Nexi S.p.A.

"First Half 2022 Results Conference Call"

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OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Nexi First Half 2022 Results Conference Call. I would like to turn the conference over to Mr. Paolo Bertoluzzo, CEO of Nexi. Please go ahead, sir.

PAOLO BERTOLUZZO: Thank you, good morning to everyone and welcome to our call for the first half 2022 results. As always, I'm here with Bernardo Mingrone, our CFO and Stefania Mantegazza, who is leading Investor Relations at Nexi. As usual, I will start with the key messages for today. I will give you a quick update on volume dynamics and a few business updates on what we see happening in our progress in Merchant Services in particular. I will then handover to Bernardo who will cover more in detail the financial results.

Let me start from Page 3, summarizing the key messages for today. First message, we continue to see strong volume growth in the second quarter across all our geographies. All our geographies are now growing double-digit both compared to last year and compared to pre-COVID to 2019, that we continue to track with a lot of attention, because at the end of the day, it gives you the real picture of what is really happening. I will give you more details in a moment. Let me just underline here the impressive growth that we have seen in the SME segment which is very much the segment where we apply a lot of focus, probably most of the focus where we have been in the first half of the year, a 38% growth of volumes compared to last year.

Second key message, in the quarter and more broadly in the first half, we've seen strong financial performance. Let me start from EBITDA that did grow in the second quarter of the year by 20% versus 1Q21 and 19% versus 1H21 with a 4 percentages point margin expansion, while supported also by the early delivery of the synergies on the back of the acquisitions we have done in the recent past. This growth of EBITDA at 20% has been well supported by revenue growing about 10% in the quarter and 9% in the first half and this revenue growth has been supported by a very fast growth in Merchant Services, at plus 16% in the quarter and plus 14% in the first half. Obviously, the strong EBITDA growth at plus 20% has been clearly enabled by a strong cost control. Bernardo will show you our cost growth versus last year about 1% to 2%, so strong cost control there as well.

Third message, we continue to progress on our journey of creating the European PayTech leader. As I've anticipated, we are progressing the delivery of our synergies. €100 million is the target for this year, and we confirm that we are moving exactly in line with that target.

Second point, we had a particularly active second quarter in terms of M&A, both in and out and I think this is something that I really want to underline. We signed the acquisition of the BPER merchant book in Italy. We did sign the acquisition of the Intesa merchant book in Croatia. We did close the Alpha Bank joint venture launched actual activities, and we closed the acquisition of Orderbird.

But also, we have announced the sale of the capital market business in Italy. We have announced the sale and also closed the sale of EDIGard, that is a nice digital invoice business in the Nordics, and we've also closed the sale of the NonSEPA Clearing, business in Italy. And I think this math gives you really the sense of how we see our future progressing with nice, even if small in many cases, both an acquisition in Merchant Services to strengthen our portfolio, but at the same time, also refocusing continuously our portfolio on the core of the business, on the core of our future.

In this context, we are confirming our ambition for 2022 that as a reminder, is a revenue growth of 7% to 9% for the year and EBITDA growth of 13% to 16% for the full year.

Let me now move to volumes on Page 4. Here, you see the lines represent in the comparison versus last year. I always feel these lines to be a little bit complex to be understood because they very much depend on what happened last year that was still very much affected by ups and downs with COVID.

Nevertheless, you see across all markets, a double-digit growth both when compared with last year and when compared with 2019 as well. In the appendix to this document, you find our usual chart giving you the month-by-month dynamic versus 2019, and that's where probably you can appreciate better the fact that the trend of volume recovery and volume increase is actually continuously also in the second quarter, throughout the quarter in a very positive way across all geographies, something you may be losing when you look at these comparisons versus last year.

