength and resilience of our business model. We experienced remarkable growth. Our TPV increased by 45% year-over-year, reaching a record of $26 billion. This achievement was driven by strong performance across diverse verticals, countries, and products, demonstrating the increased diversification of our business.

Besides the remarkable volume growth, we also delivered a gross profit of $295 million and adjusted EBITDA $189 million. Despite ongoing investments to support the growth opportunities, our Adjusted EBITDA over gross profit margin remained at a solid level of 64%. These numbers are all a testament to the strength of our financial model, delivering a rare combination of growth and high margin profitability.

As we lay the foundations for scalable and profitable growth over the coming years, our investments over the past year have focused on several key initiatives.

These accomplishments would not be possible without our dedicated team, whose local expertise and presence in emerging markets have become essential to our merchants. In 2024, we welcomed 194 new talents, expanding to 1,095 team members across 49 countries.

A substantial part of this increase came from our Technology & Product team, who work intensively to innovate our product portfolio, develop new features to enhance performance for our merchants, and expand payment methods, all while prioritizing cost and operational efficiency, both in terms of cost and OPEX. During 2024:

- We launched 20 new payment methods for pay-ins and 7 for payouts, while adding close to 100 new partner integrations to ensure redundancy, cost efficiency, and unlocking the latest and greatest payment features;
- We launched and ramped up our new Payment Orchestration solution for merchants with a fully localized operation;
- We continued to seek ways to increase transaction approval rates and reduce processing costs.
    - First, we enabled Network Tokenization with 7 processors across 10 countries;
    - Second, we launched and further improved our Smart Request functionality, a new AI engine to dynamically adapt the card authorization message to acquirers in order to improve conversion rates;
    - And finally, we developed our new cost optimization engine for our Smart Router, which has decreased our processing costs, while maximizing approval rates.

We also worked closely together to enhance our customer experience, reducing our customer support response time by 88% within 9 months and decreasing issue resolution time by 45% through AI implementation.

- Moreover, our suite of products continues to be overhauled from the ground up, enabling an extensive list of use cases and setups and we continue to improve our merchant dashboard user experience.

The combined efforts across our different teams are reflected in our competitive pricing, optimized conversion rates, and customer experience:

- As a result, we strengthened the relationships with our existing merchants, achieving a TPV Retention Rate of over 140% in 2024;
- We expanded our reach by onboarding new merchants to our platform, with the 2024 cohort achieving record level of first-year-TPV; and
- We increased our NPS by 8 points compared to the first half of 2024, reaching high levels within the industry.

All this has allowed us to close out the year serving more than 700 merchants across more than 40 markets.

As we continue to execute our disciplined approach to expense management, we have delivered considerable efficiencies by a methodic approach to renegotiating with processors and brokers on cost, enhancing hedging strategies to minimize currency losses and reduce costs, and optimizing structures and flows for tax efficiencies.

We have also secured 9 new licenses globally, enabling us to expand product offerings, access new growth opportunities, and connect merchants with emerging markets.

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As we look back on 2024, we are proud of what we have accomplished. These results highlight our ability to adapt and thrive in a dynamic market, thanks to our team's dedication to commercial efforts, technological innovation, and execution capabilities.

In 2025, we remain committed to delivering sustained growth and value to our stakeholders as we continue to explore the growing total addressable market of cross-border payments, driven by shifts towards payment digitalization, the growing importance of emerging and frontier markets, and the surging demand for cross-border and instant payment methods.

dLocal: unlocking the power of Emerging Markets

Pedro Arnt, Chief Executive Officer

Thanks everyone for joining us today.

As we walk through a review of our performance over the past quarter and year, I'd like to get us started with a recap of the investment thesis behind dLocal.

As the previous video illustrates, and as we have repeatedly mentioned, we think of five pillars underpinning that investment thesis:

- First of all, a massive addressable market, given the untapped potential of emerging and frontier markets as they digitize payments and global merchants go to market throughout the global south. It is worth reminding everyone that 85% of the world's population resides in emerging markets, and two thirds of global growth by 2035 will come from there.
- Second, consistent high top line growth driven by a proven track record of delivering value to the world's most sophisticated global digital merchants that has allowed us to capture a market leading share of this expanding TAM, I just referred to;
- Third, attractive margin business with potential to deliver operational leverage once we have laid the foundational blocks and further scale benefits kick in;
- Fourth, a strong cash generating financial model as Net Income which converts well into FCF, generating more and more available cash; and
- Finally, a strong innovation pipeline. We are investing behind our product development capabilities to generate additional growth vectors for dLocal. These will come from:
    - New categories, such as stable coins and APMs to name a few, we are already focused on;
    - New products that will be launched this year and in future years, and generate additional mid term revenue streams,;
    - Constant feature innovations that help us sustain high recurring business from our merchants; and
    - Potential M&A activity as we see the cross border fintech space poised for consolidation at attractive valuations going forward.

