Nexi S.p.A

"First Quarter 2022 Financial Results Conference Call"

Thursday, May 12, 2022, 14:00 CET

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OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Nexi First Quarter 2022 Financial Results Conference Call. As a reminder, all participants are in listen-only mode.

At this time, I would like to turn the conference over to Mr. Paolo Bertoluzzo, CEO of Nexi. Please go ahead, sir.

PAOLO BERTOLUZZO: Thank you, and good morning to everyone. Welcome to our call for first quarter results for 2022. As usual, I'm here with our CFO, Bernardo Mingrone and Stefania Mantegazza, who is leading our Investor Relations activities; as well are with us some colleagues in case there are specific issues that you want to cover that require their support.

As usual, for our quarterly Q1 and Q3 calls, I will give you a quick update on volume dynamics, and I'll also spend a few words on key business updates. Then I will hand over to Bernardo, who will be covering financial results and I will come back for closing.

So let me start with the key messages of the day on Page 3 of the document that was made available. 3 messages, as always. First of all, we've seen an accelerated volume growth in the first quarter across all our geographies, and this acceleration has been continuing throughout the quarter into the month of April.

As far as Italy is concerned, we have seen a double-digit year-on-year growth and as well a double digit versus 2019. In particular, we've been growing 38% versus last year in April. At the same time, we have seen a double-digit volume growth year-on-year both in the Nordics and in the DACH region, with a further acceleration in April that has been up 29% for the Nordics and more than 50% up for DACH.

The travel sector is continuing to recover nicely. It is in the quarter close to 75% of what it was in 2019, pre-COVID. And in the month of April, we have seen a further improvement as well. Like we have observed in the recent past, SMEs have been accelerating in an even stronger way compared to the larger merchants. And last but not least, we continue to see acceleration of the shift from cash to digital payments across all our geographies.

Second key message. In the quarter, we have seen strong financial performance. In particular, revenues have been growing at a nominal rate of 7% or slightly above 7%. The underlying number is actually more than 9% growth if you exclude some exceptional project work that we had last year in Italy, so it would be more than 9% growth. And this is actually despite the fact that the Italian market, which for us accounts for more than half of the revenues, has seen in the first quarter of this year a slower pace of re-openings compared to other European geographies.

In particular, Merchant Services, grew about 13%. This would be 15% net of those projects that I have mentioned. In the Nets geographies, we have been growing close to 20%, 19-point-something percent.

Last but not least, EBITDA has grown more than 17%. Actually, if you neutralize the effect of last year projects, this growth would be at around 20%. And with this 17%, we are actually seeing margin expansion, which is at 3.5 to 4 percentage points above last year EBITDA margin.

Last but not least, we continue to progress in the creation of, what we call internally, the new Nexi. We confirm our commitment from the beginning of the year of delivering at least €100 million cash synergies in the year, a and at the same time, we continue to shape our portfolio. We have just announced the full acquisition of Orderbird, a nice German software company specialized in software for restaurants, and more broadly, for the hospitality sector. This company is a leader in this space and is for us a strategic investment.

At the same time, we continue to focus our portfolio more and more on what is core and presenting stronger growth opportunities, and we have recently also communicated the sale of the non-SEPA clearing business in Italy. And this is something that, by the way, was also connected to the Antitrust remedies that we committed to in the context of the combination with SIA. And over the next weeks and months, we will continue to focus on the portfolio, dismissing the businesses that are non-core.

All in, we confirm the ambition for the year that, as a reminder, we did set back in February for the revenues growth anywhere between 7% to 9% for the year and for EBITDA growth anywhere between 13% to 16% for the year.

Now let me start with volumes, Page 4. And here, we made a change compared to the past. We have moved to year-on-year comparison. So, the numbers that you see on the lines in the page compare 2022 with the same period of 2021. We understand that's the way the market would like to start seeing these dynamics. To help you as much as we can, in the back half of this document, you also find the usual charts that we had in the past that were comparing this with 2019 as well.

Now starting with Italy. You see that Italy has been accelerating throughout the last 3, 4 months and April was growing 38% compared to same period of last year. This acceleration has been mainly driven by a super strong acceleration in the high-impact sector, including travel, hotels, restaurants, and those types of sectors. If you want to compare April numbers with pre-COVID, growth has been more about 24%, very well supported by a continued very strong growth in basic services at 38%, but also a very strong rebound in the high-impact sector that are actually already 22% above pre-COVID levels.

