

PITCHIT FINTECH STARTUPS PODCAST NO. 38-SUMITA PANDIT

Welcome to PitchIt, the fintech startups podcast, one founder, one startup, one investor at a time. I'm your host, Todd Anderson, Chief Product Officer, LendIt Fintech.

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Todd Anderson: On Episode 38, I talk with Sumita Pandit of dLocal. dLocal powers local payments connecting merchants with billions of emerging market consumers through one single API. This special episode was recorded at our LendIt Fintech LatAm event on December 7th 2021. Sumita and I discuss dLocal's journey from a small startup in Uruguay to a global publicly traded fintech firm that's listed on the US Exchange, the NASDAQ.

We talk about how dLocal was able to move beyond just LatAm and have a global reach and impact. You know, are LatAm companies still viewed at a discount or are they viewed on kind of that same footing as US-based companies, we get a lot, you know, pretty deep into that. We also talk about the importance of focusing on emerging markets and why it takes a different mindset to operate and be accessible in that emerging market environment. So, without further ado, Sumita Pandit of dLocal.

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So first, dLocal, it was started with the goal in mind to close the payments innovation gap that exists between developed and emerging economies. Want to tell us a little bit more about yourself and dLocal for anyone who might not be as familiar.

Sumita Pandit: Thanks, Todd, it's nice to be here, thank you for your interest in our company. So, my name is Sumita Pandit, I am the Chief Operating Officer for dLocal, I joined the company a few months before we went public which was earlier this year. I have had the fortunate experience of getting to know dLocal over a long period of time, I was actually their banker helping them get ready to go public. I used to run JP Morgan's Global Fintech Investment Banking business prior to joining dLocal and in that role, I had the fortune of meeting with multiple fintechs across multiple sub-sectors within fintech and when the dLocal team asked me to join them what really fascinated me about this company was the strong product market fit. There was a true product need that was unserved and unmet in emerging markets.

For those of you who've traveled and lived in countries outside the US, especially in LatAm, Africa and Asia, you will have better appreciation for, you know, what that product market fit is and how painful it is for consumers to make payments using their credit cards or other alternative payment methods and so that's really what attracted me to dLocal. I think that the company has a unique product that meets an unserved need and that's what we are trying to do. We are trying to help our global merchants make and accept payments from consumers in emerging markets and we are in 32 countries today.

Todd: So, as Bo mentioned in our opening, you know, LatAm, since we were last here a couple of years ago, has clearly burst on to the scene, what are some of the factors that have helped companies like dLocal and some of the others that have gone beyond just the borders of LatAm, you know, have more than just that regional effect?

Sumita: Yeah. I think it's all about mindset, I think it's all about where you start from and where you want to go. I think for a lot of other countries, I am actually from India, I would say there are lots of parallels that I see in India and in, I would say, countries in LatAm. Culturally, the way we approach our lives, the way we think about what's cool, what's not cool, I would say that maybe ten or 15 years back, working in the US was a really cool thing, everyone wanted to do it. You were more successful if you had worked in the US and when you went back to your country, you would have better jobs, better prospects.

I think what's happening today is that emerging markets and I would say citizens from other parts of the world are just becoming more confident and I think we take pride in where we come from, we don't need external affiliations as we needed maybe ten or 15 years back, I think that's what's happening today. And so, even in something as simple as companies going public, I see a very different level of confidence, enthusiasm and the ability to look at the world and say, I could sell my product and service anywhere in the world so it really comes back to that mindset and I think that's what's helping companies such as dLocal.

There are multiple companies that are looking at, you know, what they think LatAm is and they don't define it by geographic boundaries, it's not limited to a country or a region and that's how we think about our business. So, today, we are in about 32 countries, as I mentioned, but our ambition is to be in every emerging market. We always get the question, do you want to also expand into the US and Western Europe and we tell investors is no, we don't, we actually want to stay very close to where we started which is emerging markets and that includes Latin America which is, you know, our core, our home base, but it also includes Africa and Asia. Our dream is to really be in every country in the emerging market today.

Todd: Do you think that you are viewed kind of on the same level as some of the US and UK counterpart who are public in the fintech space? I mean, when we were talking about the session many, many weeks ago, we mentioned, you know, is LatAm still seen as kind of a discounted type company, do you think that's changed, especially with news of Neubank about to go public. Do you think that some of that mindset has changed and now LatAm is kind of equal on that global stage?