But said that, Italy, we're now growing in June 18% versus last year 27% compared to pre-COVID actually was supported not only by the basic consumption but also by the high-impact consumption that is now growing at 37%. On the right, you see the usual split in between Italian cards and International cards, and you see that International cards are now above 100% versus last year, but they're already actually 16% higher than pre-COVID. I think this is very important because it is the first quarter, actually, in which now we finally see a stable and substantial recovery of international travelers in our geography.

In the Nordics as well, we see throughout the quarter, a 20% to 30% increase versus last year and a nice 18% versus pre-COVID, well supported by a 57% growth in the basic consumption sectors that is the effect of our focus in our commercial wins but also a continued shift from cash to digital also in the Nordics.

Last but not least, in DACH region we have a double-digit growth compared to last year. You've seen depending on the comparison with the specific months from last year, growing 37% to 53%. If you adjust this volume dynamic with some discontinuities that we had as we de-risked the portfolio, especially in travel, we're presenting actually higher volumes growth. Indeed, the growth versus last year in DACH would be a nice 25%, already up 11% versus pre-COVID. Also, I want to underline the fact that in the basic consumption, we are running more than 50% higher than pre-COVID levels.
All in, it's also important to underline that if you look at the travel sector, which is really focused on airline, transportation, etc, it is back to materially above 2019 levels for the Group.

Let me now move to Page 5 to give you a bit of a deep dive into our Merchant Services space. It's a pretty rich page, I understand. And on the right, you also have examples of recent customer wins and very strategic new partnerships in the software and platform space. But let me focus on a few key messages here, starting with SMEs that represent more than half of the business.

As I said, SMEs volumes increased by 38% in the first half of the year. Let me just underline 2, 3 messages. #1, we've seen strong and accelerated sales performance across all geographies, especially in DACH and Poland. Our installed base of terminals did grow more than 150,000 POS in the first half of this year, clearly also signaling a strong growth in terms of customer base. #2 I would like to underline that we launched our SoftPOS proposition in Greece, after Nordic and Hungary, and we are now preparing for the Italian launch. We believe SoftPOS is a nice add-on proposition both for new-to-card merchants but also as an additional device for mobility or backup for more traditional merchants.

#3 We continue to make progress in partnering with software vendors, both market leaders that cover the market horizontally across the sectors, but also vertical specialists across all our geographies.

Moving to e-commerce. We continue to see a strong performance of our easy collecting PSP proposition in the Nordics, and we are now ramping up that same proposition in Germany. And we started basically this year. Also, I want to underline the progress we're making on enhancing the capabilities of our proposition in the e-commerce space with 2 examples here: we have added transaction risk analysis capabilities in Italy with very visible results for our merchants in terms of conversion rates improvements, and in Poland, we launched the one-click checkout also for APMs, not just for cards.

Last but not least, let me stress something that we did announce this morning. We've signed a strategic partnership with Microsoft, which is actually covering 4 areas. We will become one of the main payment providers for their acquiring e-commerce acceptance. In Europe, we will invest together in go-to-market for SMEs, in particular, where you know that Microsoft is particularly strong and particularly focused. We will work together in integrating our proposition payments and software across the board. And last but not least, we will also partner to enable an acceleration of our platform transformation in the cloud.

Let me close with larger merchants. We have seen a growth versus last year of about 17% despite the de-risking of volumes that I mentioned before. Now here, let me underline 3 things: strong progress in Italy, in particular, I would say, on the back of the combination with SIA, integrated collection and business-to-business payments capabilities with a specific focus on public administration, transport and utilities.

Second point, let me stress, not the expansion of our omni acceptance capabilities both in Nordics where we are now also integrating the acceptance of local wallets via QR-code, and in DACH where we've implemented a very innovative digital wallet debit feature that allows merchants to accept direct debit payments in a much simpler way fully digitalized in their shops.

And last but not least, also for larger merchants, we are continuing to develop the integrations with the key enabling platforms, both CRMs, ERPs, property management systems for hospitality, and we have signed here new partnerships with Global Blue in hospitality and retail also for digital prescription management.

