

# Despegar.com, Corp.

NYSE:DESP

Earnings Call

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## Call Participants

### EXECUTIVES

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# Presentation

## Operator

Good morning, and welcome to Despegar's Second Quarter 2024 Earnings Conference Call. My name is Krista, and I will be your operator for today's call. [Operator Instructions] And please note that today's webcast is being recorded. [Operator Instructions]

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

## Luca Pfeifer

Good day, everyone, and thanks for joining us today. In addition to reporting unaudited financial results in accordance with the U.S. generally accepted accounting principles, we will discuss certain non-GAAP financial measures and operating metrics, including foreign exchange neutral calculations. Investors should carefully read the definitions of these measures 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 substitute 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 acquired. 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 second quarter performance, as well as an update on our many strategic growth initiatives. Next, Sebastian Mackinnon, our Chief of Travel Partners will provide you with an update on our B2B efforts. Followed by our CTO, Gonzalo Estebarena, who will discuss recent developments of our AI-powered travel assistance, SOFIA. Finally, Amit Singh, our CFO, will follow with a more detailed review of the quarter's financial results. 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 good day, everyone. We are pleased with the performance of the business throughout the second quarter of the year. Our gross bookings grew by 4% year-on-year to \$1.3 billion, impacted by much higher-than-expected foreign exchange headwinds during the quarter.

In constant currency, our gross bookings increased by a robust 37% year-over-year, which we believe is industry-leading globally. Our commercial execution throughout the quarter remained solid, as we continued focusing on higher-margin package sales. We continue making significant progress on this front, with packages as a percentage of gross bookings expanding 190 basis points year-on-year to 35%.

Our strong package sales, combined with our focus on profitable growth, enabled us to achieve a Take Rate of 13.8% in the quarter. As our product mix continued improving, with higher-margin Non-Air revenues accounting for 64% of sales in the quarter, we saw top-line growth accelerate to 12% year-on-year. Despite much higher-than-expected foreign exchange headwinds.

Total revenues grew to \$185 million, and we accomplished this in the seasonally weak second quarter. Importantly, when adjusting for FX impacts, our revenues increased by a robust industry-leading growth rate

of 46% year-on-year. Also to note, the second quarter had a significant impact from the severe flooding in Rio Grande do Sul, which resulted in temporary air cancellations in Brazil.

Despite our incremental growth investments, particularly in Selling and Marketing, we delivered adjusted EBITDA of \$37 million in the quarter, up by 22% year-over-year. As a reminder, the second quarter of last year's adjusted EBITDA included a one-time benefit of \$9.8 million. When adjusting for this benefit, adjusted EBITDA growth in the second quarter of 2024 was 82% year-over-year.

Additionally, adjusted Net Income for the quarter was \$30.2 million, our highest quarterly adjusted Net Income ever, increasing by an impressive 397% year-over-year, compared to the adjusted net income of \$6.1 million in the second quarter of last year.

Turning to our business segments, our B2C bookings during the second quarter reached a total of \$1.1 billion. Consumer demand was strongest in Brazil and Mexico, our key markets, and was concentrated in higher marketing packages and hotel sales. We continue to maintain our competitive edge through our compelling product offerings, strong sourcing, and a market-leading portfolio of payment options, which are a key differentiator with regards to Latin American customers, as many finance their travel and have limited credit.

We are also particularly proud of our new brand partnership with globally recognized artist Shakira. She's a key feature in our exciting new campaign, Dream, Choose, Travel, the theme of which is inspiring and connecting people through memorable experiences. This partnership reinforces our brand across the region, with a focus on strengthening and extending our leadership within Latin America. To see more details on this, please visit Despegar website at [www.despegar.com](http://www.despegar.com).

During the quarter, our B2B and White Label business segments remained significant drivers of our growth. Specifically, B2B gross bookings saw remarkable expansion of 43% year-over-year, while our emerging white label operations grew 7% year-over-year.

In addition to the strong growth trends, we have observed over the recent quarters in our B2B segment, we continue focusing on expanding our commercial relationships. We are, therefore, particularly proud of the results we have recently achieved in the form of 3 new White Label partnerships, and whose onboarding programs are already underway. Later in the call, Sebastian Mackinnon will provide you with more details on the performance of our B2B business, as well as discuss its future growth potential.

Next, I would like to discuss how our customer-centric approach provides superior value to our customers. Customer loyalty remains one of our key priorities at Despegar. To that end, we continue to invest in and expand our loyalty program, Pasaporte Despegar, in order to drive customer retention and repeat rates.

For the quarter, our program grew by 65% year-on-year to 27.9 million members. As a result, approximately 75% of our transactions are now made by program members. Furthermore, an ever-increasing proportion of our customers value Pasaporte loyalty points, as seen in points redemption activity, which continues to grow.

