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Earnings Call

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Call Participants

EXECUTIVES

Amit Singh
Chief Financial Officer

Damian Scokin
CEO & Director

Gonzalo Garcia Estebarena
Chief Technology Officer

Luca Pfeifer
Vice President of Investor Relations

ANALYSTS

Brett Anthony Knoblauch
Cantor Fitzgerald & Co., Research Division

Kevin Campbell Kopelman
TD Cowen, Research Division

Naved Ahmad Khan
B. Riley Securities, Inc., Research Division

Presentation

Operator

Good afternoon, and welcome to Despegar's Fourth Quarter 2023 Earnings Conference Call. My name is Abby and I will be the operator for today's call. [Operator Instructions] And please note that this call is being recorded. [Operator Instructions]

Now, I would like to turn the call over to Mr. Luca Pfeifer of Investor Relations. Please go ahead.

Luca Pfeifer

Vice President of Investor Relations

Good morning, everyone, and thanks for joining us today. In addition to reporting unaudited financial results in accordance with U.S. generally accepted accounting principles, we will be discussing certain non-GAAP financial measures and operating metrics, including foreign exchange neutral calculations. Investors should carefully read the definitions of these numbers and metrics included in our press release to ensure that they understand them. Non-GAAP financial measures and operating metrics should not be considered in isolation as substitutes for or superior to GAAP financial measures and are provided as supplemental information only.

Before we begin our prepared remarks, please allow me to remind you that certain statements made during the course of the discussion may constitute forward-looking statements, which are based on management's current expectations and beliefs, and are subject to a number of risks and uncertainties that could cause actual results to materially differ, including factors that may be beyond the company's control.

These include but are not limited to expectations and assumptions related to the integration and performance of the businesses we acquire. For a description of these risks, please refer to our filings with the U.S. Securities and Exchange Commission and our press release.

Speaking on today's call is our CEO, Damian Scokin, who will provide an overview of Despegar's fourth quarter and full-year performance, as well as an update on our many strategic growth initiatives. Next, our CTO, Gonzalo Estebarena, will introduce you to a new innovative technology feature that we recently launched and explain why we are excited about its potential. Amit Singh, our CFO, will follow with a more detailed review of the quarter's financial results, as well as a discussion of our 2024 annual guidance. After that, Damian will end our prepared remarks with a wrap-up before we open the call for questions.

Damian, please go ahead.

Damian Scokin
CEO & Director

Thank you, Luca, and thank you everyone for joining our earnings call. The fourth quarter of 2023 was a remarkable period for Despegar, as we've achieved several major strategic milestones. Our consistent and robust commercial execution, coupled with strong demand trends across the region, resulted in our highest gross bookings since the company's IPO, growing an impressive 44% year-on-year to $1.5 billion, or 78% year-on-year in constant currency. Moreover, this was the fastest year-on-year growth in gross bookings since our IPO, when excluding COVID-related recovery.

Notably, our Brazil and Mexico businesses continue to experience strong demand, with Brazil in particular benefiting from our commercial execution, competitive strength, and positive secular tailwinds, as we believe more and more customers allocate a higher proportion of their spending towards travel and experiences.

For the full year 2023, we reported $5.3 billion in total gross bookings, an increase of 31% year-on-year, or 52% FX adjusted. As we've reached the end of the year, it was clear that our industry has made a remarkable recovery from the pandemic. We believe the impacts of the pandemic are now largely behind us, and we are operating in an almost normal growth environment.

According to Euromonitor projections, the overall travel market in Latin America is approximately $150 billion in size, and we anticipate that it will continue growing at a low double-digit rate for the foreseeable future. In other words, we believe that we have a lot of runway for growth in our market. It is important to note that the recovery in travel has not just been limited to air capacity, as we are noticing a significant shift in overall consumer behavior. We believe Latin Americans are now increasingly focusing more on experiences and services.

A similar trend was also cited by Skift in its 2024 Travel Outlook report. Its surveys reveal that consumers across all ages and regions state that travel remains a top priority. This suggests a fundamental shift towards a more experiential and service-oriented economy, which is presenting new opportunities for our industry.

In line with this positive secular trend, travel packages continue to be an integral part of our commercial strategy and value proposition to our clients. Such the proportion of packages as a percentage of our gross bookings came in at 32%. Our package sales, in addition to our increasing non-air sales, drove our average take rate to 13.4% and generated record-breaking revenues of $204 million for the quarter. A 40% year-on-year increase in U.S. dollars and 82% in constant currency.

