Nexi S.p.A.

"Nine Months 2022 Financial Results Conference Call"

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OPERATOR: Good afternoon. This is the Chorus Conference operator. Welcome and thank you for joining the Nexi Nine Months 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. Good morning or good afternoon to all of you and welcome to our call for results for third quarter 2022. As usual, I'm here with Bernardo Mingrone, our CFO, Stefania Mantegazza, who is leading Investor Relations, and few other members of our team. As usual, for the third quarter I will give you a short business update then I will handover to Bernardo that will cover our financial results.

Let me start as usual with a summary on Page 3 of the presentation. The usual 3 key messages that are quite consistent by the way over the last 2 quarters. First of all, in the third quarter of this year, we have seen a continued volume growth across all geographies. I think this is particularly important also because the third quarter of last year was already a strong quarter, as geographies were exiting COVID, and therefore we had a tougher comparison in the quarter.

In particular, we have seen a particularly strong summer in Italy well supported by tourism. And we had a very material comeback of international tourists in the Country. But also, we have seen a nice continued development in the Nordics and in the DACH region for example on basic consumptions that has been growing year-on-year double-digit.

Last relevant comment, we continue to see a strong performance in SMEs where value of transaction has been growing at almost 30% in the first 3 quarters of this year, and this is faster than what we have experienced on larger merchants that, nevertheless, are also growing double-digit.

So, first message: continuing volume growth across all geographies despite a tougher comparison. Second key message: very solid positive financial performance in the third quarter and in the 9 months. We have been growing revenues in the quarter by 7%, which means a 9% year-to-date. In particular, Merchant Solutions has been growing about 10%, 13% year-to-date, with EBITDA growing about 12% in the quarter with clear continued operating leverage effect and contribution from synergies, in particular cost ones. And this brings the EBITDA growth year-to-date at about 17% with a 4 percentage point margin expansion in the year so far. Third and last message: we continue to progress now in the creation of the European PayTech leader. We presented to you our strategy and medium long-term financial ambition at the Capital Markets Day at the end of September, and thanks for the many questions and comments and feedback that we have received since then in our conversations.

The only update that is relevant from this point of view is that we simply continue to deliver the synergies according to our plan that is to deliver a bit more than €100 million cash synergies in the year. And so far, we already have achieved €68 million to-date. On the back of this progress, we continue to confirm our ambition for 2022 that foresees a 7% to 9% revenue growth and 13% to 16% EBITDA growth.

Now, let me move to volumes on Page 4. As a reminder, these graphs and these numbers show volume dynamics compared to 2021. In the annex you also find the same page that compares volumes to 2019 dynamics, and this is really important because it gives you a sense of the structural longer-term growth after COVID and the recovery of the business, regardless of the year-on-year comparisons.

As you see in the third quarter of the year, we have observed double-digit growth across all geographies. If you look at Italy, 15% in July, 14% in August, 14% in September, with a strong contribution from the recovery of the high-impact consumption in particular and, on the right, you see the strong contribution and strong recovery from foreign cards in the quarter.

In the Nordics, nice growth of 17% in July, 20% in August, 15% in September in the quarter, also supported by strong performance in the high impact sectors.

And in DACH, with Germany accounting for most of these volumes, if you adjust for the larger customers that we decided in the past to discontinue as non-profitable growth, volume growth was around 15% in July, 14% in August, 16% in September. Again, also here, net of the effect that I mentioned before with strong contribution from high-impact sectors.

Last comment, we have also provided you with the latest data of the month of October. October is a lighter month compared to the previous ones, but it's also, in general a month that has a lower weight in the full year. Clearly, how the year will end will really depend on November and December, which are very important months for the full year performance.

If we move to the next page, we tried to give you few highlights of our business progress in particular in Merchant Solutions. Let me go through the key points here. Starting from SMEs, that represent more than half of the revenues in this space, the volumes in the 9 months have been growing 29% compared to the previous year. Let me underline 3 important points here. First of all, continued strong sales performance across all geographies, especially in Switzerland and Poland as a faster-growing spaces in terms of commercial progress. Overall, in the last 12 months, we have been installing about 200,000 terminals across the various geographies, with Italy continuing to provide a strong contribution to this.