During the quarter, redemptions increased by 5.8 percentage points year-on-year, reaching 14.4% of total transactions. The Pasaporte Despegar loyalty program provides significant value to our customers by offering a range of benefits and rewards that enhance their overall experience. Members of our program enjoy exclusive discounts, early access to special promotions, and the ability to earn points on every purchase, which can be redeemed for future travel. This not only incentivizes customers to choose Despegar for their travel needs, but also fosters a deep sense of engagement and satisfaction.

By rewarding loyalty, we encourage repeat business and build long-term relationships with our customers. Moreover, the program's considerable growth reflects our commitment to continuously improving the customer experience. As the number of Pasaporte Despegar members increases, we gain valuable insight into customer preferences and behaviors, allowing us to better tailor our offerings and provide more personalized services. This enhances user experience by ensuring that each interaction with Despegar is relevant and rewarding, further solidifying our position as a trusted partner in travel.

As discussed on previous occasions, innovation lies at the heart of Despegar. We combine our best-in-class technology platform, leading inventory and regional expertise to provide unmatched value to our air and hotel suppliers, while tailoring our offerings to the specific preferences of Latin American customers.

A particular focus continues to be our mobile app, which is also a key tool for driving customer loyalty, repeat rates, and cross-selling opportunities. With downloads increasing 43% year-on-year to 18 million, a new all-time high for Despegar, our app is demonstrating significant growth. Additionally, app transactions now represent around 50% of total transactions, further testifying to the user-friendliness on value our customers attribute to our mobile app.

Engagement through our mobile app offers tremendous value to our customers by providing a seamless and convenient search and booking experience. Despegar app is designed to enhance the user experience with intuitive navigation, personalized recommendations, and exclusive offers that cater specifically to the unique needs and preferences of Latin American travelers.

This high level of engagement not only fosters loyalty, but also encourages customers to explore a wide range of services and products, leading to more cross-selling opportunities and higher average tickling. By continuously innovating and improving our mobile platform, we ensure that our customers receive the best possible service, which in turn drives higher satisfaction and repeat usage.

In addition to enhancing our app, we continue making significant advances with our AI travel assistant, SOFIA. As you will recall, we launched SOFIA back in March to stay at the forefront of travel technology and bridge the customer experience through more tailored and personalized services, increase cross-selling opportunities, gain more insights into customer behavior and preferences, rise our operational efficiency, as well as strengthen our competitive mode.

Later in the call, Gonzalo will discuss the significant increase in user engagement with SOFIA this last quarter, as well as our vision to deploy this technology not only in our B2C offering, but also within our B2B solution and after-sales services.

Before turning the call over to Sebastian, I would like to briefly discuss a few more significant milestones and developments in the quarter. First, with the objective to streamline our business and focus more on our core operations, we have formed a strategic alliance with World2Meet, the travel division of the Iberostar Group, a Spain-based global tourism company. As part of that transaction, World2Meet has acquired our Destination Management Company, or DMC business, operating under the brand BD Experience.

We have also entered into a long-term agreement under which World2Meet will operate as a preferred partner to Despegar for the provision of destination services in the Mexican Riviera and the Dominican Republic. The divestment was effective July 30, and reflects a greater focus on technology and deploying capital where it generates the highest returns for our shareholders. As part of this transaction, almost 600 of our 4,600 total employees have transitioned to the new owner of the business.

Second, we are pleased to announce that on June 28, Despegar earned inclusion in the Russell Stock Indexes. The Russell Indexes are among the most widely used benchmarks for small cap stocks. Joining the Russell Stock Indexes is a significant milestone for Despegar as we continue to leverage our top-tier technology platform, scale, brand strength, and local expertise to consolidate Latin America's fast-growing travel market.

Lastly, in line with our ongoing commitment to enhance our ESG standards, we published our full ESG report on June the 20. This report marks the first time we have applied a double materiality approach, incorporating GRI 2021 Standards, which evaluate the broader impact of our actions on society and the environment, as well as adopting SASB Standards, which assess how these actions affect our financial performance. These steps underscore our dedication to sustainability and responsible business practices.

We have accomplished a great deal in the first half of the year, bolstering our confidence in our ability to continue providing exceptional value to our customers and shareholders, and positioning our company for sustained long-term industry-leading growth. We see many opportunities ahead, and look forward to continuing updating you on all our achievements.

I will now turn the call over to Sebastian, our Chief Travel Partner, to expand on the growing opportunities in our B2B business.

**Sebastian Mackinnon**

*Chief of Travel Partners*

Thank you, Damian. I am pleased to be here today. I would like to provide you with some background information on Despegar's B2B business as this is an important context. Our B2B business has gained significant traction over the last 3 years.

Since 2020, we have strategically developed our B2B approach to further monetize our market-leading technology platform and inventory, by offering it to other online and offline travel agencies across Latin America and now beyond the region. Currently, our inventory includes more than 1.5 million accommodations, 230 airlines, as well as packages and more than 7,500 activities that are sold through 2 main avenues.

One is by providing our entire travel content with exclusive rates through API connectivity to Online Travel Agencies, or OTAs, and to major consolidators. Through these tailored channels, we reach almost 800 travel agencies, which generate approximately 50% of our B2B revenue.