On the right here, you also see the usual deep dive when we separate the performance of the Italian cards versus the one of the foreign cards, the cards used by the visitors to Italy coming from abroad. And here, you see that while the Italian cards versus last year are continuing to grow at 26% and 29% versus pre-COVID, the foreign cards are accelerating in a very, very radical way, growing more than 400% in April and basically now being very close to the pre-COVID levels as well.

Bottom left, when it comes to the Nordics, also in the Nordics, we are seeing similar dynamics: acceleration over the last few months, volumes up 29% in April compared to last year, again here, well supported by a strong acceleration from our high impact sectors at 73%. If we compare ourselves with pre-COVID, also a nice growth of 17% for the total, strongly supported by the basic consumption sectors at almost 50% growth versus pre-COVID, but also now having the high-impact sectors also in the positive space at plus 8%.

Last but not least, the DACH region, where I always want to underline that in terms of volumes, not in terms of revenues, but in terms of volume it is characterized by a high weight of the travel sector. Volumes have been growing at around 50% throughout the last few months above last year. Again, here, strongly supported by a very fast recovery in high impact that is above 100% versus last year.

If we compare ourselves with pre-COVID, volumes are still at minus 27%. Net of some businesses in the travel sector that we have decided to discontinue, it would be basically more or less back to pre-COVID levels, strongly supported by the basic sector that is actually up more than 40% versus pre-COVID. So that's the picture that we see on volumes, and we expect these dynamics and this recovery to continue throughout the rest of the year.

Moving to the next page. Let me just give you a quick update on the key progresses that we had over the last few months in the Merchant Services sector that accounts for more than 50% of our revenues. And here, we do it by segment. Let me start with SMEs. SMEs represent more than 50% of our revenues in the Merchant Services space. Volume have been up 36% compared to last year. So strong acceleration, as we said before, as shops reopen. Here, we have seen a very good performance across all geographies with a special acceleration in Germany and in Poland.

We have seen a continued success and also acceleration of our more recent digital proposition SmartPay in Germany and SmartPOS in Italy. Third, we have launched our SoftPOS tap-on-phone proposition in the Nordics and in Hungary. And now we are preparing for the launches in Italy, in Germany and in other geographies as well during the rest of the year. Again, this is a very important proposition because it is targeting both the new card merchants that want to start with a light proposition, but also, it's a great add-on for larger merchants that need to have the ability to collect payments across their stores or across their restaurants and bars.

And last but not least, we continue to progress our partnership portfolio both with cross-market leaders, but also vertical specialists. I think we named in the past a few of them, and you find on the bottom right some names.

In the context of these specific efforts with software companies, that's where you should position our acquisition of Orderbird. The strategy is not to go out and buy software across the board, not at all. That will vary by verticals and by geography as well. But we really believe that this small acquisition is really giving us the possibility to go much deeper in this space. And by the way, in the sector, that is the most advanced when it comes to software and payments integration that is actually hospitality, restaurants, even more specifically.

Second area, e-commerce that accounts for about 20% of our revenues in Merchant Services. Here, volume growth has been about 24%, starting from a level last year that was already very, very high in acceleration. Here, we've seen a continued strong performance of our advanced Easy Collecting PSP proposition in the Nordics, and it's now accelerating also in Germany, where we have launched towards the end of last year. We continue to see good traction for our Account-to-Account proposition both in Poland and in Finland.

We also progress on our buy now, pay later offer in Germany through RatePay. RatePay, in particular, signed an exclusive relationship to provide white-label invoice payments with PayPal that we consider very strategic. And last but not least, we continue the evolution of our proposition in Italy, especially, I would say, for mid-SMEs, where we are integrating more and more some capabilities that we have in Nets, such as, for example, one-click-checkout or Collecting PSP capabilities.

Last but not least, larger merchants that account for about 10% of our revenues. Here, the volume growth has been also nice and strong, about 19% in the quarter. Here, as you know, our focus is mainly on the large domestic and regional omnichannel merchants. On the right, you find some of the names of the more recent key wins or renewals with a specific focus in the retail, grocery, apparel space. At the same time, we continue to progress also on cross-border merchants, where we see a good traction as well.