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Our FY 2024 results show how that investment thesis remains intact:

- In terms of market size, with record TPV of $26 billion, accelerating growth to 45% year-over-year with mix continuing to move to newer more attractive markets, while core markets rebounded from Q3 softness. TPV retention for 2024 was above 140%, showing how constantly innovating on behalf of our merchants' businesses generates high loyalty and recurrence of business.
- Revenue and gross profits hitting record highs of $746 million and $295 million, respectively;
- Adjusted EBITDA to GP margins closing out the year at 64%, but improving consistently as the year progressed;
- Net Income to FCF of Own funds conversion exiting the year at a rate above 100%.

These strong 2024 results should be seen in the context of two things:

- An admittedly weak first quarter, which was then followed by progressively stronger quarter-over-quarter performance; and
- The continuation of an investment cycle aimed at achieving greater scalability for our business over the long run. The annual video just shown highlights some of these investments and the results we are starting to collect from them.

As we exit the year with very solid momentum, we are encouraged by having delivered consistent improvement in results since Q1 across key metrics, as I will highlight next with a quick recap of Q4 2024 results.

Continuing the positive trend from the previous quarter, and despite the strong comparison base of Q4 2023, our TPV grew by more than 50% year-over-year during the period. On a quarter-over-quarter basis TPV growth accelerated to nearly 20%, driven by the seasonality of the commerce vertical, and strength in remittances and ride-hailing.

Our growth continues to reinforce our position as a trusted partner for global companies seeking to do business across emerging markets. Our performance came from a well diversified list of countries, with notable contributions from Argentina, Egypt, Other LatAm markets, as well as Other Africa and Asia. As a result of our expansion into more frontier markets, we also continue to see solid growth in our cross-border volumes.

Moving on to profitability, we reached a record gross profit of $84 million. Net take rate was 1.1%, reflecting the market dynamic where higher volumes drive lower take rates, increase in the payouts share (which is lower take rate), and the depreciation of emerging market currencies. To offset this, we continue to drive cost efficiencies through processor and broker renegotiations and improvements in our hedging strategy. We also continue our push into higher take rate markets and verticals, which over the long term should partially offset the take rate compression.

Despite the ongoing step up in investments in our engineering team, operational capabilities, and license portfolio to support our long-term growth ambitions, our Adjusted EBITDA hit a record $57 million in the quarter, with an adjusted EBITDA over gross profit margin improving quarter-over-quarter to 68%.

Cash generation, another strength of our financial model, was also solid, as we continue to increase free cash available to deploy behind our capital allocation strategy. This sustained cash generation increases our flexibility when thinking through M&A, buybacks or re-investing in a disciplined manner back into the business.

An important note as I conclude on the advances in our license portfolio. We've continued adding licenses and registrations throughout 2024, counting with 9 additional ones, reaffirming our belief that over time this expanding portfolio will prove to be a competitive advantage. Most important among these is the Authorised Payment Institution license granted to us by the United Kingdom's FCA. This growing portfolio allows us to offer our merchants greater regulatory confidence and underscores our commitment to compliant practices and regulatory oversight.

So now, wrapping up; Q4 marked the successful end to 2024 in terms of consistent TPV growth, controlled take rate decline, and balancing investment for future growth with a healthy margin and free cash profile. We remain focused on our mission of unlocking the power of emerging markets by continuously building trust with our clients and strengthening our partner relationships, so as to expand access to digital products and services throughout the global south.

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

Mark Ortiz, Chief Financial Officer

Thank you Pedro. Good afternoon everyone.

As Pedro mentioned, our fourth-quarter results marked a strong conclusion to the year, reflecting healthy growth and reinforcing the strength of our business model. We wrap up 2024 on the back of three quarters of progressively stronger results, underpinned by the continued diversification of our business across geographies.

This increased global reach is evident in our Q4 results. Brazil and Mexico, our two largest markets, experienced sequential re-acceleration in TPV growth, but they saw a decline in gross profit. Despite this, our consolidated revenues, gross profit, and adjusted EBITDA reached record levels, driven by growth and strength across our other geographies.

As a result, we achieved TPV of $7.7 billion, up 51% year-over-year and 18% quarter-over-quarter. In constant currency, given general weakness in Emerging Markets currencies, those growth rates are even more impressive, about 30 points higher year-over-year.

From a business line perspective, our cross-border flows grew 23% quarter-over-quarter and 67% year-over-year, mainly driven by the commerce, financial services, on-demand delivery and SaaS verticals.