With clients that include global players such as Expedia, Restel, Hotelbeds, and Ctrip among others. Notably, 100% of the revenue from this segment comes from hotel sales. Additionally, we have developed an API for flights set to launch during the second half of this year. This will leverage our Air sourcing capabilities and drive additionally B2B revenue growth.

The remaining 50% of the Despegar B2B revenue is generated through HTML solutions ideal for small and medium-sized travel agencies in Latin America. This one-stop-shop solution offers hotels, flights and packages, along with technological solutions, back-office support and customer service.

In our region's fragmented market, which has few competitors of the Despegar scale, our commercial conditions are significantly more favorable than theirs, leading more than 15,000 small and medium offline agencies to purchase through us. This strategy, levered by our best-in-class technological platform, enables us to tap into and consolidate the vast offline travel market within Latin America.

Moving forward, we see material growth opportunities in this segment as we recently expanded our HTML service to Argentina, Chile, Ecuador, and Peru. As a result of our adaptable technology and our unique inventory, we have more than tripled our B2B business in the last 4 years. But our vision goes well beyond that current result.

Since 2022, B2B top-line growth has been industry-leading. With our B2B gross booking increasing 43% in the second quarter of this year. Given these encouraging results and the opportunity we see to deepen our penetration in Latin America's travel market, we believe we can achieve very substantial growth over the near and mid-term.

In addition to the API and HTML operations of our B2B business, we are particularly excited about our white label operations. In recent years, the white label business has experienced significant growth, primarily driven by the ability of the travel offering to foster and strengthen customer loyalty outside the industry. This growth has been amplified by the recovery of the travel industry.

Capitalizing on this opportunity, we have quadrupled our White Label gross bookings over the last 5 years. Despegar's White Label solutions enables our partners such as BBVA, Livelo, Mastercard, or Liverpool to engage their customers more and keep them within their brand ecosystem, seeking to increase usage of their proprietary payment methods, thereby accumulating or redeeming loyalty points and to enjoy exclusive benefits.

Through our leading technology platform, extensive travel products offerings, and exceptional customer experience, our more than 80 partners can significantly enhance the value that their customers attribute to our partners' own loyalty program. A further testament of the quality of the customer's experience and the scalability of our best-in-class technology platform are the White Label partnership, we recently signed

in Mexico. In this country, we are excited to begin a long-term partnership with a popular global ride-hailing app. As part of this new White Label partnership, we will launch a branded travel platform within this super app.

This will engage millions of the app's customers to search Despegar's extensive travel inventory and book flights, hotels, and travel packages at an affordable price. This new alliance marks our first partnership with a super app, which is rapidly expanding. We also signed another promising white label agreement with Elektra, Mexico's retail and financing service conglomerate.

As you might know, Elektra operates a total of 1,450 points of sales throughout Mexico across its portfolios of brands. As part of this new partnership, we will provide our technology platform and technical expertise to operate the Viajes Elektra kiosk, which will be installed in Elektra's stores.

We are poised to provide our new partners' customers with state-of-the-art travel inventory at competitive price and are looking forward to deepening our partnership with them in the future. Another notable and recent development under our White Label B2B growth strategy is a White Label partnership that we recently forged with Scotiabank in Chile. We are very excited for Scotia to join our growing list of banks and loyalty partners across the region and are convinced that the bank's more than 1 million clients will gain access to exclusive travel experiences through our platform.

Through this API integration partnership, Scotiabank can further monetize its customer base and strengthen customer loyalty, leveraging our unique and extensive inventory of travel products available through our state-of-the-art technology platform. Scotia customers will also have the opportunity to redeem loyalty points.

Given the success of past white labeling partnerships, we expect that our leading technology products will increase customer loyalty for Scotiabank as well as generate additional revenue streams for them and us.

Lastly, as Damian communicated in the past, we continue working to expand Despegar's reach beyond Latin America. In fact, we are in active discussions with several prospective business partners in new geographies. We are convinced that our flexible technology platform, global inventory, and competitive prices are a competing value proposition for all our partners and lay the foundations to our international expansion.

To conclude my part of today's presentation, we are confident that both our competing B2B and high-level solutions will contribute significantly to Despegar's growth in the coming years, both within Latin America and beyond positioning Despegar as a global travel technology company.

Now over to Gonzalo for an update on our revolutionary AI travel assistant, SOFIA.

**Gonzalo Garcia Estebarena**

*Chief Technology Officer*

Thank you, Sebastian, and hello everyone. Before diving into the details of the recent updates we made to SOFIA, I am pleased to share with you that customer engagement with our AI assistant continues to rise.

During the last quarter, daily conversations increased by 4x, while the share of users who returned to continue using SOFIA after an initial interaction doubled. As we increase SOFIA's knowledge base and enhance her capabilities, responses are becoming more appropriate, enabling SOFIA to address a growing number of customer queries.

The growing number of conversations combined with a feedback loop in which we score for needs addressed enables us to continuously refine our AI travel assistant, providing a differentiated service offering to our customers and making SOFIA the travel companion of choice.

