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Why Won't dLocal Put Anything in Writing?
December 1, 2022

We are more convinced than before that DLO used client funds to pay a special dividend to its pre-IPO shareholders. Rather than provide a detailed written explanation of the various issues we believe are byproducts of fraud and misusing client funds, DLO is holding a series of calls with brokers and their clients during which it provides non-specific, non-substantive denials. DLO evidently cares about its stock price, given the time it invests in these calls. The failure to provide a written explanation that can be tested should be deemed an admission of guilt.

We understand that DLO has recently held conference calls with clients of at least three banks, Morgan Stanley, JP Morgan, and Citigroup, to respond to our report. There is a Goldman Sachs call scheduled for later today. JP Morgan published its analysts' notes from the call, showing that the verbal responses were non-substantive.

DLO Used Client Funds for its Special Dividend

We are more convinced than before that DLO used client funds to pay a special dividend to its pre-IPO shareholders. One of DLO's evidently unsubstantiated denials was that it did not use client funds to pay a special dividend to its pre-IPO shareholders. DLO management claimed on the JP Morgan call that DLO "always segregated clients' funds from proprietary, never had deficit even before IPO."[1]

Our initial concerns about using client funds arose from the fact that DLO's 2020 cash flow – the year it paid a $15 million special dividend – does not reconcile. We showed in our report that there was a $3.3 million deficit in DLO's ability to fund the dividend at the consolidation level. As we explain below, that deficit could have been as high as $10.4 million. We also showed that there was a $4.1 million cash flow deficit in the key Malta subsidiary's cash flow.

DLO is a unique company in that it holds significant third-party funds on its balance sheet at all times. If the sources of corporate cash movements add up to less than the uses of that cash, then it stands to reason that DLO used client funds. Our report offered the only alternative explanation of which we could think – that the disclosures discussing which cash flow accounts are client versus company were wrong or incomplete. This was an open invitation for DLO to explain how its cash flows reconcile, yet it has not.

It is possible that the discrepancy in 2020 consolidated cash flow could be as high as $10.4 million. There was a $7.1 million net cash collection from financial assets during 2020. It is unclear whether all, some, or none of that pertains to clients' funds. In our initial report, out of conservatism we assumed that it entirely pertained to company assets. However, if some portion of the did pertain to clients' funds, the cash flow deficit would become even larger.

DLO's failure to provide a written explanation should be seen as an admission of using client funds for its own cash needs. All DLO needed to do to address this issue was provide an

[1] JP Morgan November 22, 2022 note.

explanation as to how the cash flows reconcile. (There are myriad other indicia of fraud discussed in our initial report that DLO should substantively address in writing of course.)
It is hard for us to believe that any innocent company would not do so, especially if it's investing significant time sweet-talking investors on broker calls.

A "guilty" company, on the other hand, would be reluctant to provide an explanation because in the world of double entry bookkeeping, such a lie would almost certainly fall apart under scrutiny. The dismantling of a detailed written response would keep the issue prominent in investors' minds. The logical action for a guilty company to take would be to avoid providing an explanation that can be tested.