We are happy to underline the fact that on the back of the combination with SIA, we are actually very pleased to see that the combination of the former Nexi capabilities and SIA capabilities is allowing us really to win new business and expand our ability to serve large complex corporates in Italy. And obviously, we will consider what we can export of these in the other geographies as well.

And last but not least, also in this space, partnerships are very, very important. And we are progressing in integrating with ERP and CRM platforms for larger merchants as well. Here on the right, you see the name of SAP, which is clearly an important partner in this space. But many others will follow as well.

Now let me stop there, and I hand over to Bernardo, who will take you through the financials.

BERNARDO MINGRONE: Thank you, Paolo, and good afternoon to all. So, I'm starting from Slide 7 with an overview of Group revenues and EBITDA. Before we comment on the strong revenue growth we have seen in the quarter, let me just underscore how important it is to understand comparables in terms of measuring and benchmarking performance against 2021. This is true for us within Nexi and the various geographies we are in, and it is true for benchmarking our performance against competitors. It really makes a difference as to what stage of the COVID cycle a country was in last year in terms of degree of openness or closure of shops, in terms of how our performance looks compared to last year. So really, it's always important to understand comparables; this time around, it's a little more important.

So, within this context, I think revenues grew very healthily. We added almost €50 million of revenues year-on-year, and this translated into an almost identical increase in EBITDA. And you see growth in revenues is 7%, which is within our guidance range. Specifically, the Nexi comparable is important because last year we had highlighted how we had some one-off nature revenues coming from a project driven by the integration of UBI into the banks that bought it, Intesa and BPER. That was booked almost entirely in the month of March. And if we normalize for that one-off revenue, growth in the quarter revenues would actually be north of 9%, so above the high end of our guidance.

As I said, this revenue growth translated in an almost euro-for-euro increase in EBITDA. So, EBITDA grew 17.4%. If we normalize for that one-off in 2021, that growth would actually be 20%. And this fed through into a margin which accreted by 375 basis points in the rounding. Here, you lose at least 4 percentage points overall rounded. But a strong, I would say, operating and financial performance in this quarter.

And I think when I speak of comparables, just remember, I mean, it will be true in the second half of the year. We see an acceleration throughout the first half of the year. So, the second quarter which further accelerates compared to the first quarter. And in the second half, a return to normalization given that last year things were much more normal in terms of degree of openness given the success of the vaccination throughout Europe.

Moving on to Slide 8 and Merchant Services & Solutions. Within the overall growth we highlighted earlier, Merchant Services & Solutions grows 13%. If we normalize for the Italian component of that one-off, it will be 15%. This is driven primarily by volume growth. You see international schemes growing north of 20% year-on-year. Even if we include domestic schemes, we are north of 20% on acceleration of the value of transactions across the Group.

Within this context, I think Nets performed particularly well with a growth of 19% in terms of its Merchant Services division in the first quarter against the first quarter of 2021. Again, as I said, comparable helps in that respect, but the performance was very strong at Nets too.

Within the volume growth I would highlight, and I think you saw it earlier in Paolo's slide on business, that we have SMEs, which are accelerating faster than LAKAs, and that's obviously good for us. But in general, I would say physical commerce has accelerated faster than e-commerce, which is, I would say, something we are not normally used to. But again, a sign of the times in terms of how COVID has impacted the year-on-year dynamics. So, a strong quarter for Merchant Services, which is more than half of our business, and it's two-thirds driven by volume growth.

Moving on to Cards and Digital Payments on Slide 9. You see here, we have a 5% growth in the quarter, 7% adjusted for the one-off, again, driven by the increase in volumes both in terms of managed transactions and the volume of transactions. In Italy, we have an ongoing phenomenon which is particularly accretive to us, which is a shift from domestic debit to international debit. For us, it's like acquiring new clients effectively given the amount of work we do on international debit compared to domestic debit. And we have won interesting clients in the Nordic regions through the Nets platform.

Our focus remains on delivering CVM propositions to our customers outside of Italy, building on our experience in Italy, and trying to extend the licensing relationship we have with many Italian banks also outside of the Italian perimeter, which is also underlying some of our ambitions in terms of synergies. And we will update you on that as time goes by.