During the quarter, we introduced several significant enhancements to SOFIA. Today, I would like to discuss four that I believe are the most significant ones. First, we integrated after-sales support into

SOFIA's conversational capabilities. SOFIA can now access all previous and current reservations of a traveler and support the customer with information for the most frequent needs, ranging from cancellation questions to web checking data, also including Despegar contextualized frequently asked questions and reservation information.

The objective of this specific enhancement is for SOFIA to provide personalized objective and human-like answers to adequately address after-sales questions and ultimately resolve customer inquiries without human assistance. The other objective, of course, is to reduce costs related to customer support.

Second, in this quarter, we developed new conversational capabilities to steer the conversation through a sales path, incorporating more commercial intent. The implementation of this new technology, which mimics what our best human agents do in our assistive channels, has enabled SOFIA to more accurately follow the flow of a natural conversation, with a particular focus on helping travelers narrow down alternatives to provide them with a precise, relevant, and adequate selection of, for example, hotel options.

This differentiates SOFIA from typical AI chat solutions, which tend to be good at answering particular questions rather than engaging the customer and creating opportunities to maximize the sale. The goal of our solution is to ultimately enhance conversion rate and cross-selling opportunities.

Another important attribute that we refined in this quarter is memory. Our customers can now continue a conversation with SOFIA across multiple devices they have previously used. This significantly reduces repetitive input on the part of the customer, speeding up travel planning and improving conversion. It also gives SOFIA the ability to present itself as more human-like, since it no longer gives the impression of having forgotten the traveler from a previous conversation.

Lastly, we have expanded SOFIA's knowledge base, which now encompasses many areas of Despegar general knowledge, such as travel coupons, our loyalty program Pasaporte, or, for example, payment options. Also, trip planning features, such as restaurant recommendations, suggestions on what to do at any given destination, as well as weather trends, are currently available through a combination of the ChatGPT language model that powers SOFIA and integrations with Google Maps and Despegar's own content. These enhancements further enrich the customer's booking process, increase engagement with SOFIA, and ultimately provide a fully tailored booking experience.

In summary, SOFIA keeps on adding exciting features, and customer engagement is improving as a result.

Now, moving on from our B2C AI agent. We are also excited to announce our ambitious plans to expand SOFIA's capabilities within our B2B relationships. Our goal is to enable seamless integration of SOFIA into the platforms of our B2B partners, making it an indispensable tool for their operations.

We have had promising initial conversations and are thrilled by the interest shown by several partners who are eager to explore an integration of SOFIA into their proprietary systems. This integration will empower them to drive customer engagement and enhance self-service capabilities.

By leveraging SOFIA, our partners will streamline their operations, improve user experience, and ultimately achieve greater customer satisfaction. Our commitment to continuous improvement and innovation ensures that SOFIA remains at the forefront of technology, providing unparalleled support and efficiency not only in B2C, but also in B2B environments.

Now, before turning the call to Amit, I would like to share one last exciting development. Beyond SOFIA's client-facing capabilities, we are also leveraging generative AI to revolutionize our customer service. We are now analyzing 100% of our customer interactions using generative AI, aiming to identify service gaps and optimize our self-serving offerings. This comprehensive analysis allows us to pinpoint areas for improvement and enhance the overall customer experience.

One exciting avenue of refinement involves improving customer interactions with our service agents. By analyzing conversations between clients and our service agents, our solutions provide personalized feedback to each sales agent and their manager. This feedback focuses primarily on actionable insights regarding empathy management, helping agents to better connect with customers.

Additionally, this analysis enables us to identify top-performing agents and provide customized training

opportunities to those who may be underperforming. We are very excited about the opportunities that lie ahead of us, as we continue to leverage technology to differentiate ourselves.

From a commercial standpoint, we are enhancing SOFIA's B2C and B2B capabilities, while driving further efficiencies in after-sales. These improvements not only bolster our overall business performance but have also meaningfully improved customer satisfaction.

I now turn the call over to Amit, who will review our second quarter performance.

**Amit Singh**

*Chief Financial Officer*

Thanks, Gonzalo, and good day, everyone. Our second quarter results were robust and demonstrate a consistently positive growth trend in terms of revenue and profitability. For the quarter, we reported total revenues of \$185 million, growing at 12% year-over-year, mainly due to the growth in our key markets, Brazil and Mexico, where demand levels continue to be healthy.

Throughout the quarter, we saw foreign exchange headwinds strengthen across the region at a level much higher than our expectations, which affected our second quarter results. When excluding FX fluctuations, year-over-year growth in revenue in constant currency terms was a very robust 46%, which we believe is industry-leading globally.

Now let's take a more detailed look at our performance by the country, starting with Brazil, our most important market. As discussed on prior occasions, we continue to see very healthy demand trends in Brazil, exemplified by strong growth in transactions, which increased 26% year-over-year. We achieved these strong growth numbers despite the floods in Rio Grande do Sul, which affected approximately 5% to 8% of our transactions in Brazil during the quarter.