Let me now hand over to Bernardo who will cover the financial results.

BERNARDO MINGRONE: Thanks, Paolo, and good afternoon to everyone who is connected to this call. Starting on Slide 7, we have a brief summary of revenues and EBITDA. In the quarter, we have double-digit revenue growth at 10.2%. I would like to highlight how margin expansion is as high as it's been, at least since I've been in Nexi with 400 basis points of expansion both in the quarter and for the half year with EBITDA, as Paolo mentioned, growing at around 20%.

I think it's just worth calling out this quarter, and I think this holds true for most payment players in Europe. We've had an increase in scheme fees, which I think needs to be called out in terms of understanding top line performance.

We report revenues like most payment players net of scheme fees. But if we were to normalize and gross up revenues for scheme fees, which have had a strong growth due to the fact that as we mentioned earlier, extra EA travel and general travel has picked up, bringing higher scheme fees than in 2021 when travel was subdued. This normalization would lead our growth in the quarter to jump from 10.2% to 14.5%, and in the half year to be at plus 12%. Obviously, this has no effect on EBITDA.

It increases costs, just like it increases revenues. And EBITDA is, therefore, I think, the truest and best measure to evaluate quality of performance. And I think we did particularly well with this 20.5% growth, which is one of the highest we've recorded in the recent past.

Moving on to Slide 8, we have the performance in the Merchant Services business unit. Again, we have an acceleration in the second quarter. Revenues were growing 16% for the quarter. Strong volume growth. I would like to call the fact that we have an installed base, which is growing very handsomely with over 150,000 terminals installed in the first half of this year. I think it is a very positive note coming from the growth in SME volumes, which stands at 38%, much higher than the average growth in volumes.

And a couple of interesting points that I think are worth noting as well with regards to the fact that we still see stronger growth in the physical channel than e-commerce, and this has been a trend we've been observing throughout 2022.

And the other one, which is value of managed transactions, is actually growing faster than the number of transactions, and this is probably due to a couple of facts. One, a mix effect, travels coming back, with a higher-than-average ticket and probably the inflation or the first impacts of inflation on customer spend.

Going back to the point I made earlier with regards to scheme fees, if we grossed up revenues for scheme fees on Merchant Services, the 15.8% growth in the quarter would actually be 22.3% and for the first half, it will be 19.6%. We've included a table for your reference in the appendix of the presentation so that you can have a look at those numbers, if you please. I mean, we'll obviously continue to report on a net of scheme fee base. We believe that's the right way of doing it. But as a reference, I think it's useful.

Slide 9, I think messages are similar, in Cards & Digital Payments we also have strong volume growth, feeding into top line growth of approximately 5% both in the first half and in the quarter. If we look at Italy, where we have slightly different business model with co-issuing, we have very strong performance, with high single digits 7% growth in the quarter. While the rest of Europe, where we're more of a payment processor on the issuing front, slightly lower growth.

I'd like to also call out how during the first half of this year, we've seen a strong acceleration of the international debit proposition, which is a very important initiative we've been highlighting since we went public as a key driver of growth in Italy.

Moving on to Digital Banking and Corporate Solutions. The first half results, as we discussed a couple of months ago in May, when we discussed first quarter, were impacted on a year-on-year basis from the fact that we had some project-related revenues last year from the acquisition of UBI bank by Intesa. That project related revenue is no longer present in the first half of 2022. The comp is therefore rather flat for the year. If we look at the quarter, we have a slight growth, driven primarily from the Nets ‘side in some project work on the EID business we run in Denmark.

Slide 11 paints a picture across the various geographies in terms of revenue growth were mostly double-digit growth with the exception of Italy, which would be double-digit obviously, if we gross up for scheme fees, as we're saying. But I'd say, in general, healthy growth throughout Europe coming from the structural shift of cash to card and the reopening we witnessed in the first half of the year throughout Europe.