For the full year 2023, our revenues of $706 million grew 31% year-over-year in U.S. dollars and 55% in constant currency. In addition to our focus on improving our revenue mix, we further streamlined our cost structure during the quarter. We implemented several cost reduction measures, building in more operating leverage and facilitating additional margin expansion. The combination of increasing operational leverage and top-line growth resulted in our highest adjusted EBITDA since the company's inception at $43.6 million.

Adjusted EBITDA for 2023 was $116 million, highest full year EBITDA ever, with the margin expanding 8.6 percentage points year-over-year to 16.4%. Despegar also generated very strong operating cash flows in the quarter, with total $26 million. Later in the call, Amit will provide more details on our financial performance.

Now, to provide a little color on our business segments. Our B2C segment experienced robust growth of 41% during the quarter, reaching $1.3 billion in gross bookings. This achievement was largely due to our effective commercial strategies across all our search channels and platforms, which enabled us to increase non-air revenues by an impressive 49% year-over-year, reaching a total of $126 million for the quarter.

Our growth was primarily driven by robust sales in hotels and packages, particularly in Brazil and Mexico, as we continue to uphold our leadership position by providing attractive product offerings at the most competitive prices and offering a wide range of payment options.

This strategic approach has allowed us to meet diverse customer needs and preferences, reinforcing our market leadership through a combination of quality, affordability, and financial flexibility. By focusing on these key markets and maintaining our competitive edge, we ensure sustained growth and customer satisfaction.

Moreover, our air segment also demonstrated solid growth trends with revenues increasing 25% year-on-year to $75 million during the same period.

During the quarter, our B2B and White Label businesses continued to be significant growth drivers. Specifically, B2B saw a remarkable expansion of 63% in gross bookings, while our White Label operations grew an impressive 69% year-on-year. A notable and recent development under our White Label growth strategy is a partnership that we recently forged with Banco Davivienda, one of Colombia's largest banks and a prominent brand in the country's financial services sector. We're very excited about the potential of this partnership, and we have already begun the onboarding process.

This most recent collaboration holds particular promise as Davivienda's more than 16 million clients will gain access to exclusive travel experiences through Despegar's platform. Given the success of similar partnerships, we anticipate that our leading technology product will foster greater customer loyalty for Davivienda as well as generate additional revenue streams for them and us.

Our White Label partnerships have grown to 80 in number, with several significant ones in the pipeline, which will be onboarded in the coming months and quarters. These partnerships underscore the strength of our best-in-class technology platform, which enable us to provide customized solutions to our partners regardless of their size. We eagerly look forward to working with Davivienda, and we continue actively seeking additional opportunities to expand our White Label operations throughout Latin America.

Also, as we noted during our previous earnings calls, we intend to further leverage the strength and scalability of our platform by penetrating targeted areas of the $2.2 trillion global travel market as a next phase of our long-term growth strategy.

One of our most critical strategic advantages lies in our commitment to continuous innovation and utilization of our technology platform alongside our extensive customer database to keep the pulse of our various markets and deliver unique travel offerings to our customers. This focus extends to our mobile app, which serves as a pivotal tool for driving customer engagement and increasing customer retention.

The fourth quarter also mark a significant achievement in terms of app engagement. Not only did our app downloads increase by 28% year-over-year, reaching a total installed base of almost 15 million devices, but we also process a record 45% of transactions through our apps. Crucially, our app-first approach boosts organic traffic to our own channels, which currently stand at approximately 75% of transactions. It also enhances customer retention, with 49% of customers who make a trip purchase on our app typically making another transaction within 12 months of their initial purchase.

Next, I'd like to discuss a core project we've been diligently working on over several months and have recently unveiled as an exciting new product feature available in the travel market. On March 4, we launched our AI Trip Planner, through large language models, it is trained on our vast customer data, Despegar's product inventory, and web-wide information. The result is our digital travel assistant, branded as SOFIA.

SOFIA is powered by artificial intelligence and is literally transforming customer interactions with our platform, rapidly offering truly tailored travel solutions and doing so in a way that exceeds customer expectations. SOFIA puts searches and bookings of personalized travel experience at their fingertips, operating in a multimodal fashion.

Later on our presentation, our CTO, Gonzalo, will elaborate on SOFIA, including our vision for and the tremendous possibilities of this new technology.

Throughout the year, we have made great progress on our 3 key focus areas which are already discussed as revenue diversification and multi-channel capabilities. But importantly, our strong brand identity and customer focus remain one of Despegar's key competitive strengths, with unaided brand awareness consistently ranking highest across all markets we operate in, and surpassing both global and local competitors.