Our local-to-local TPV increased by 14% quarter-over-quarter and 38% year-over-year, with strong performance in Brazil, Mexico and Argentina.

Our pay-ins business grew 15% quarter-over-quarter and 44% year-over-year, with strong performance in the seasonal commerce category, as well as ride-hailing across various countries.

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Our pay-outs business grew 26% quarter-over-quarter and nearly 70% year-over-year, driven by financial services and remittances merchants.

Revenue

Moving on to revenue, we surpassed the milestone of over $200 million in Q4, representing a 9% year-over-year growth. This result is driven by:

- Argentina and Egypt, both with revenue growing significantly;
- Other markets, particularly Colombia and South Africa, with strong growth across commerce, ride hailing and SaaS verticals; and
- Mexico, which grew sequentially both annually and quarterly at 14% and 4% respectively, though at a slower pace to prior quarters, decelerating due to higher growth of Tier 0 merchants coupled with a shift in the payment mix.

These positive year-over-year results compensated for lower revenues on currency devaluations, primarily in Nigeria due to the Naira devaluation in February of 2024. In constant currencies, revenue growth for the period would have been around 40% year-over-year.

Revenues were also negatively affected by lower take rates from the ramp-up of the stand alone Payment Orchestration option we launched at the end of Q3, which, on a positive note, allowed for the recovery of volumes in Brazil versus the prior quarter. In addition, Brazil was also impacted by a shift in payment mix.

On a quarter-over-quarter basis, revenue grew 10%, driven by the volume increase in Egypt, as well as positive results in Other Latam and Other Africa and Asia, with notable performance in South Africa, Turkey, Colombia and Ecuador.

Gross Profit YoY

Now moving on to gross profit dynamics.

During the quarter, gross profit reached a record level of $84 million, up 20% year-over-year.

Starting with LatAm, gross profit was $56 million, up 3% year-over-year, mainly driven by the volume growth in Argentina, Mexico, and other LatAm markets, which were mostly offset by Brazil as just explained, and currency devaluations.

In Africa & Asia, gross profit posted a stellar growth of 82% year-over-year, driven by our TPV growth in Egypt, TPV ramp-up of our commerce merchants in South Africa; and positive performance in Other Africa and Asia markets, including Turkey and Vietnam.

This geographic diversification is core to our strategy as discussed earlier as it allows the company to continue growing at a high pace despite short term headwinds in a few of our countries.

Gross Profit QoQ

On a quarter-over-quarter basis, gross profit increased by 7%.

In LatAm, gross profit increased by 1% quarter-over-quarter, driven by Argentina's positive performance. This result was offset by drivers in Mexico and Brazil, as explained in the previous section.

It is important to note that Other Latam markets that continue to grow TPV were negatively impacted on a quarter-over-quarter basis, by the strong growth in Q3 from widening FX spreads in certain smaller markets, as disclosed in the previous quarterly results, which tightened this quarter.

In Africa and Asia, gross profit increased by 21% quarter-over-quarter, with highlights being the positive performance in Egypt, Nigeria and Turkey in categories such as remittances, financial services, ads and streaming.

P&L

As Pedro already mentioned, during Q4, we decided to resume the pace of certain investments in building out our capabilities. It is important to reinforce that we are making these investments in core areas to drive efficiency in our business and ensure future growth while maintaining our lean and disciplined structure.

With this, for Q4 our total operating expenses reached $41million, a 12% increase quarter-over-quarter and a 44% increase year-over-year. On an annual comparison, most of the OPEX growth continues to be mainly allocated to Product Development & IT capabilities, with these expenses increasing by 70% year-over-year while combined Sales and Marketing and G&A expenses grew by 29%. We expect this allocation tilt toward Product Development and IT to continue in the future.

On a quarterly basis, the Tech and development expenses were slightly down as increases in headcount were offset by reductions in other IT expenditures. Combined Sales and Marketing and G&A expenses grew by 11%, driven by our continued investment in operating capabilities and marketing investments.

As a result, we delivered an Operating Profit of $42 million for the quarter, up 3% quarter-over-quarter, and Adjusted EBITDA of $57 million, up 9% quarter-over-quarter, representing an Adjusted EBITDA margin of 28% on par with last quarter. The ratio of Adjusted EBITDA to Gross Profit reached 68% for the quarter, up 1 percentage point quarter-over-quarter, marking the third consecutive quarter of improvement.

Moving on to Net Income, Net income was $30 million for the quarter, up 11% quarter-over-quarter and 4% 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, lower finance costs partially offset by higher taxes.

Our effective income tax rate ended at 27% for the quarter and 20% for the year, impacted by an income tax settlement related to previous periods. Excluding this tax settlement, our effective income tax rate stood at 16% for the fourth quarter and 17% for the year compared to 16% in 2023, as a result of slightly higher local-to-local share of pre-tax income.