The second comment I would like to underline is the progress on the launch of the SoftPOS, which is the software version of a terminal that is becoming an app in a smartphone or in a tablet. We believe this is an important evolution in our industry because it offers us many opportunities in terms of positioning and expansion of business opportunities across the various segments of the market, both in SME and in LAKA, but also across the different verticals. We are in market selling and with already many active customers in Denmark, Greece and Hungary, and will be soon launched in other geographies as well, including Italy and Germany. I would underline our satisfaction for what we are doing with larger merchants, and you see it in the bottom part of the page, where we are implementing very interesting use cases thanks to the SoftPOS. For example, we have been helping a Nordic customer that was under a cyber-attack that had nothing to do with us, but we have been able to bring them back into active sales mode, thanks to a superfast rollout in few hours of SoftPOS for their stores. Or for example, a restaurant chain where we have implemented this offer to really expand the possibility to serve their customers better at the table and for home delivery.

The third element I would like to underline on SMEs is the continued progress in expanding our partnerships with the software players across all geographies and verticals, with some interesting progress in smart mobility and retail.

As far as e-commerce is concerned, we have seen a growth of volumes that is about 16% year-to-date. We continue to progress in the Nordics with some acceleration also in Germany on our easy collecting PSP proposition. And second point, we are focusing more and more on the mid-market, which tends to be a very attractive local segment, faster-growing, where we have seen very nice wins also when competing with the specialized Neo PayTechs across, for example, financial services, retail and mobility.

The third element I would like to underline on e-commerce is the continued progress in integrating into our PSP proposition alternative payment methods and by Buy Now Pay Later also from third parties, for example, AfterPay in Germany or Trustly across the Nordics.

Last but not least, in LAKA we have seen about a 17% growth year-to-date in terms of volumes. Here we are focusing more and more on the mid to low part of LAKA that we believe is the most attractive segment, especially given our strategy and positioning. We are making progress in expanding the omnichannel and vertical capabilities both in the Nordics and in Italy. Another element I would like to underline here is the continued entrenchment with enabling platforms across CRM/ERP and property management software solutions where we integrate with these partners and we also go to market together. I think here, it's particularly notable the partnership that we have developed with Global Blue that is allowing us, among others, to integrate very easily across geographies, for example with Oracle platforms.

Let me now hand over to Bernardo.

BERNARDO MINGRONE: Thank you, Paolo. Good afternoon from me as well. I'm on Slide 7. So, starting with an overview of our group revenues and EBITDA. And so, translating the operating performance we saw in terms of volumes in the geographies in which we operate during the course of the third quarter into how those translated into financial performance, revenues and EBITDA.

We've seen how in the quarter, revenues grew just north of 7%, and if you look at the 9 months, 8%. I would like to just focus also on the call out on this slide, which shows what our revenues would have grown if we grossed them up for scheme fees. We have started to show this metric also in the half year results, given their relevance to top line growth and in particular, in this year, in which the return of travel and interchange fees related to foreign cards is very significant. So, the top line growth would actually have been an 11% growth in the quarter and 12% for the year-to-date.

We then move on to EBITDA, and thanks to the operating leverage we spoke of during our Capital Markets Day, you can see how the top line growth in terms of revenues translates into a year-to-date growth of EBITDA of 16.5%, just higher than the guidance for the year, and in the quarter 12%. And this shows in the EBITDA margin accretion, which is around 200 basis points in the quarter from 52% to 54%. If we look at it on a year-to-date basis, it's even higher from 45% to 49%.

Moving on to the divisional performance on Slide #8, we can see the same data presented for Merchant Solutions. We have revenue growth, which is just shy of being double-digit in the quarter, 9.6% for the group. And if we look at it gross of scheme fees, that is actually 15% growth. On a year-to-date basis, the reported revenues were 12.6% and gross of scheme fees, they were 18%. And this is driven essentially by the strong growth in volumes we experienced during the quarter with healthy return of tourism in those countries. I would also like to call out two other factors. You can see the positive contribution to our revenue growth in this division from the installed base: we have added north of 200,000 POS terminals in the last 12 months this year. And we also called out the positive performance of SME with a 29% volume growth we have seen year-to-date, which is very important given the relevance to our strategy of this segment, which we also discussed in late September.