Brand leadership not only affords us visibility across the region, but also position us as the preferred partner for travel product suppliers, as it drives substantial customer traffic for them. Additionally, we made significant strides, improving our net promoter score, which now stands at 69%, 41 basis points higher than the pre-pandemic levels. This score reflects our unwavering commitment to delivering the best travel experiences to our customers.

We achieved this result while developing an efficient and scalable service model that effectively leverages our technology platform, enabling our customers to quickly and easily resolve travel-related inquiries through self-service in most of the cases. This model, combined with our ongoing focus on cost reductions, have lowered our cost per order by almost 30% since 2018.

Recently, we have expanded our exploration into how artificial intelligence can enhance customer interactions and create additional operational efficiency, especially in the context of training and providing tools to our service agents as well as synthesizing customer interactions. By integrating AI into our processes, we aim to further improve customer satisfaction while also enhancing our overall business performance.

Another cornerstone of our brand identity and a key driver of customer stickiness is our loyalty program, Pasaporte Despegar, which has maintained its impressive growth trajectory. At the end of the quarter, total loyalty members reached 23 million, making it a 90% year-over-year increase. Furthermore, points redemptions increased by over 4.5 percentage points, reaching 10.4% of total transactions.

Now, a brief word about payments, another unique aspect of the Latin American market and where we also have a significant competitive advantage. Our long-established local presence sets Despegar apart from competitors by enabling us to not only procure inventory at competitive prices, but also offer customers an extensive range of payment options and installment plans.

Financing is crucial and integral to travel purchases in Latin America, a need that we can effectively meet as a local player in the region. Among the many financing options available to our clients through our partnerships with local financial institutions is our buy now pay later product, Koin. As part of the Despegar's travel ecosystem, Koin extends our reach to customers who may not possess a credit card or have limited credit balances.

As many of you may recall, in 2022, we committed to Koin achieving an EBITDA break-even point by the second half of 2023. Therefore, I am particularly pleased to announce today that Koin did more than that, contributed $3 million to Despegar's consolidated adjusted EBITDA during the fourth quarter, while also being cash flow accrued. 2023 was not just a year in which we made substantial progress financially, operationally, and technologically.

We also worked hard to foster a more positive work environment within the Despegar. During the year, attrition levels fell to historic lows, reflecting a high level of employee satisfaction and retention of key talent.

In summary, our sharp focus on strong commercial execution and improving operational efficiencies combined with a more profitable product mix, growing organic traffic, and further penetration of adjacent B2B market segments resulted in yet another record quarter for the company. With $706 million of full year revenues, we exceeded the top end of the range of our updated revenue guidance, which was $680 million to $700 million. And at $116 million in adjusted EBITDA, we also exceeded the upper end of our hourly revised EBITDA guidance by $6 million. As a result, we believe Despegar remains the world's fastest growing travel technology company in terms of both revenue and profitability.

I would like to end here by noting that our unprecedented results would not have been possible without the hard work and dedication of the employees across our organization. So congratulations to the entire team at Despegar. Looking ahead, we are very enthusiastic about the growth opportunities that await us. Our commitment to maintaining our strong position as industry leaders in growth is unwavering and we are dedicated to continuously pursuing excellence. Through continuous innovation, we aim to stay ahead of industry trends and challenges in order to sustain our momentum and further solidify our leading positions in the market.

I will now turn the call over to Gonzalo, who will walk you through our exciting AI innovation SOFIA.

Gonzalo Garcia Estebarena
Chief Technology Officer

Good afternoon, everyone, and thank you, Damian, for the introduction. Today, we are thrilled to unveil a groundbreaking technology development that reflects our commitment to innovation, which has been ingrained in our DNA since the inception of our company.

Almost 25 years ago, Despegar revolutionized the Latin American travel industry by enabling convenient, secure, and credit-based ticket purchases from the comfort of one's home, a service previously unavailable through traditional agencies or directly from the airlines.

In essence, Despegar was first in Latin America to bring accessibility to the forefront and later extended this business concept to other travel verticals and geographies in the ensuing years.

Some 12 years later, travel websites became increasingly common, but Despegar once again distinguished itself in the region by introducing the first fully transactional travel app, which more recently has been accounting for a rapidly growing portion of our business and is now a resounding success.

So once again, Despegar provided Latin Americans unprecedented accessibility to travel. This time in the form of a pocket-sized experience, namely their mobile phones.

However, as was the case in earlier development cycles, technology kept advancing. Our ambition remained to lead through innovation and technology, prompting us to think about the next leap forward. It was then we observed that although many travelers had migrated to digital platforms, we have not managed to completely replicate the travel agent in its ability to inspire, assist through the booking process, and offer a personalized service along the whole travel life cycle.