Turning to average selling prices, which decreased 8.3% year-over-year to \$472, largely due to FX headwinds. The growth in transactions, partially offset by lower average selling prices increased our gross bookings, expanding by a robust 22% on a constant currency basis to \$618 million. On an as-reported basis, they grew 15%.

When looking at our second most relevant market, Mexico, we see that gross bookings increased by 9.4% year-over-year on an as-reported basis to \$294 million for the quarter, or 6% year-over-year growth in constant currency. This growth was primarily driven by an improving revenue mix with higher margin international travel packages contributing the most to Mexico's gross bookings.

In addition to the growth in packages, we also focused on improving our market share in air travel, with domestic air being the second largest contributor to our gross booking growth in the quarter.

Turning to the rest of Latin America. Our gross bookings declined year-over-year by 10% to \$460 million for the quarter, primarily due to FX pressures that affected average selling prices in Argentina and Chile. However, on an FX neutral basis, gross bookings increased by 67% year-over-year in this area of our business.

As part of our ongoing efforts to drive profitability, we continue focusing our commercial efforts on increasing non-air revenue. So we are pleased that packages as a percent of gross bookings grew by 190 basis points year-over-year, reaching 35% of our total bookings. In line with this strategy, our non-air revenue reached 64% of total revenue, or \$118 million.

As Damian noted, that drove a strong 13.8% Take Rate and contributed significantly to the \$185 million in consolidated revenue. This translated into accelerating top-line growth of 12% year-over-year, which was even stronger on an FX neutral basis at 46% year-over-year.

Although, we continue to incrementally invest in growth with Selling and Marketing expenses, increasing 22% year-over-year in the second quarter, we remain mindful of the FX headwinds and carefully consider our overall cost structure, specifically as it pertains to general and administrative and technology expenses.



For the quarter, we achieved an adjusted EBITDA of \$37 million, up by 22% year-over-year, with a 19.8% adjusted EBITDA margin. As Damian explained in his opening remarks, last year's EBITDA included a one-time benefit of \$9.8 million. When adjusting for this benefit, adjusted EBITDA growth would have been 82% year-over-year. Damian also pointed to our impressive year-over-year growth in adjusted net income, which reached \$30.2 million for the quarter, increasing 397% year-over-year from \$6.1 million of adjusted net income during the same period last year.

As a reminder, our adjusted Net Income excludes largely non-recurring expenses from GAAP net income to facilitate comparison with Despegar's peers.

Regarding our operating cash flow in the quarter, we generated \$12.7 million in cash compared to \$28.9 million of cash that we generated during the second quarter of 2023. While CapEx during the quarter remained largely constant at approximately \$8 million, similar to expenditure in 2023, the decline in operating cash flow was mostly affected by a temporary change in working capital, related to some specific sale campaigns in the quarter.

For the quarter, we reported a total cash balance of \$204 million versus \$244 million for the same quarter last year. The decline in overall cash balance was in line with expectations, given the temporary change in working capital described before, extraordinary dividends to preferred shareholders, as well as factoring expenses. We anticipate rebuilding our cash balance in the second half of this year, in line with cash trends observed in prior years.

Turning now to capital allocation. We continue to prioritize investments in our organic B2C, B2B, and White Label businesses to cement our leading position in Latin American region and drive growth beyond this region. As discussed before, we have plans to incrementally invest in Loyalty, Sales and Marketing, and Technology in the coming quarters to help us further solidify our industry-leading growth for the long-term.

We also continue to analyze potential M&A targets with the objective of either strengthening our regional position or expanding our reach beyond our home markets. When assessing a target, we maintain a disciplined analytical approach with a focus on generating meaningful revenue and cost synergies, while enhancing our growth trajectory. A strong cash position also provides flexibility to consider opportunities to increase capital efficiency by proactively managing our liabilities and financing costs.

Now to talk about our outlook for the year. Our business continues to perform strongly, despite some temporary flood-related headwinds in Brazil, as discussed before. In fact, several areas of our business are performing much better than our expectation at the beginning of the year.

However, FX headwinds this year are turning out to be significantly stronger than our expectation at the start of this year. Moreover, we believe it was important for us to divest the DMC business, which currently is a material contributor to our revenues and further streamline our operations for an even more robust growth in the coming years.

Taking all these factors into account, we have decided to lower our revenue guidance for the year from at least \$820 million to at least \$760 million. We expect to maintain a very solid growth trend in the coming quarters in constant currency terms, and we do expect our reported revenue growth in the coming years to materially accelerate from current levels.

In addition to continuous solidification of our constant currency revenue growth profile, the company also continues to drive very significant operating leverage, while at the same time, incrementally investing into our growth initiatives. Moreover, we believe we have developed enough flexibility in our operating structure, which helps us hedge our cost structure against FX volatility.

We, therefore, despite lowering our revenue guidance, feel very confident in raising our full year adjusted EBITDA guidance from previous levels. We now expect full year adjusted EBITDA to be at least \$160 million, versus our expectation of at least \$155 million before.