Slide 12 points to costs. As it has been highlighted, through our continued review of our cost base and attention to cut costs as much as possible wherever possible, we've been able to contain cost growth to just under 2% in the quarter, just over 1% in the first half. This has clearly been helped by the synergies.

Obviously, the other side of the coin of grossing up revenues for scheme fees is then you would have to gross up costs for scheme fees as well. And that cost base would be growing 8%. So, against the approx. 12% revenue growth in the quarter, gross for scheme fees, we'd have 8% cost growth in the first half of the year.

Slide 13 takes a look at the CAPEX. We have a year-on-year increase in CAPEX of approximately €15 million. This is primarily driven by the grey box on the right of our transformation CAPEX, where we continue to invest in transformation. So, the completion of stand-alone projects at Nexi and Nets, including for instance the completion of our Group migration platform UNI, the rollout of the core acquiring platform, but also integration CAPEX coming from the integration of SIA and Nets, as for instance we are starting our mainframe in data center consolidation. This will bring us to around 14 data centers from the approx. 40, which we have currently or had at the time of the merger.

We also continue to invest in our ordinary CAPEX that, as you know, is between 8% and 10% of revenues and includes all ordinary business development, and we have some examples here, for instance the evolution of our POS ecosystems and the developments of data analytics. But again, CAPEX had a slight growth driven by the transformation CAPEX.

But as you can see on Slide 14, we're expecting to reach more or less a peak of this transformation spend in 2022. Overall, we said during the course of our full year presentation and back in February, we had approximately €300 million to be spent until 2025 in order to complete the transformation of individual companies and the integrations of Nets and SIA. That €300 million is now reduced to approx. €200 million and it now continue to further reduce over time until it's completed by 2025, at which point our spend will be reduced to normal ordinary CAPEX level of between 8% to 10% of revenues.

Slide 15 updates you on performance or actually the great achievement of the synergies. As you know, last year, we generated approximately €18 million of synergies. This year, we're targeting just north of €100 million of synergies, both EBITDA and CAPEX synergies. Round about €21 million EBITDA synergies were delivered in the first half of the year, mostly OPEX synergies. We also had €17 million of recurring CAPEX synergies. So, the total for the for the first half is around €37 million.

We'd already achieved the target of the €65 million one-off CAPEX savings at the beginning of this year, and that was done pretty soon after the Nets and SIA deals closed because it's about cost avoidance rather than cutting ongoing spend.

Overall, I would say that we are fully on track to deliver the synergy targets that we expect for the year, and in general, to confirm our ambition, rather to do better than what we'd originally planned in terms of the €320 million total recurring cash synergies over time.

Slide 16 updates you on progress with regards to OPEX transformation integration costs. As you know, last year, we spent more than €500 million on transformation costs, including M&A fees, etc. This year, we're targeting to half of them. And you see how if we just limit to integration and transformation costs, we're at €76.2 million, which is roughly 50% of what it was in the first half of last year and then we have the usual other non-cash costs on the right side of the slide or costs borne by the sponsors as part of the IPO process which take us to €106 million of non-recurring items for the first half of this year.

Slide 17, I think what I would like to call out here is how we are introducing for the first time our cash EPS. Finally, we have a stable share count, having completed the SIA merger. So, we think it makes sense to start commenting on that. And presumably, when we come out with our Capital Markets Day at the end of September, we will provide guidance not only on the top line and EBITDA level, but also on the bottom-line level. You can see that our normalized cash EPS excluding one-off costs on a cash basis is 34 cents per share, and this is a 23% year-on-year increase on the bottom-line level.

Slide 18 confirms our strong cash conversion capabilities. Again, this is on a normalized basis, so excluding those €300-odd million that we have of CAPEX and transformation spend. So, on a normalized basis, we were able to convert approximately 80% of our EBITDA in terms of operating cash flow.