The acquisitions of both Viajes Falabella and Best Day helped us fully understand the true value of comprehensive advice and service in both sales and post-sales support, and became a guiding concept for our digital innovation teams.

At about the same time, we saw in the emergence of large language models an opportunity to bring to the online world the tailor-made travel advice that customers can expect from an experienced travel agent.

Today, we are thrilled to introduce SOFIA, our digital travel assistant powered by artificial intelligence, representing yet another leap in our technological journey. I am convinced that the technology we are unveiling today will have equally important implications from the standpoint of both product enhancement and business performance that previous ones represented for Despegar.

We will now be discussing the details of SOFIA and therefore encourage you to watch a short video we have posted on our Investor Relations website under www.investor.despegar.com at your convenience.

I would like to highlight several elements that make our digital assistant unique in the market. At Despegar, we are convinced that this is the beginning of a new revolution in travel. First, SOFIA is multimodal. It's like interacting with an in-store agent where we can talk or exchange messages with a sales representative. SOFIA can do that. Yet SOFIA can do much more by also showing the customer a catalog of matching destinations or displaying flight options on its screen in the same way a travel agent would do.

In other words, it's no longer just a chatbot. SOFIA is a true digital travel assistant that allows us to easily communicate by interacting with the visual elements or speaking to SOFIA. This fluid UI with fully interactive visual components that is custom built during the customer's interaction is unique. And I am convinced that it represents a leap forward in how people will interact with digital platforms going forward.

Secondly, one which we consider fundamental to a travel planning experience is SOFIA's flexibility. It's much like a human interaction, in that it doesn't have to follow a predetermined order or flow that is common with so many of today's platforms and applications. Our technology allows the traveler to do things that were never thought of in the decision flow of a traditional website or app.

For example, imagine I want to compare flights to different destinations or on different dates. On the website, it is possible to do it. But that would require me to open multiple tabs on my screen or rely on a date matrix that may not cover the desired time range. With Despegar's virtual assistant, it is easy. I simply tell it what I'd like to do for a trip, and it has the flexibility not only to gather the information, but also to prepare a visual representation appropriate for the comparison. And this is done autonomously by SOFIA, without anyone at Despegar having had to anticipate and build in that precise interaction beforehand.

The third key differentiator is SOFIA's ability to adapt to a customer's reaction. When the customer says, for example, no, the suggested travel destination is too far. I want to go surfing in Brazil. SOFIA immediately adapts and understands that for this passenger, exotic options outside Brazil are not suitable. Put another way, SOFIA is also an empathetic and thoroughly intuitive travel agent, unlike a website or app that has no way of incorporating the customer's reaction into its next proposal.

Imagine a platform that is instantly adapting to the customer's reaction and powering its responses by all the previous knowledge Despegar has accumulated over the years of other travel purchases, searches, and reviews. It is hyper-personalization.

Finally, and potentially the biggest differentiator, is that SOFIA is based on a technology that successfully combines the full power of large language models with all of our technology platform and travel ecosystem that we developed during the last 25 years. This means that we are enabling SOFIA to use all of our visual components and internal services that compose our other platforms to flexibly assist travelers from the moment they start dreaming about traveling, for example, by discussing potential destinations, all through the planning and the booking of the trip in a more natural way than it is done today. And also later, while preparing and anticipating their journeys, and of course, while experiencing it and later sharing their memories with others.

The potential of this technological shift is enormous, since it will allow us not only to leverage our travel tech capabilities, but also, those of other partners, allowing SOFIA to fully assist you with every aspect of travel.

We strongly believe that this technology has the potential to transform the industry, and we expect to continue setting the pace a much faster one.

In addition to SOFIA, we anticipate artificial intelligence to further strengthen our already robust competitive advantages as we continue to explore the opportunities that this new technology offers across our business to enhance internal capabilities and reduce operational costs.

With that, I'd like to turn the call over to Amit, who will walk you through the details of our strong finish to the year.

Amit Singh
Chief Financial Officer

Thank you, Gonzalo, for that insightful presentation of this revolutionary new way to make travel plans. I'll now provide a detailed overview of our fourth quarter and full year 2023 results, which, as Damian noted in his introduction, were exceptional.

Throughout the first 9 months of the year, we leveraged our outstanding commercial execution as we capitalized on strong demand trends in the region, which continued in the fourth quarter, particularly in our key markets, Brazil and Mexico.