Our updated adjusted EBITDA guidance implies year-over-year growth of almost 40%, which we believe is industry-leading globally. Our robust constant currency revenue growth profile keeps us firmly committed to a long-term vision of becoming a global travel technology industry leader. Our best-in-class

technology platform, market-leading brands, and tailored commercial strategies, combined with our market expertise, will continue to form the backbone of our consolidation strategy while driving operational leverage.

We are optimistic about the long-term growth potential for Despegar, and remain confident in our ability to capitalize on the positive secular trends that underpin the travel industry.

I'll now turn the call back over to Damian for a few closing remarks.

**Damian Scokin**

*CEO & Director*

Thank you, Amit. To conclude, our second quarter results were robust, showing a sequential acceleration of top-line growth in reported terms, industry-leading constant currency growth, and strong profit trends despite our recent incremental investments in sales and marketing.

We continue to see solid growth trends in our underlying business. We also continue to maintain our regional brand leadership, which will be further strengthened through our brand partnership with Shakira. And our customer-centric focus remains a key pillar of our growth strategy, which is supported by Despegar's industry-leading technology platform and commercial excellence.

Regarding our B2B growth pillar, our recent successes in signing new White-Label agreements with leading brands further demonstrate our ability to provide substantial value to our business partners through a wide range of travel products available to their customers at competitive prices via our leading technology platform. We are particularly excited about the growth potential of this specific business segment, both within Latin America and beyond.

Importantly, our commitment to innovation remains steadfast, as evidenced by our continuous improvements in our AI travel assistant, SOFIA. We are also excited about the possibility of bringing the next level of SOFIA to our B2B partners in the future, while also continuously driving operating efficiencies within Despegar through the implementation of generative AI.

Lastly, our key strategic objectives continue to be expanding package revenue, driving direct traffic through our robust high-performing app, and nurturing the continued success of our loyalty program. As we look ahead to the second half of the year, we remain committed to delivering unmatched travel experiences to our customers at affordable prices, with the aim of further solidifying our leadership position in the market.

With that, let's open the floor for questions.

**Question & Answer**

**Operator**

[Operator Instructions] Your first question comes from Naved Khan with B. Riley.

**Naved Ahmad Khan**

*B. Riley Securities, Inc., Research Division*

So, I just have a few questions, maybe the first one on the guidance. Amit, so, you've taken down the top-line guide, you've raised the EBITDA guide, which is good to see, but within the top-line takedown, and then this increasing of this EBITDA, can you maybe just walk us through the different pieces? Because you have FX headwinds, you have a divestiture of the business, and then maybe some impact of flooding, which maybe -- can you just help us kind of think about the relative impact of all of these pieces?

**Amit Singh**

*Chief Financial Officer*

Sure. So, yes, as you mentioned, we have lowered our top-line guidance, but at the same time raised our EBITDA guidance. So, the puts and -- let me start with the top-line first. The top-line has a few puts and takes, positives and negatives. First, on the positive side, as we mentioned in the prepared remarks, the core underlying business continues to perform extremely strongly. And as I was mentioning, in several areas, we are doing better right now than what we expected at the beginning of the year.

One example being, and that more towards the end of second quarter, is our performance in Argentina, which currently is now doing better than what we expected it would be at the beginning of the year, and we'll likely see the benefit of it, hopefully in the coming quarters, for this benefit to continue.

So, that's on the core positive side. But then at the same time, like we mentioned, the FX headwinds, especially if you see how the Brazilian real, Mexican peso, and the currency in Chile have moved against us in, let's say, June versus May. This has created very significant FX headwinds for the full year.

At this point, we estimate -- based on our calculation around \$35 million, \$40 million impact for the full year revenue numbers from FX. And then the third part, like, we mentioned, we divested DMC, which we believe is a very positive decision for the company. And as part of this divestment, and we also formed an alliance with World2Meet, which we believe has long-term value for us to drive synergies across various other countries and regions.

We haven't specifically -- given the confidentiality of the deal, we haven't specifically talked about the exact dollar amount. But as we mentioned, DMC represents 600 of our 4,600 employees. Obviously, the revenue per employee of DMC is slightly lower, but that should give you some idea.

And then finally, the flooding in the south of Brazil, which is a temporary event, and already we are seeing it come back to normal over there, and in the next month or so, we should be back to completely normal operations. But the impact over the last few months on a full-year basis has around \$5 million to \$10 million negative impact on our revenue.

So, the core constant currency business, our removing FX and all is doing better than what we expected at the beginning of the year, but we have the headwinds from FX and the short-term impact from flooding and then the DMC divestiture, which we believe is the right decision for the company at the time, which helps further strengthen our growth going forward.

And on -- sorry, go ahead. Just to add...

**Naved Ahmad Khan**

*B. Riley Securities, Inc., Research Division*

Jump to follow-up...