And on Slide 19, we summarize our indebtedness, which is reduced to below 3 times at the end of June, if you include run rate synergies in our EBITDA. I think it's also interesting to note how we were recently upgraded by Moody's. S&P confirmed their positive outlook. So, our journey towards improving our rating investment grade continues.

I think it's also interesting to note how as part of our ordinary refinancing or financing activities, for instance in order to fund the M&A to the extent that we don't use on balance sheet cash, are being carried out at rates which are at the same levels as the ones we were obtaining from banks and from the Street before the rates rise. The expectation of rate rises was embedded into the performance of our publicly traded bonds, for instance. So, this is obviously a very strong message in terms of the strong appetite for the Nexi’s credit.

Finally, on Slide 20, before I hand the floor back over to Paolo for concluding remarks, just a few words on M&A in the first half, which is pretty busy, particularly in the second quarter. We completed or signed a number of acquisitions. They are highlighted here on the left. So, from BPER we bought the Merchant Services book. Transaction is expected to close by the end of the year. We signed this and we are just waiting for BPER to complete the integration of Carige before we migrate that book. It will happen at some point in December. We paid approximately 10x EBITDA for this.

The transaction with Intesa was also announced during the course of May, where we bought the merchant acquiring business in Croatia, for Intesa this is the third deal we do together. The transaction structure is the one we've done in the past, with multiple around 10.5x EBITDA.

We also agreed with Alpha Bank to increase our stake from the level at which it was at signing of 51% to approximately 90.01%, and this was done basically in agreement with Alpha at their request, and we were more than happy to do so. We would have bought 100% from the start if we could have. And we increased our stake in Orderbird to a 100% from the 40% we had before.

For the first time, we can now speak also of disposals. We actually completed the disposal of EDIGard, the Norwegian business which basically digitize documentation, so that was sold to private equity, and we sold it at 14x EBITDA. We also signed an agreement with Euronext to sell SIA's Capital Market business to Euronext. During the course of the second half of the year, we expect the closing; and this was a transaction carried out at approximately 12x EV/EBITDA multiple. Non-SEPA Clearing is a very, very small transaction we expect to close in the first half.

So, Paolo, I hand the floor back to you.

PAOLO BERTOLUZZO: Thank you, Bernardo. Let me jump to Page 22, simply to confirm our ambition for the full year. We are having a strong first half that is pretty much in line with our plans, and we will have a second half that is obviously consistent with the full year guidance, which is also influenced by more difficult comparisons versus last year. But if you compare with the pre-COVID levels with more normal years, we expect to continue to see underlying growth and acceleration throughout.

Coming, therefore, to our ambition for the year, 7% to 9% net revenue growth with double-digit growth in the Merchant Services space, 13% to 16% EBITDA growth with a 2 percentages point EBITDA margin expansion, CAPEX 8% to 10% ordinary CAPEX. Non-recurring items, in rapid decrease as you've just seen with Bernardo and a total of €300 million transformation and integration CAPEX by '24, '25 that Bernardo has shown you already how we're progressing on that as well.

And finally, continuing organic deleverage with a target of net debt of 2.5x EBITDA, including run rate synergies; 3x EBITDA considering all the recent M&A transactions that we expect to close by the end of the year.

Let me just conclude reiterating our key messages for the day on Page 23. Strong volume growth and acceleration across all geographies, very visible, especially if you look at the trends compared with pre-COVID levels and an underlying strong growth in SMEs of 38% for the Group.

Second key message, a strong financial performance. And again, here, let me underline the EBITDA growth of 20% for the quarter and 19% for the first half of the year and 4 percentage points EBITDA margin expansions and last but not least, continued progress, both in terms of delivering our synergies and reshaping the perimeter of the profile of our company through M&A, as Bernardo has just mentioned. On this basis, as I just said, we confirm our guidance or the full year.

Let me just remind to all of you that we plan to have our Capital Market Day on the 27th of September here in Milan that will be a fantastic opportunity to deep dive more in the business and our longer-term projections.