During the quarter, gross bookings in our core B2C business expanded an industry-leading 41% year-over-year, reaching $1.3 billion as we continue to gain share across the region. In addition, we further solidified our positions who are focused on driving B2B and White Label growth, with each of these business lines expanding gross bookings by 63% and 69% respectively year-over-year.

This strong growth, combined with increasing non-air transactions, led to total gross bookings increasing 44% year-over-year and 78% in constant currency terms, reaching $1.5 billion in the quarter. Importantly, travel packages reached 32% of total gross bookings.

As a result of our strategy to improve the revenue mix, during the quarter, we achieved a strong 13.4% take rate and a record $204 million in revenues, which grew 40% year-over-year and 82% in constant currencies. We believe that our top-line growth again led the travel technology sector globally. For the year, we generated $5.3 billion in gross bookings, increasing 31% year-over-year and 52% in constant currency. Accordingly, we achieved $706 million in revenues, exceeding the upper end of our full-year revenue guidance range, as Damian pointed out.

In addition to achieving record-breaking revenues, we remained laser-focused on expanding our margins. We increased adjusted EBITDA by 248% year-over-year to $44 million for the quarter. We achieved this milestone in several ways. We continued focusing our commercial execution on driving more profitable non-air revenues, in addition to reducing cost of revenues through improved cost efficiencies. Lastly, throughout the quarter, we continued to focus on generating additional cost efficiencies, achieving significant reductions in technology and content and G&A expenses.

A particular focus was streamlining our headcount to align with our targeted growth strategies, which will further contribute to our operating leverage on top of the growth momentum that we are carrying into 2024. We are very proud of what we achieved on the top line, which, along with our efficiency gains, enabled us to exceed by $6 million the upper range of our updated adjusted EBITDA guidance of $105 million to $110 million for 2023. With the adjusted EBITDA margin expanding 8.6% points year-over-year to 16.4% for the year.

These results are a testament to our relentless focus on profitable growth and strong commercial drive. I would also like to highlight that we have incorporated the adjusted net income metric into our quarterly report. The purpose of introducing this metric is to offer investors a clearer idea of what our net income would amount to on a normalized basis.

To calculate this metric, we exclude non-recurring or non-cash expenses. Details of the adjustments are provided in our earnings release. So, for this quarter, our adjusted net income was $21.1 million, a solid increase compared to adjusted net income in the fourth quarter of 2022 of $2.7 million. Adjusted net income for the full year 2023 was $49.3 million compared to adjusted net loss for 2022 of $6.2 million.

Now, let's delve into more detail with a look at our regional performance, starting with our most important market, Brazil. As Damian explained, there has been an ongoing shift in consumer spending behavior towards services and experiences. This trend, combined with competitive tailwinds, resulted in year-over-year gross bookings in the fourth quarter growing 56%, or 47% on an FX-neutral basis, to $670 million, our highest level to date in Brazil. The record bookings were mainly driven by an increase in package and hotel sales. As a direct result of our commercial efforts and by continuous market share gains as our gross bookings growth remained industry leading. For the year, total gross bookings in Brazil reached $2.1 billion, increasing 55% year-over-year.

Moving on to our second largest market, Mexico. We are very pleased with our fourth quarter performance there too. Gross bookings increased 28% year-over-year, or 14% on an FX adjusted basis, reaching USD 253 million for the quarter. On a full year basis, Mexico contributed $1 billion in gross bookings, increasing 22% when compared to 2022.

Turning to the rest of Latin America, we reported a 40% increase in gross bookings, or plus 133% in constant currency terms, reaching $645 million for the quarter. For the year, we generated $2.2 billion in gross booking in the rest of Latin America, implying a 17% year-over-year growth.

Looking at our operating cash flow, we generated $26 million during the quarter, which compares to $18 million of cash used during the fourth quarter of 2022. More specifically, CapEx during the quarter was approximately $11 million, in line with expenditure in the year's prior quarters. As such, cash and cash equivalents total $251 million at year end, above last year's cash position.

In addition to the ordinary course of business expenses throughout the fourth quarter, we incurred M&A related expenses of $16.5 million, due to the promissory note that we assumed when acquiring Best Day in 2020. Throughout the year, we also paid a total of $17.8 million of preferred dividends to our Pref A and Pref B shareholders.

Another $6.8 million cash outflow over the quarter relates to the headcount reduction we implemented with a strategy of focused growth initiative, driving margin improvement and enhancing cash conversion.

By adjusting the workforce to better match current focus growth initiatives, business needs, and efficiencies, we aim to optimize our resources, focusing on productivity and operational excellence. This decision will drive operating leverage going forward and put us in a stronger financial position, giving us greater flexibility to make future investments in growth.