**Amit Singh**

*Chief Financial Officer*

Just to talk about the margins part, your question earlier, we -- as we have gone through the year, obviously, year-over-year, we have continued to improve our EBITDA margins and our overall cash conversion and generation of net income. If you see just the first half of this year, we have more net income than the last several years combined.

So, the company continues to make progress on that front. But what I would say is in the first half of the year, the progress has been much more. We've been very positively surprised by the progress that we have made versus what our expectation was at the beginning of the year. And that is giving us the flexibility and the ability to raise our EBITDA guidance despite the impact from -- on the top line from -- or the temporary impact from top line from FX and headwinds.

And these efficiencies that we are driving are not just helping us counter the FX impact on top line, we are able to drive very strong EBITDA, but at the same time, continue to invest very heavily in the business. We talked about investing in Sales and Marketing. We talked about our partnership with Shakira, the brand campaigns, our advertisements, if you might have seen during Copa America.

So, we are doing a lot of things to further solidify our brand across Latin America and across the region and potentially beyond. While -- and making all those investments, but at the same time also delivering very strong operating efficiencies quarter-over-quarter.

**Naved Ahmad Khan**

*B. Riley Securities, Inc., Research Division*

So, maybe just on the -- maybe on the sort of a piece of that margin, it was part of the story. So, I noticed that Sales and Marketing, especially, the revenue was higher in second quarter on a year-on-year basis, first quarter actually lower. So, was there something that was one-off and might come off in the subsequent quarter? What's the right way to think about Sales and Marketing? Leverage and sales -- are the increases mostly fixed costs? Or is it more variable? How should I think about that?

**Amit Singh**

*Chief Financial Officer*

No, I mean, second quarter, like we mentioned, Shakira was a partnership that we signed in second quarter and it had, let's call it, some upfront, upfront as in it goes for a few quarters, but those type of expenses related to it. But then we are building campaigns around it. So, what I would think of these investments are more incremental, right? More, but not like sustained investment over a long period of time.

So, these are more incremental investments that help us work with Shakira and drive our brand positioning in the regions and areas where we believe it can help us further solidify our top line in the coming years.

**Naved Ahmad Khan**

*B. Riley Securities, Inc., Research Division*

So, maybe just on that. So, if I have to think about Sales and Marketing in the back half, on a year-on-year basis, likely to be elevated because of these, right?

**Amit Singh**

*Chief Financial Officer*

Yes, I mean, at similar, we don't guide to, of course, these line items quarter-by-quarter, but our adjusted EBITDA margin sort of gives you an idea. If you look at the implied margin for the full year, that should give you an idea that we are planning to maintain margins around this level, because of the investments that we are planning to make in the coming quarters, and not just in Sales and Marketing.

We have plans to invest in -- as we have talked about in the past, we have plans to incrementally invest in tech and content. We have plans to invest in our loyalty program. So, we're driving operating efficiencies, but we want to make sure that we continue investing in all these areas, which positions our company for a very strong or hopefully, positions us in an even better position in the coming years.

**Naved Ahmad Khan**

*B. Riley Securities, Inc., Research Division* Understood. Thank you, guys, and good [inaudible].

**Operator**

Your next question comes from the line of Andrew Ruben with Morgan Stanley.

**Andrew R. Ruben**

*Morgan Stanley, Research Division*

Thanks very much for the question and for the detail in the presentation. I'm curious to understand a bit on the country level, just looking at the FX neutral bookings, Brazil up 22%, and that's despite the floods, but Mexico up 6%. So, if you could help kind of give a sense of what's going on between the 2 markets and perhaps related, you've talked about the FX translation headwinds. I'm wondering, how you're thinking about the FX impact on demand, outbound demand from these countries amid the weaker currency effects? Both would be helpful.

**Damian Scokin**

*CEO & Director*

Andrew, this is Damian. Thanks very much for your question. What we are seeing in terms of FX impact on demand is basically hitting ASPs at the moment. We're not seeing an evolution of transaction that is below our expectations. So, that's why we have the perspective that this is more of a transitory effect on just ASPs, because underlying demand remains strong.

And basically, the different impact of Brazil and Mexico has to do with the intrinsic of the different markets and the relevance of domestic versus international in each of the geographies. That's basically it.

**Andrew R. Ruben**

*Morgan Stanley, Research Division*

Okay. Got it. And maybe take advantage of Sebastian being on the call here. On B2B, you talked about the active discussions in new geographies. I'd be curious to understand what the discussions are like as you're looking to expand in areas that are outside core, LatAm, what kind of capabilities you might need that are similar, different, what kind of sales force or items on the ground in these other countries that you haven't necessarily had a presence in?

**Sebastian Mackinnon**

Yes, we are seeing a lot of opportunities. In spite of the huge growth, we are running now, not only within Latin America, because we still see an opportunity to expand, for example, our HTML solution to different markets in Latin America. We have just launched Argentina, Chile, Peru, Ecuador. And that doesn't require some new investments. It's expanding our actual technology to those markets.

So that's on regards of the small agencies and how we consolidate the off that is very relevant in Latin America. So huge opportunities still in Latin America, to expand to these markets, but also we see opportunities to expand globally.