Sumita: I think there are weeks when I feel that we are definitely, you know, almost there and then there are weeks when you feel oh, maybe not and I think we've gone through some of those weeks in the last few weeks as we have seen what I would call a "LatAm cloud" stay as an overhang over the multiple companies in LatAm. Generally speaking, I think there has been a lot more than massive education that has happened and that's really helped how companies from LatAm are viewed today. When we were going public, in fact, I go back to when we were on our roadshow, most investors had

never heard of dLocal and, you know, we were not on fintech top ten list, even top 25 list for that matter.

And so, I remember when we were on the roadshow educating investors about what we do, we were always asked to compare our business to another public company that was already public in LatAm. That was typically how the meeting would start, also tell us, how are you different from and there would be a LatAm company that would be named for us to compare and contrast with. That was our first roadshow, that was almost like six/seven months before we went public and we realized that we had to actually educate investors, we had to make them understand why we do what we do and how we are different and all of that investor education has helped us tremendously today. We never go into a meeting today where we are always compared to another LatAm company and by the way, it's a very positive thing, but we also want to make sure we do is get comped to the right comparables globally and that requires investor education.

And I would say that, you know, this idea of a LatAm discount is going away. To your point, I think the IPO for Neubank is going to be a seminal event for Latin America, I hope it goes really well, it's good for all of us and the recent show is that there are some, what I would call maxims, that investors use to define what they expect to see in a Latin American company. So, when I was a banker, I would actually meet with founders and say, look, if you're not profitable, it's going to be more investor education that you would need to do if you were actually in LatAm while you see unprofitable companies go public in the US every week. Some of that is changing and it's changing because investors are now looking at LatAm in the context of what's happening globally and I think it's only going to keep improving.

Todd: So, going back to kind of the mission of dLocal, you know, how different must a mindset be in terms of working with underdeveloped or emerging markets versus say a US, a UK or maybe a more traditional market?

Sumita: It's absolutely different, I mean, I think that's what attracted me to dLocal. So, when I got to know the team and I got to know the management team and I would say the board, the culture, the way you approach a problem, the way you think about a solution, all of that is different and I think a couple of things that you need to kind of define for yourself, you have to be super nimble. These markets move very quickly, regulations change all the time, we need to make sure that the global merchants we serve are always compliant in the 32 countries that they are in.

And that requires, again, you know, an ability to one, make sure that you are constantly staying abreast of what's going on, making sure that you have rules in place and you have the technology to actually adapt your products and services to their changing regulations and it is also the way you think about hiring, retaining and motivating your employees. All of that is very different from a lot of companies that have the luxury of being in the developed markets where to some extent, you can assume that things don't move that quickly, regulations don't change overnight while in the emerging markets that we serve, changes can happen extremely quickly and we need to make sure that we are constantly nimble.

Todd: What type of lessons can you take when looking at, you know, LatAm versus Africa versus Asia, I mean, are there similarities when thinking about operating in each of the markets or is it unique market, unique opportunity, unique mindset?

Sumita: So, there are some similarities. I think that some of the trends that I mentioned to you which is related to regulations, I would say they are quite similar in emerging markets. You see the same level of change, you know, typically governments being very involved in what's going on because they want to protect the interest of the consumers. That is, generally, a view that consumers in emerging markets are likely less sophisticated and therefore, governments feel the need to protect the consumers more. So, you see some of those common things, for sure, but then there are also a lot of differences.

So, for example, for our company, what's important is to make sure that we understand what are the alternative payment methods that are important in different countries and each country is different. So, for example, if you go to Brazil, the penetration of credit cards is very, very high in Brazil, you could almost mistake it for what you see in the US, but you go to Asia, it almost feels like consumers have completely leaped out from cash to some sort of a wallet, they've completely, you know, skipped the credit card stage. In fact, access to credit that you take for granted when you're in a country like the US is really not there.

So, some stats for you, if you look at a typical credit card transaction, if you're sitting in the US, 97 to 98% of the time your transactions will go through. If the same consumer was sitting in Nigeria or Egypt or some other part of Africa or Asia, 50% of the time his credit card, his whole credit card will get declined. And that is really what we are solving for which is how do we get more consumers to access global products and services and if that means that we have to make sure that we accept local payment methods, we do that.

So, some of the questions that we get when we talk to investors is, oh, credit cards must be the most important part of your business, in reality, it isn't, it's about one third of our business, but two thirds of our business is actually alternative payment methods. If I look at Asia, I feel like alternative payment methods are going to grow even faster. While there would be markets in LatAm, especially for example Brazil, credit cards play a very important role. So, each market has its own unique consumer behavior and we need to make sure that we understand that as we think about the payment methods that we accept.

