

Second Open Letter to the Board of dLocal

We have not heard back anything substantial since our first letter

Renewed Call for a Forensic Audit and Suspension of Certain Directors and Officers

March 14, 2025 -- Hollenden Square Research LLC (“HSR,” “We,” or “Us”) has yet to receive a substantive response to our initial letter.

On February 20, 2025, we issued an extensive open letter and presentation to the board of directors (“Board”) of dLocal Ltd. (“dLocal” or the “Company”), outlining our findings and concerns regarding potential accounting fraud red flags and other issues. These included:

- Potentially undisclosed related parties or subsidiaries, seemingly operating in parallel to dLocal’s official subsidiaries
- High-risk transactions, some of which appear to exhibit characteristics of money laundering
- Suspicious discrepancies in foreign exchange net assets in jurisdictions with foreign exchange controls
- Potential weaknesses around corporate governance – which, if true, could allow misconduct to persist or be concealed more easily

Despite the gravity of these issues, dLocal has not engaged with our findings in detail – either ahead of or as part of its earnings release. Instead, the Company has seemingly dismissed the need for an internal investigation, implying that it had already addressed “identical or similar allegations” from Muddy Waters two years ago, and seeking to move forward apparently with “no further comment.”¹ Additionally, our request for greater transparency regarding related party transactions remains unanswered.

In this letter, we challenge any potential assertion that our concerns have been previously investigated and emphasize the critical need for a thorough response.

For transparency, our related parties hold a net short position in dLocal (through common shares and equity derivatives). Regardless of our evolving views, we expect that those parties may engage in active, immediate, and frequent trading – without any obligation to disclose our views or trading activities – including to cover or increase such positions or to manage associated risks. We refer to the disclaimer at the bottom of this letter.

The full text of the letter follows:

March 14, 2025

The Board of Directors
dLocal Ltd
Dr. Luis Bonavita, 1294
Montevideo X3 11300
Uruguay
Attn: Director Martín Escobari
Attn: Director Luiz Ribeiro

Dear Members of the Board,

On February 20, 2025, we issued an open letter to the Board along with an accompanying presentation, detailing serious concerns regarding potential accounting fraud red flags at dLocal.² These included: (i) Potentially undisclosed related parties or outright subsidiaries, (ii) Indicia of money laundering and high-risk transactions, (iii) Apparent discrepancies in foreign exchange net assets between consolidated financial accounts and key subsidiary financial statements, (iv) Corporate governance issues.

I. Key Developments since February 20, 2025

Since publishing our findings, three notable events have unfolded:

- 1. dLocal responded in a brief press release** dismissing our claims as inaccurate and misleading, purportedly already addressed in past investigations related to the Muddy Waters short reports in 2022 (as far as we understand the press release).³
- 2. J.P. Morgan upgraded dLocal to “overweight” for the first time since its IPO** on or around February 26, 2025 – **conspicuously just one day (two trading sessions) before dLocal’s FY 2024 earnings call.**⁴ This may have triggered a nearly 9% share price increase on that day.
- 3. dLocal’s FY 2024 earnings release** after market close on February 27, 2025, caused a drop in the share price by around 30% on February 28, 2025.

II. dLocal’s Dismissal of our Findings and Opinions

In response to our letter and accompanying presentation, dLocal issued a brief press release implying it has already investigated “identical or similar allegations”⁵ in the past. However, the only prior short-seller critique we are aware of comes from Muddy Waters, which focused on certain red flags that were largely unrelated to our findings. dLocal has provided no evidence that it has investigated the specific issues we raised.