In summary, despite our CapEx, M&A related payments, preferred dividend payments, and one-time severance costs, we maintain our financial flexibility to further capitalize on the significant secular tailwinds of our industry and in further strengthening our competitive mode.

Lastly, I'd like to walk you through our financial guidance for 2024. Based on the demand trends we have observed so far this year and on the continued success of our strategic initiatives to drive revenue and profitability, we forecast Despegar achieving at least $820 million in revenues in 2024, which implies a year-over-year growth of at least 16%.

And given our ongoing focus on efficiency gains as well as our ability to drive operating leverage, we expect to generate at least $150 million in adjusted EBITDA, or at least 28% year-over-year increase. We look forward to maintaining our position as the world's travel technology leader, with our exceptional growth in both revenues and adjusted EBITDA.

Our continued success is predicated on our proven commercial strategies, unmatched local expertise, and our strong emphasis on cost efficiency, setting the stage for future operating leverage and industry-leading top-line growth and margin expansion in the foreseeable future.

Now, back over to Damian, who would like to summarize today's review before we open the call for your questions.

Damian Scokin
CEO & Director

Thanks, Amit. To conclude, our results for the quarter and full year were exceptional, marking the most successful period for Despegar in many ways. This success is the result of a well-planned and well executed growth strategy. It is also attributed to our local market expertise, commercial excellence, brand strengths, and best-in-class technology platform. These factors continue to increase our competitive advantage as we strengthen our brand across the region.

Additionally, our B2B and White Label solutions are providing us with exciting growth opportunities, not only in Latin America, but beyond the region. With the adverse impact of the pandemic largely behind us, Despegar is now at an inflection point. Our 2023 results make this very clear, and we expect to maintain our strong momentum.

We remain focused on expanding package revenues, driving more direct traffic, mainly through our portfolio of strongly branded apps, and growing our successful loyalty program. All while maintaining a competitive cost structure. We therefore expect to continue driving solid top-line growth, and at the same time, continuously increasing operational leverage.

I would also like to reiterate that we are thrilled about the opportunities and disruptive capabilities that we expect from our Digital Travel Assistant, SOFIA. SOFIA is a strategic asset representing the future of rapid, highly personalized, flexible, and interactive travel booking. We will be updating you on SOFIA's latest features as we introduce them to the market. And finally, we invite you to join us on our journey towards even higher levels of profitable growth in the years ahead. With that, let's open the floor for questions.

Question and Answer

Operator

[Operator Instructions] And we will take our first question from Naved Khan with B. Riley Securities.

Naved Ahmad Khan
B. Riley Securities, Inc., Research Division

Congrats guys on the results. Just a couple of questions from me. One may be a high-level question for Damian. If I have to like, think about the business, maybe 2 years, 3 years, 5 years out, where do you think the mix of package would be as a percentage of overall mix? So that's one.

And then maybe one for Amit, just on the outlook for 2024. You said it's based on the trends that you've seen so far. Is it fair to assume that the implied 16% growth is what you're seeing for the quarter? And obviously, the comps are different as we go further out in the year. So just talk to us about how should we be thinking about the growth comps for the -- our first half growth versus second half growth, things like that?

Damian Scokin
CEO & Director

Regarding the mix of packages, we haven't set a fixed target, but you have to keep in mind 2 things.

First of all, that overall, we expect our company-wide growth in the other 20%, as we said during our Investor Day, and we're targeting for that. Within that growth, you also have to keep in mind that in Latin America, packages as penetration within the overall travel industry is very low. So we expect not only to grow as a whole, but the penetration to continue growing within Despegar. As far as the growth opportunity ahead of us, it's huge. Because as I said, if you look at how Latin Americans buy travel products, it's still highly individual. So we haven't said exactly because we believe it's the wrong approach to see that package penetration today. We have an ample room for growth by integrating what today is sold individually.

Amit Singh
Chief Financial Officer

And Naved, to your question on the outlook, so see, as we mentioned on the prepared remarks, the overall demand trends across all the countries that we operate in remain very strong. And we -- the way we have been executing and the results that we are seeing from that execution also remains very strong. So we are very optimistic about how 2024 is going to look for us. Generally, for a company, if you've seen us, for us, the second half of the year is generally stronger for us as compared to first half. And then to put things in perspective, yes, last year was a very strong growth year for us. But we -- as we have talked about in the past, while we are the market leader across Latin America in pretty much every country that we operate in, we still have ample room to grow given how big the market is and this market is still growing at 10% or above year-over-year. So we feel very optimistic about next year's outlook. And then if you're looking at the journal seasonal trend, second half of the year is generally stronger than first half of the year for us.