Todd: So, obviously, we're hopefully coming to the end of this global event over the last couple of years, what kind of impact does that have on emerging markets and working with emerging markets in that it, you know, kind of brought the light even more to them about the inequities in these various systems and how important is it for, you know, either dLocal or anyone else to really focus on these areas more than ever before?

Sumita: Yeah. I mean, I think this is a really an important question, close to my heart. I think that inclusion and financial inclusion can mean different things for different people and different companies.

You could define it very narrowly to say we are looking at only unbanked consumers and that could mean financial inclusion to some of you, but in my mind, financial inclusion is actually much broader than that. It's making sure every consumer that wants to access a product or a service is able to do it at the place at he or she wants it, in the format and in the payment method that he or she wants to do it. That's our broader global vision which is there is no reason for a consumer in any part of this world to not have access to the same products and services that someone in the US or Western Europe has always had access to.

The only reason that is the case is we've created this, what I would call national boundaries, really in the interest of protecting consumers, but today, given the access to technology that we have, it may not be actually as relevant and we need to re-visit some of those national boundaries and think about, can we actually do business in a different way. And if so, how do we actually facilitate more transactions to come through the funnel and how do we actually include more and more consumers in that global conversation.

I think COVID has played a very positive role in it for multiple reasons. First, we are a remote first company meaning we see you in Israel, I am in California, our engineering team is in Uruguay, Argentina, we are setting up a third base in Africa. We are truly global, we work across time zones. It means it's really hard for us because we have to figure out how to make all of that work, but the reality of it is I was at JP Morgan before, working meant going to office, you know, that was a big part of going to work which was the in-person introductions and being present. Was that great? I think so, I still miss not meeting people in person, it's actually great to be back in such conferences.

Having said that, business doesn't stop and I think the last two years have taught us all that business doesn't stop and you can actually create very efficient business systems and make it work remotely and we are actually doing that in our business. We've almost set aside this idea that we only need to hire in specific countries, we can hire anywhere, it opens up your hiring strategies completely. As we all know, that's a big challenge for all of us. Similarly, people can work from anywhere, we can work across time zones, we can also make sure that we can move people around so a big part of how we think about our people is how do we give them opportunities to move around in different parts of the world and all of that have happened through COVID.

I would say one other consumer behavior trend is, of course, online so we essentially only work for online shopping, we are not at the point of sale. Through COVID, our business has benefitted from, I would say, that shift towards online and things that you did not think you could do in an online manner today gets done online and what we are seeing is that even when the in-person economy is coming back, consumers are not moving back to an in-person mode for shopping which is I think a permanent change coming out of COVID.

Todd: So, you mentioned the national border issue when it comes to financial inclusion and bringing people into the system, what other barriers are in place from becoming as a globe more financially inclusive than we are today. I mean, technology has certainly made us connected easier no matter where we are in the world, it seems that fintech has created some of these tools, but there's still a lot

of disparities in different countries, in rich and poor. So, what are some of the other barriers that might be in place to stop us from being a bit more inclusive?

Sumita: I would say it's really regulations and how regulations were enacted. I think the purpose behind regulations and the way you have them today was all meant to serve a really good purpose. To some extent, that purpose has changed and the regulations have not always kept pace with the changes that are now required. I think what fintechs are forcing regulators and other authorities to look at is, is there another way to do the same thing that we did 30 or 40 years back and is it still safe, do you still protect the consumers' interest. None of us actually want to be in a business or actually, you know, make sure that the transaction gets approved that's illegal, we want everything to be done appropriately, but there are better ways to do the same thing.

There are probably faster ways to do it, there are probably easier ways to do KYC, there are probably easier ways to track your identity and all of that is changing in a very, very fast manner in the emerging markets and so I think that's going to be really big. So, for example, in the US, you know, we've all had access to our credit scores for years, in a lot of countries today even if there are credit scores they don't really mean much. Credit bureaus are only now getting more sophisticated in other parts of the world, especially in emerging markets. Can you use that data to do your KYC, if not, what else do you need; do you have access to other sources of modeling that you can use to increase the decision making process.

All of that is I think part of breaking these barriers that prevent consumers from emerging markets to interact with global merchants in real-time and I think it's going to happen, it's a matter of time and I think that companies, such as ours, they are accelerating that change. I think when we have our conversations with the global merchants today they're constantly asking us, what are the other countries we can go to, how do we expand our business faster. There are a couple of other things, like maybe even seven or ten years back, if a very large merchant wanted to do business in let's say a Brazil or a Mexico, they would say, okay, we have to set up a legal entity, they have to be there locally to actually do business, that is going away today.