Digital Banking & Corporate Solutions, the smallest of our divisions, was most impacted in terms of the year-on-year comparison by the merger of UBI into BPER and to Intesa, twofold. One, we had project revenues last year in DBS, but we also lost an area of business, which is corporate banking for Intesa client, which we do not do for them that we used to do for UBI. If we normalize for this, performance was more or less flat in the year. In general, I would highlight how even €1 million or €2 million of revenues has an impact here given the size of this business.

Slide 11 shows geographically how our performance was in terms of the top line. So, Italy would have been 9% normalizing for the one-off; Nordics 7.6%; DACH and Poland with a very strong 20% top line growth helped by Poland, but also Germany performed well; and Southeastern Europe at 6%.

Moving on to costs. I think, obviously, to be fair, in the representation we should look at costs' growth actually taking into account the effect of the project-related costs that I was normalizing for in the revenues. And if you look at it that way, on a like-for-like basis costs grew 2%. And essentially, this is driven by the investment we're making in human capital in areas where we want to grow our business. And we've spoken about that in the full year results when we said we were going to invest in certain areas and reinvest part of our synergies and you see that here.

Part of the growth in HR cost is also to do, again, with comp. When I mean comp, in terms of the fact that last year COVID had a greater impact on Nets performance compared to its budget than it did for Nexi. And therefore, we had a benefit in the second half of the year in terms of variable comp accruals of Nets. And you remember the outstanding performance in the second half of Nets' EBITDA growth also helped by these cost reduction initiatives. This year, we're performing well and we're accruing to budget in terms of comp, and that feeds into the HR cost line.

Overall, operating costs would otherwise have been pretty much flat, I'd say 2% up overall, including HR. And this is ultimately together with the fact that the structure of the cost base is three-quarters fixed, and one quarter variable is what feeds into the operating margin accretion that I mentioned earlier.

Again, remember what I said about the pacing in the year. So we gave guidance in terms of margin accretion for 2022. In the quarter, we're doing better than the guidance. But as I said, in the year we have the benefit early on of synergies as they're coming due. They were front-loaded thanks to the work we did last year. And in the second half of the year, we have a normalization, which also includes the fact that we are investing, as I said, part of these synergies to grow businesses which are core to us.

Slide 13 gives you leverage. We are at 3 times if you include synergies. We'll speak to guidance in a second. We completed the refinancing of the SIA debts. So, you see the gross indebtedness is coming down for the reimbursement of that component. Our mix is still three-quarters, 1-quarter fixed to floating.

I would hand the floor back to Paolo for guidance and concluding remarks.

PAOLO BERTOLUZZO: Thank you, Bernardo. As I've anticipated at the beginning of the call, we are just confirming our ambition for 2022. Let me go through the key elements of it. Net revenue is expected to grow 7% to 9% in the year with a double-digit growth in Merchant Services & Solutions; by the way, you've seen very, very visible in the first quarter already. EBITDA growing 13% to 16% with at least a 2 percentages point EBITDA margin expansion.

Ordinary CAPEX in the 8% to 10% range. Nonrecurring items: with transformation, integration costs actually decreasing very, very rapidly to basically half the level of what they were in 2021. And an overall investment of CAPEX in transformation, integration of about €300 million up to '24, '25 on top of the ordinary CAPEX. And as Bernardo just underlined, continued organic deleveraging with a target net debt of about 2.5 times EBITDA, including run-rate synergies with the current perimeter.

So let me just close, again, reiterating the 3 key messages of the day. We are seeing very strong volume recovery across all geographies with now very visible recovery also in the travel sector as well, and then more broadly, in the high-impact sectors. #2, strong performance in the quarter on the top line, but most importantly, I would say, on the EBITDA line despite a not easy comparison for Italy, in particular, with the last year. And last but not least, continued progress in delivering the integration of our new company as a combination of delivery of synergies, and a continuous optimization of our portfolio. And on the back of this, we are confirming our guidance.

Let me just conclude that we currently plan to have our Capital Markets Day in September 2022. We've been looking through your schedules and many, many conferences that you are supposed to attend in the summer. We felt that probably the second half of September this year is a good and maybe quieter moment for having our Capital Markets Day. So, you will be soon receiving a more specific invitation for that.