Naved Ahmad Khan
B. Riley Securities, Inc., Research Division

Okay. A quick follow-up just on the profitability side of the equation for '24. What are your expectations in terms of Koin contribution to the EBITDA?

Amit Singh
Chief Financial Officer

So first of all, as we had guided to before, we expected Koin to turn positive in terms of EBITDA in the second half of the year. And it did better than that, if you look at our fourth quarter results. And as we look at 2024, we expect -- we haven't specifically guided to Koin contribution to our overall EBITDA, but it should be a positive contributor to our EBITDA and a positive contributor to our overall cash flow, so we are very excited about how Koin is progressing, both in terms of top line growth and profitability.

Operator

And we will take our next question from Kevin Kopelman with TD Cowen.

Kevin Campbell Kopelman
TD Cowen, Research Division

So the first one is on take rate. It looked like it was pretty stable this year -- in 2023. Is that what you're seeing for 2024 as well? And if not, any kind of puts and takes there to think about?

Amit Singh
Chief Financial Officer

Sure. Thank you very much for your question. So if you look at the progression of our take rate, we were at 11% a couple of years ago. During our Analyst Day in 2022, we had guided to take rate being around that 12%, 12.5%. But then since then, as packages, as a proportion of our overall bookings has continued to drive, has continued to increase, as we have driven other leverages within our take rate. We now expect our take rate to remain at that 13% level. Again, 30 basis point, 40 basis point up or down quarter-over-quarter going forward. So to answer your question, yes, largely stable-ish going forward. There are multiple things going on within our take rate. We continue to get a positive leverage on our take rate from as packages continue to increase and our product mix keeps on moving towards more and more profitable products. But at the same time, our B2B business is growing extremely strongly. Much stronger than -- even stronger than our B2C business. So in our B2B business, while it is similar in EBITDA margin to B2C, the distribution of the take rates are generally lower than B2C, but then it makes up for it in sales and marketing and all those costs. So the EBITDA margins are the same, but the take rates on B2B is slightly lower. So taking into account these puts and takes on our take rate, we expect it to, in total, remain largely stable going forward.

Kevin Campbell Kopelman
TD Cowen, Research Division

Great. And just, so one other one on the, as you think about the leverage that you've guided to for 2024, can you talk about where you expect that to show up, the key places on the income statement?

Amit Singh
Chief Financial Officer

Sure, sure. So first of all, as you have seen in the fourth quarter of this year, and as you've seen the results for full year 2023, we have very strongly driven our adjusted EBITDA margins higher, driven by operating leverage, our gross margins improving, but then also strong efficiencies that we have driven in our tech and content, sales and marketing, and G&A expenses. And then as we mentioned during our earnings call, as the company has a lot of very strong growth opportunities in front of us, we have also streamlined growth strategies, and which is helping us not only drive operating efficiencies, but a lot of cost efficiencies in all these line items that I just mentioned. So we feel very confident in driving adjusted EBITDA margin higher as we move into 2024. And a lot of those steps to drive that adjusted EBITDA margin, we have already taken, as we discussed in the prepared remarks, we drove a lot of cost efficiencies in fourth quarter, and the results of it you will see in the coming quarters.

Kevin Campbell Kopelman
TD Cowen, Research Division

Great. And then one last model housekeeping question. How should we think about the net financial results line? What's the driver there? And what should we be looking for as 2024 goes on?

Amit Singh
Chief Financial Officer

Sure. I think as a percent of GB or as a percent of revenue, it should remain for now I would have it as largely same as 2023, but we are actively working on driving efficiencies below our EBITDA line items too.

And what are those efficiencies? For example, we do some factoring in Brazil for the bookings that are installment. We are driving efficiencies and reducing that cost. In there, we have some FX expenses and we are driving efficiencies and how do we manage that better. So while there are a lot of programs in place within our company to drive efficiencies below adjusted EBITDA margin, but for now, I would model it largely similar to 2023.

Operator

And we'll take our next question from Brett Knoblauch with Cantor Fitzgerald.

Brett Anthony Knoblauch
Cantor Fitzgerald & Co., Research Division

I know at least in the U.S., I think towards the middle back half of December, we saw a slowdown in travel and it looks like the data shows that have picked back up to start the year. But curious if you saw something similar in LATAM and maybe just some more commentary on how the beginning of the year has started for you guys, and if that has played a part in the current thinking for 2024 guidance.