Based on the Company’s public disclosures, the previous investigations responding to the Muddy Waters reports appear to have dealt with the following key issues and dismissed Muddy Waters’ key allegations as without merit:⁶

- **Client Funds:** Allegedly maintaining separate accounts for merchant and company funds, consistent with regulatory requirements. Confirming that bank statements are consistent with the Company's reported own funds and merchant funds.
- **Take Rates/FX Fees:** Dismissing Muddy Waters' comparisons between dLocal's take rates and those of other payment firms.
- **PrimeiroPay Acquisition:** Denying any wrongdoing.
- **Pre-IPO Loans to Executives:** Claiming no connection to the PrimeiroPay transaction and denying any impropriety.
- **TPV Reporting:** Arguing Muddy Waters' analysis was inaccurate and misleading.
- **Auditor Qualifications:** Defending PwC Argentina's suitability as dLocal's auditor.

Had our letter focused on these same topics, dLocal's dismissal might have been valid, and addressing them in any other way may have been redundant. However, we raised entirely different and serious concerns that, to our knowledge, have not been investigated or addressed, and are different from how we perceived the Muddy Waters analysis – as “surface-level red flags.”⁷

- **Potentially Undisclosed Related Parties or Subsidiaries:** Around twenty-nine (29) entities have been identified that, in our view, are likely undisclosed related parties or outright subsidiaries of dLocal (seventeen (17) of which appear to have been “gradually” consolidated). Based on our research, some of these entities have used “@dlocal.com” email addresses or web domains controlled by dLocal, and some employees or agents held director positions in them. Additionally, we presented numerical analysis indicating that dLocal may have underreported related party receivables and revenues (and consequently related transaction volumes).
- **High-risk Transactions Seemingly Contradicting Claims of a Low-Risk Payments Provider:** Based on our findings, dLocal has facilitated transactions in online gambling, 18+ websites, and other high-risk purposes, potentially contradicting some investors' perception of dLocal as a low-risk payments provider.
- **Potential Indicia of Money Laundering:** We identified patterns seemingly consistent with money laundering, including possible “layering” and “smurfing” techniques designed to obscure the true nature of payments. A basic but illustrative example dealt with dLocal's involvement in facilitating payments for alleged content piracy services in 2023 and 2024.
- **Apparent Discrepancies in Foreign Exchange Net Assets:** According to our analysis, as of December 2023, dLocal's payment provider subsidiaries reported exposure to certain currencies of countries with foreign exchange and capital controls that was approximately \$100 million higher than the amount disclosed in the Company's SEC filings. We observed similar patterns in Argentine pesos in December 2022, potentially consistent with potential over-invoicing schemes alleged by some news articles, through which dLocal allegedly may have circumvented capital controls or converted local currency at subsidized government exchange rates into U.S. dollars. Notably, in some of the markets identified in 2023, dLocal did not maintain local subsidiaries, raising questions about where dLocal could record offsetting negative liabilities or how these balances can be otherwise explained.
- **Corporate Governance and Potential Unofficial Hierarchies:** We highlighted how Sergio Fogel and potentially Andres Bzurovski may have maintained significant influence

over dLocal, even in periods when they did not hold official executive titles. In some cases, potential proxies – such as Alfredo Curiel, the manager of an olive farm in which Sergio Fogel invested and with no apparent substantial fintech experience – appear to have been placed in key positions within official and suspected unofficial subsidiaries.

III. Apparently Inconsistent and Contradictory Financial Statements and SEC Filings

dLocal's press release included a boiler plate statement encouraging investors to rely on its audited financial statements and disclosures filed with the SEC. However, based on our analysis, such disclosures seemingly contain glaring inconsistencies, raising the questions about whether this statement can be made without any caveat. Examples include:

- In FY 2022, dLocal simultaneously reported foreign exchange exposure of \$16 million Egyptian pounds and \$1 million “Egyptian” pounds, as well as \$4 million Mexican pesos and negative \$8 thousand Mexican pesos.⁸
- Instead of using “BRL” as the currency code for Brazilian Reais, dLocal repeatedly used “BRZ” – the code for the Brazilian Digital Token. Furthermore, dLocal's disclosure of borrowing Brazilian Reais at a fixed rate of 1.7% in April 2022 seemed to imply borrowing costs below the interbank rate.⁹
- dLocal's FY 2021 report indicated an ongoing relationship with Directa24, yet in FY 2022, it stated that Directa24 ceased to be a related party on December 30, 2021.¹⁰
- dLocal disclosed control over the web domains “Webpaybrasil.com”, “Fcabrasil.com”, and “Jumar.in” in its IPO prospectus,¹¹ yet seemingly did not or did not timely report control over the associated payment processors whose website were linked domains (*e.g.*, FCA Brasil Facilitadora de Pagamentos Ltda., Webpay Brasil Pagamentos Ltda.), or at least used a similar company name (*e.g.*, Jumar Solutions Private Limited (India)).
- The eponymous Hong Kong entity Dlocal Limited was seemingly not disclosed as a subsidiary, despite corporate filings listing a dLocal employee with an “@dlocal.com” email address as a director.
- Jumar Solutions Private Limited's financial statements in India listed dLocal entities as “related parties” and “companies that exercises [sic] control” over it and provided an “@dLocal.com” email address as contact point for Jumar Solutions,¹² yet dLocal's own disclosures seemingly did not mention Jumar Solutions.
- dLocal Solutions Private Limited (India) was incorporated in April 2023 using the “dLocal” name,¹³ but was seemingly only consolidated during the single quarter ending March 2024¹⁴ before seemingly being excluded again.¹⁵ The recent FY 2024 consolidated financials now list this entity as owned by dLocal as of December 2024 and even December 2023, despite it seemingly not being listed in the FY 2023 annual report.¹⁶
- The appointment of Sergio Fogel as Co-President and Chief Strategy Officer was only announced on June 23, 2023, yet the same press release suggested that “he has been carrying out” this role (*e.g.*, we suspect potentially undisclosed to investors until June 2023), with the announcement to “mak[e] this role official.”¹⁷

If these contradictions cannot be resolved, dLocal's investors cannot determine which of the seemingly contradictory statements can be relied upon and which ones should be ignored.

Moreover, if dLocal's consolidation practices are indeed flawed (which the Company seems to dismiss at this point), we repeat our skepticism about the reliability of its financial statements, including the accuracy of its reported assets and liabilities.

IV. Necessary Next Steps

We reiterate our initial recommendations to address our findings:

- **More disclosure about dLocal's *disclosed* related party transactions.** A complete list of all related party entities by quarter since 2020. For each entity, this would include related party revenues, costs, receivables, payables, along with payment volumes (including actual payment transactions as well as transactions "on paper" such as from transaction receipts and information provided to regulators and financial institutions).
- **A transparent internal investigation and forensic audit.** Engaging reputable audit, investigative, and legal firms to conduct a comprehensive, independent internal investigation. And a commitment to publishing the full investigative report and, by a pre-announced date, an interim report.
- **Removal or temporary suspension of certain individuals.** Identifying any potential wrongdoers and removing them, their enablers, and their proxies from positions of power or at least preventing them from influencing any internal investigation. In our view, these include certain officers, directors, employees, and potentially individuals outside of the company, along with their relatives.
- **Stronger involvement of General Atlantic's representatives.** While we questioned the impact of certain moves of one of General Atlantic's representatives after the Muddy Waters report,¹⁸ we would welcome the two board members to take a more active role in the company, with guidance and oversight from their U.S.-based colleagues.

We again remind the Board members of their fiduciary duties, which each director must uphold independently, regardless of the position of his potentially more conflicted peers. Like in the previous letter and accompanying presentation, this letter reflects our observations, research, and opinions, and is condensed into a concise format. We nonetheless appreciate all viewpoints and, of course, would welcome hearing from the Board on any or all of the matters.