Our merchant could be in the US, could be in Europe, could be in China, doesn't need to set up legal entities to actually transact business in some of the largest economies today because of companies such as ours. We enable them to make that happen, we essentially take care of all of their backend that they need to do to accept the payment while they can just focus on marketing and selling their products and services and I think that speed with which merchants can now expand is going to just take on its own momentum and that's where we are here for.

Todd: So, we have an audience question here. You mentioned Asia where QR codes are dominant with services like Alipay and WeChat, do you think we'll see the same type of payment method becoming ubiquitous in LatAm?

Sumita: Our view on this is every country or every region is evolving slightly differently so like even if you look at Alipay or WeChat in China, what's happening in let's say Indonesia, Vietnam, India is

similar but not exactly the same. Each country is finding its own way to essentially provide financial services to their consumers. I know we talk a lot about Pix in Brazil, if you look at UPI in India there are some parallels there and what we think is that we are going to see some form of what I would call wallet-based alternative payment methods that'll continue to grow in all of these markets.

Will they grow at the same rate, will they be as dominant as some of the brands in China, it's hard to call it. I think it will happen faster in Asia than it will in LatAm, I think Africa is also probably moving more in the direction of Asia where cards are completely getting, I would say, superseded by wallets. And so, I think what's going to happen is that we are going to have different payments evolve in different regions at different rates, but what is really, really clear is that assuming that a merchant can run a business just based on cards is not the future.

Todd: I have one final question here as we're cutting up on our time. Why do you think Pix has been so successful in Brazil, why do you think Mexico is not seeing the same success with CoDi?

Sumita: So, I think that it's too early to actually, you know, have a determination about CoDi. I think that some of these things take time. I think Pix has been extremely successful because of the way, you know, the technology works, it's been very user-friendly. We've taken some of the other such platforms globally into their, I would say, decision making and it's worked out in their favor, but I don't necessarily believe that that means that, you know, Mexico won't have its own solution. I do feel that, you know, you are going to have more real-time payment settlement infrastructure platforms that various regulators in different parts of the world are going to look at very, very seriously. I think the success of Pix and UPI are cases in point.

Todd: I see one more question has come in there. In terms of the LatAm tech public companies, they are down 30% while SMP is up 20%, any particular reason for that?

Sumita: Again, I think that when you look at an index, it can be very misleading. I actually would say that we should not be doing a LatAm Index when we talk about our technology and our companies because it, again, brings into focus this idea that when one company has very idiosyncratic issues related to their own business, it impacts everyone in the ecosystem. My dream would be that as we have more and more companies go public in LatAm, you're going to actually move away from this idea that the success and failure of one company in LatAm is going to determine the success and failure of another company in LatAm, it should be really driven by the individual company.

I think it makes sense to start thinking about LatAm companies more of within the sub-verticals that we operate in and that is something that we've really tried to do. When we were on our roadshow, we did a lot of investor education, we came from nowhere, no one had heard of us and we had to make sure that we actually educate investors about why is it we are not only growing at more than 100% year-over-year, but we are also profitable and we spent a lot of time educating investors.

So, my view is that, you know, right now, what you're seeing in the market is a confluence of multiple factors. I don't even think about it as one LatAm Index, there are too many things moving in the same

direction that's causing some of what you're seeing play out, it is, you know, investors looking at their full year, figuring out that they need to close their books, specific companies having idiosyncratic issues related to their own business.

The latest variant of the virus caused a lot of people to freak out which we'll see after a few weeks if they were overblown or not so there are too many things going wrong right now to make a determination that LatAm tech is down 30%. I do go back to this idea though that the Neubank IPO is going to be really important because one, it's a large event, but also because it's serving multiple purposes for our LatAm ecosystem and I think their success will be very, very important as investors start thinking about LatAm as an independent economy where individual companies can thrive and succeed.

Todd: With that, we're going to have to leave it there. Sumita, thank you very much. Thank you to the audience. (applause)

Sumita: Thank you so much.

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Todd: Thank you for listening to the latest episode of PitchIt, the fintech startups podcast. I encourage you to take a few minutes to write a review or rate the episode. Ratings and reviews both help us to improve the show for future episodes. If you're interested in learning more or would like to be considered for a future episode, please reach out anytime to Todd, T O D D, @ lendit.com and until next time.

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