Damian Scokin
CEO & Director

Brett, thanks for your question. We haven't seen any dips in demand in the Q4, and as per the beginning of the year, it's shaping up as expected. Keep in mind that, as Amit mentioned before, seasonality makes that the last 2 quarters are the strongest, but market performance has been in line with our expectations during this first month of the year.

Brett Anthony Knoblauch
Cantor Fitzgerald & Co., Research Division

And then maybe as we think about cash generation for 2024, following the, I guess, restructuring that you guys have already conducted, should we expect maybe the adjusted EBITDA free cash flow conversion to improve in 2024?

Amit Singh
Chief Financial Officer

Yes. So as you've seen, even in 2023, quarter-over-quarter, our overall cash conversion to EBITDA or cash conversion to netting, whichever way you want to look at it, it has continued to improve. So the trend has been improving. And now, especially with us further streamlining a lot of our costs. And then, in the previous question, as I was saying, a lot of efficiencies that we are driving even below the EBITDA line item, all those should help in our continuing to improve our overall cash conversion as we go into 2024.

Brett Anthony Knoblauch
Cantor Fitzgerald & Co., Research Division

Perfect. And congrats to the quarter.

Operator

And ladies and gentlemen, that concludes the audio question and answer session. We will now take the webcast questions. And our first webcast question comes from Alexandre Namioka from Morgan Stanley. He asked, 4Q margins came well ahead of our estimates on both operating leverage and GM expansion. Can you provide more color on how was the margin expansion in each of the countries? Or at a minimum, how much margins, for example, like Argentina, expanded?

Amit Singh
Chief Financial Officer

Thank you for the question. We generally don't go into detail on margins by country, but I can broadly say that the margin expansion has been very strong across all the regions that we operate in. And some of the things I explained in the last question, we are driving efficiencies in our cost of revenues, and then in tech and content, G&A, and sales and marketing expenses. All of those have been showing very positive trend, and we expect that trend, especially after the streamlining that we did in fourth quarter, we expect that trend to continue strongly into 2024.

Operator

And the second question from Mr. Namioka is guidance. It implies at least plus 190 bps year-over-year. Can you please give more granularity on the areas of margin expansion to achieve it? Also, can you provide more color on what is implied in your top line growth for 2024? How much industry growth are you expecting and any M&A?

Amit Singh
Chief Financial Officer

So as we were discussing in the last question, all the line items that I mentioned are operating leverage, and all the other line items above EBITDA, we are actively driving very strong efficiencies there, largely driven by our focused growth strategy, which is helping us do that, right, because the costs are very much aligned to our growth strategies. So we feel very good and comfortable about the margin expansion that we are guiding for in 2024 and even beyond, as we have spoken in the past. There's a ton of opportunities that are in front of us that we will continue to get and execute on, not just in 2024, but even beyond that.

In terms of overall industry growth, as we have said in the past, the industry, and as has been mentioned by Euromonitor and a lot of other industry research organizations. We believe, based on all that data, that the industry in Latin America is growing at that 10-ish percent rate. And we should grow faster than the industry as we continue to consolidate the market in various ways.

Operator

Our next webcast question comes from Bruno Goldstein from Itau. Congratulations on the results. Could you give a little more detail on increasing the related party payable on this quarter?

Amit Singh
Chief Financial Officer

Sure. So that -- as you know, we have an agreement with one of our peer Expedia through which we source international lodging inventory. So this is related to us, as the demand environment remains very strong for us, both within Latin America and people traveling from Latin America to outside. So it's the strong growth in bookings that is leading to that increase that you're seeing in our balance sheet.

Operator

And our next question is from Alexander Mauad from Siguler Guff. He says, hi, congrats on the results. My question is regarding the financial services results and Koin. How is it expected to perform during 2024? Is it generating synergies with the core business? And what has changed in order to achieve break even during the quarter?

Damian Scokin
CEO & Director

Thanks for the question. As we had committed, the Koin not only reached break-even, but was positive in its EBITDA by $3 million. Our expectations for 2024 is to consolidate this profitable growth trajectory into the year. Because that's what has driven the positive result in Q4. Our unit economics remain very strong, and the more we grow, the more profitable Koin becomes. We will not disclose specific growth or profitability target, but it will generate not only positive EBITDA, but positive cash flow in 2024.

Operator
And ladies and gentlemen, that is all the time we have for questions today. And I would now like to turn the floor back over to Mr. Scokin for closing remarks.

Damian Scokin
CEO & Director

Just wanted to thank you all for your participation and interest in the company. And we look forward to talking to you in our next earnings call. Thank you all.

Amit Singh
Chief Financial Officer
Thank you.