Sincerely,
Hollenden Square Research LLC
Email: contact@hollendensquareresearch.com

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- ¹ See https://www.sec.gov/Archives/edgar/data/1846832/000095017025024484/dlo-ex99_1.htm.
- ² See <https://www.globenewswire.com/news-release/2025/02/20/3029818/0/en/Hollenden-Square-Research-LLC-Issues-Open-Letter-to-the-Board-of-a-4-Billion-Nasdaq-listed-Payments-Company.html>.
- ³ See https://www.sec.gov/Archives/edgar/data/1846832/000095017025024484/dlo-ex99_1.htm.
- ⁴ See <https://www.investing.com/news/analyst-ratings/jpmorgan-raises-dlocal-stock-rating-price-target-to-18-from-14-93CH-3891475>.
- ⁵ See https://www.sec.gov/Archives/edgar/data/1846832/000095017025024484/dlo-ex99_1.htm.
- ⁶ See https://www.sec.gov/Archives/edgar/data/1846832/000095010322021179/dp185868_ex9901.htm.
- ⁷ See <https://www.globenewswire.com/news-release/2025/02/20/3029818/0/en/Hollenden-Square-Research-LLC-Issues-Open-Letter-to-the-Board-of-a-4-Billion-Nasdaq-listed-Payments-Company.html> – Presentation at 3.
- ⁸ See <https://www.sec.gov/ix?doc=/Archives/edgar/data/1846832/000095017023011942/dlo-20221231.htm> at F-58.
- ⁹ See https://www.sec.gov/Archives/edgar/data/1846832/000095017022010286/dlo-ex99_2.htm (“dLocal has received borrowings [...] in Brazilian Reais (BRZ) [...] accruing interest at an annual fixed interest rate of 1.70%.”)
- ¹⁰ See <https://www.sec.gov/ix?doc=/Archives/edgar/data/1846832/000095017023011942/dlo-20221231.htm> at 46 (“Directa24 ceased to be an affiliated entity of AstroPay and DLocal on December 30, 2021”), and <https://www.sec.gov/ix?doc=/Archives/edgar/data/1846832/000095017022006790/dlo-20211231.htm> at 41-42 (20-F for the period ending December 31, 2021: “we are subject to competition from AstroPay and its affiliated entity Directa24 [...] partial overlap of our existing shareholder group with the shareholders of AstroPay. Finally, certain of our directors and officers were formerly associated with AstroPay and/or Directa24 and/or continue to hold an ownership interest in AstroPay and/or Directa24, and their prior association with and current interest in AstroPay and/or Directa24 may be imputed to us.”).
- ¹¹ See <https://www.sec.gov/Archives/edgar/data/1846832/000119312521182550/d400729d424b1.htm> at 150.
- ¹² See Jumar Solutions Private Limited, “Form AOC-4-29042023_signed” at 1, and “Form_AOC_4_29042023_signed_0_.pdf_Jumar_financials_1_signed” at 1, 9, filed with India’s Ministry of Corporate Affairs.
- ¹³ See <https://www.thecompanycheck.com/company/dlocal-solutions-private-limited/U62099DL2023PTC413357>.
- ¹⁴ See https://www.sec.gov/Archives/edgar/data/1846832/000095017024059799/dlo-ex99_2.htm at “4. Consolidation of subsidiaries.”
- ¹⁵ See https://www.sec.gov/Archives/edgar/data/1846832/000095017024097048/dlo-ex99_2.htm at “4. Consolidation of subsidiaries.”
- ¹⁶ See https://www.sec.gov/Archives/edgar/data/1846832/000095017025029045/dlo-ex99_2.htm at 27, and <https://www.sec.gov/ix?doc=/Archives/edgar/data/1846832/000095017024033510/dlo-20231231.htm> at F-28-F-29.
- ¹⁷ See https://www.sec.gov/Archives/edgar/data/1846832/000095010323008597/dp195096_ex9901.htm.
- ¹⁸ Just days after Muddy Waters accused dLocal of potential fraud, Luiz Ribeiro resigned from the board of dLocal Group Limited (Malta), one of the company’s core subsidiaries. (See Dlocal Group Limited, “Notification of changes amongst directors or company secretary or in the representation of a company” (Document Number 69, signed and effective November 22, 2022), registered with the Malta Business Registry on January 2, 2023.). This departure left General Atlantic’s representatives possibly confined to the board of the Cayman Islands holding company – potentially limiting their ability to provide oversight at the subsidiary level.