Last, but certainly not least, free cash flow for the quarter, which is the net cash from operating activities, excluding merchant funds, less CAPEX, amounted to $33 million, up from $26 million in Q3, representing a 25% increase. This continued cash generation allowed us to further strengthen our liquidity position of

$318 million, including $189 million of available cash for general corporate purposes, and $129 million of short term investments.

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

Pedro Arnt, Chief Executive Officer

Thanks, Mark.

Before concluding our remarks, I would like to talk about our 2025 guidance.

First, our strong TPV growth guidance is primarily driven by:

- Our strategic focus on becoming a scale leader over the midterm, leading us to prioritize not losing contracts on price - especially in larger markets;
- The increased share of wallet and continued ramp-up of our large global Tier 0 merchants, especially some key ones we onboarded in the 2023 and 2024 cohorts; and
- New opportunities converting through the pipeline both in geographies where our business is still nascent as well as verticals we are entering and see large volumes opportunities.

We are guiding to a revenue growth that shows this sustained momentum of our top line, and also highlights that our combination of revenue growth, margin structure and free cash generation is not that common. There aren't that many companies today who are as profitable as we are, growing revenues at the pace we are growing, and consistently generating free cash.

Our expected Gross Profit, which we focus on more than Revenues in managing the business, shows growth range is based on the following assumptions:

- Anticipation of a higher mix of transactions from Tier 0 merchants, who typically have a lower take rate, as we continue to increase the share of wallet and work on the global expansion of these relationships;
- Sustained growth in Local-to-Local transactions, that have a lower take rate, while our cross-border segment should continue to experience accelerated growth as demonstrated throughout 2024;
- Competitive pricing in key markets, such as Brazil and Mexico, following our focus on market share gains and TPV growth; and
- Ramp-up of the new standalone orchestration model, launched at the end of Q3 2024, which has a lower take rate.

In addition, given our presence in emerging markets and the general volatility of currencies in these regions, we anticipate potential tightening of FX spreads in certain geographies.

Considering those assumptions, we should expect a net take rate compression while delivering high TPV growth even at our scale we already attained. Over the midterm, we will work to maintain strong TPV while recognizing that given the extremely strong levels of TPV retention we deliver, our larger merchants will continue to attain lower pricing tiers. We will strive to offset this through:

- Growth in higher take rate new verticals we are pursuing;

- Natural mix shift towards higher take rate frontier markets away from Brazil and Mexico, despite still growing well in those large markets; and
- New revenue streams through new product launches and constant innovation.

Finally, regarding our Adjusted EBITDA growth range, we assume the continuation of our disciplined investment cycle, maintaining, as seen in 2024, a balance between top-line growth and profitability. Our investment focus remains on:

- Product and development with growth there outpacing gross profit growth;
- Continued investments in our license portfolio, with the benefits that brings, but also increased regulatory cost; and
- Investments in continuing to build our local operations teams in markets that are ramping up.

Despite these investments, we anticipate achieving operational leverage with an adjusted EBITDA to gross profit ratio improving year-over-year, and still tracking towards levels we have delivered in the past once we conclude this investment cycle.

As you know, our business operates in some of the fastest-growing and most dynamic markets in the world. The opportunity in digital payments across emerging markets is massive, and we continue to see strong demand, increasing penetration, and long-term structural tailwinds supporting our growth.

However, the very nature of our markets, to our business benefit, also comes with volatility - whether due to macroeconomic shifts, regulatory changes, or currency fluctuations. While we remain highly confident in our ability to deliver sustained, high-growth results over the long term, we believe that providing mid-term guidance transmits a sense of predictability that is not accurate over a multi year time frame.

For this reason, we have made the decision to discontinue mid-term guidance. We will continue to focus on delivering strong operational execution so as to hit the annual targets we disclose, and we will remain as always transparent in our communication, sharing with you the key drivers, both good and bad, of our performance against those annual targets.

Looking ahead to 2025, we remain confident in our ability to execute and sustain our momentum, which we exited in 2024. The investments we have made over the past year - across technology, product innovation, and market expansion - position us well for the next phase of growth. While we recognize the inherent volatility of emerging markets, we believe our disciplined approach to scaling our business, our deep local expertise, and our commitment to delivering value to merchants will continue to differentiate us in the industry.

Our strategy remains focused on capturing the vast potential of digital payments across high-growth regions, driving operational efficiencies, and reinforcing our market leadership. We are excited about the opportunities ahead and are committed to executing with the same rigor and discipline that have defined our success so far. Thank you for your continued trust and support, and with that, we are happy to take your questions.