So, we can expand, and we will expand with this platform, but also with the API solution where we are already in conversations with some new potential customers, and with the White Labels platform that is really performing very good, because it's unique in the sense that we have a very adaptable and flexible technology that gives solutions not only to big White Labels, but also to mid and small ones.

And that is a huge competitive advantage that we are noticing not only here in Latin America, but also globally. So I think we have opportunities with it, like with the 3 businesses, not with the HTML solution, with the API solutions and with a White Label platform.

**Operator**

Your next question comes from the line of Jacob Seed with TD Cowen.

**Jacob Hunter Seed**

*TD Cowen, Research Division*

This is Jacob. It's for Kevin. On the divestment of DMC, can you share what the revenue and EBITDA contribution was prior to the divestment and what to expect going forward under the alliance agreement?

**Amit Singh**

*Chief Financial Officer*

Sorry, I missed your initial part. Do you mind just repeating the question?

**Jacob Hunter Seed**

*TD Cowen, Research Division*

Yes, yes. On the divestment of DMC, can you share what the revenue and the EBITDA contribution was prior to the divestment?

**Amit Singh**

*Chief Financial Officer*

Yes. I mean, given the confidentiality agreement that we have with World2Meet related to this, unfortunately, we can't provide the exact dollar amount of revenue contribution from DMC. And that's why we're trying to provide metrics, like it's 600 employees out of our overall 4,600 employees that were part of DMC. The revenue per employee was slightly lower for DMC, given the nature of the business, compared to the rest of the business.

So hopefully, this gives you some idea of the overall full year revenue impact. Obviously, the transfer of DMC happens from 1st of August. So, the impact is for that part, only that much part of the year, from August until December. In terms of margins impact on the business, again, I would say that the DMC EBITDA margins were probably slightly lower than our overall company EBITDA margins.

So as a company, for us, we believe the DMC with this new alliance with World2Meet has a lot of potential for growth through this alliance. But within Despegar this was a -- we believe -- we didn't have the potential to grow this business at the same level or the very high growth levels that we had expectation for the rest of the business, plus its margins were slightly lower than the rest of the business.

**Jacob Hunter Seed**

*TD Cowen, Research Division*

Got it. And another question, if I may, on the EBITDA raise, how much is that from the 13% of employees transitioning to the new owner versus other cost efficiencies, if you could break those out?

**Amit Singh**

*Chief Financial Officer*

Yes, not much from, I wouldn't say, not much from the employee transition. I would say, this is primarily

from the efficiencies that we are driving. I mean, if you look at our cost of sales and what we are doing in content, what we are doing in G&A, and even in Sales and Marketing, outside of the incremental investments, we are driving very strong efficiencies across all the line items. So, there's not a very significant sort of positive impact from the divestment of DMC, but more from the efficiencies being driven in all the various line items.

**Operator**

And we have time for one more question. And that question comes from the line of Brett Knoblauch with Cantor Fitzgerald.

**Brett Anthony Knoblauch**

*Cantor Fitzgerald & Co., Research Division*

Maybe just on the gross margin line, it looks like this was a record quarter in terms of gross margins. How much additional expansion do you see in the model? And how should we be thinking about that line item going forward, particularly given the divestiture?

**Amit Singh**

*Chief Financial Officer*

Yes. I mean, again, I wouldn't put as much on the divestiture part. Yes, it has very small benefit. But if you look at our cost of sales from pre-pandemic levels, we are down 30%. And then now, as Gonzalo was talking about it earlier, the utilization of artificial intelligence throughout our cost structure is also going to help us materially in continuing to drive efficiencies there, or is already helping us drive efficiencies there.

Again, we don't necessarily guide to gross profit, but we hope that as we move forward and -- and utilize more and more of artificial intelligence into various parts of our cost of sales, we might be able to drive more efficiencies.

**Brett Anthony Knoblauch**

*Cantor Fitzgerald & Co., Research Division*

Perfect. And if I could just add one more on operating cash flow, it looks like you guys did about \$60 million last year in the back half of the year. This year, through the first half of the year, down a good bit. I guess, how should we expect operating cash flow for the back half of the year, especially given the second quarter was impacted by some working capital dynamics? Do you expect that to unwind?

**Amit Singh**

*Chief Financial Officer*

Yes. I mean, generally, if you look at the trends over the year, the second half is generally much stronger or significantly stronger operating cash flow generator for us compared to first half, especially quarter 4. And then this year, specifically from quarter 2 to quarter 3, there is some movement, given some of the sale campaigns and all that we launched in quarter 2, which will have a more positive impact going forward and some call it the timing-related impact in Q2.

**Operator**

And now, I will turn the conference back over to Mr. Scokin for any closing comments.

**Damian Scokin**

*CEO & Director*

Hi. Just wanted to thank everybody for your interest in Despegar, and we look forward to talking to you again in our next earnings call. Thank you very much. Bye.

**Operator**

And this concludes today's conference call. Thank you for your participation. And you may now disconnect.