Slide #9 shows performance in Issuing Solutions. Even in this division, we have positive performance in the quarter, close to 6% growth. This is slightly higher than the average for the year, which was 5.2%. Here, I would like to highlight not only the solid volume growth, which is driving this top line performance, but also the addition of close to 2 million international debit cards in Italy. Note that these are not only new international debit cards, because some of them are migrations within Nexi of the older model of international debit to the newer Nexi international debit card, but this is all helpful in terms of fuelling top line growth. I would also like to highlight how we are making progress on our advanced digital issuing proposition, selling CVM products outside of Italy and to other clients in the countries within the group.

Moving on, on Slide #10, we can focus on Digital Banking Solutions. Similarly to the performance in the previous quarters, we have a roughly flat performance year-on-year. You know that this is mostly about comparison. We have lost certain activities relating to DBS due to banking consolidation in Italy, where a bank was bought by a larger Italian bank for which we didn't do part of the services. So, it's really about comparison. In the Nordics, we also had the migration from the legacy bank ID platform, which has also impacted project related revenues in the quarter.

Slide #11, gives you an overview of the geographic breakdown of our revenues and their growth. Before I start commenting the various geographies, I just like to remind you that in the third quarter this year we had a much tougher comparison versus 2021 than we used to have in the first 2 quarters of the year due to the exit from COVID restrictions last year. So, all 4 of the geographic areas suffer from this tougher comparison. Having said that, Italy has shown a strong performance close to double-digit top line growth, 9.9%. This, to be fair, has benefited from some third quarter-fourth quarter migration of some benefits related in particular to scheme fees. So, the way we calculate scheme fees is dependent on projections and volumes and things like that and they may well fall in one quarter or the other. This year, they tend to have fallen a little earlier so in the third quarter, which is slightly improved the otherwise strong performance of Italy.

With regards to Nordics, we can see that the top line growth for the year-to-date is in line with the mid/high single-digit top line growth ambition we have for this geography in the plan. In the quarter, we suffered from a couple of phenomena which are the platform migration I was mentioning earlier with regards to DBS and the Nordics, but also the phasing of some pricing actions we took on certain clients as normal course of commercial activity with them.

If we move on to DACH and Poland, we have a top line growth of 4%, slightly lower than what it was for the 9 months year-to-date. Here, I would point to things we have also discussed in the past, that have proved to be a drag to the top line, in particular, in the third and fourth quarter this year. For example, the exit from certain businesses where we thought the risk return profile wasn't appropriate, but also since our Capital Markets Day we have decided to exit the BNPL space and that has also impacted the top line growth and that we are not fuelling in ahead of the sale.

If we look at Southeastern Europe, we also have an impact in the quarter coming from the Russian-Ukrainian war and the fact that sanctions have led us to lose a client in one of these geographies. This is a few single-digit million euro loss plus a project, we are talking of very small absolute amounts.

If we move on to Slide #12, having spoken about revenues, we can now look at costs. And I think we discussed during our Capital Markets Day the way our cost base will behave in light of the inflation we are all facing. I think what you see on this slide is the translation into actual numbers of what we are expecting. So, our cost base overall for the year-to-date is roughly flat at 1.3%, 1.9% in the quarter.
If you gross up for scheme fees, similarly as we have done for revenues, we obviously have a much higher level of cost, similarly to a much higher level of revenue growth. But concentrating on the net costs, excluding scheme fees, we can see that HR costs are growing by 0.2% in the quarter, and this is the effect of inflation in those countries in which we renegotiated HR costs, offset by our ability to extract further efficiencies and the synergies coming from the integrations.

The same holds true for non-HR costs. And here, we benefit from longer-term contracts with our suppliers that haven't priced in the effects of inflation and which we will be renegotiated going forward as we had discussed. The synergies helped to offset the natural trend to grow costs in light of the strong volume growth we have seen. So, the operating leverage is fully confirmed in terms of our operating cost growth in the quarter, which has been minimal.

On Slide #13, I would just briefly comment on the fact that we are on track to deliver the full €105 million of cash synergies which we expect to deliver for 2022. And of course, we are on track to deliver the €365 million for 2025 and beyond as we discussed at the end of September.

Finally, before handing the floor back to Paolo for concluding remarks, just a quick word on leverage, which is always something we are happy to discuss when we meet with the investor community. Our leverage is coming down, it's now 2.8 times EBITDA inclusive of synergies and 3.3 times if you exclude those. At the Capital Markets Day we announced that we were able to source new funding to the tune of €900 million to use proactively not only to pay for the various M&A deals that have been announced, but also to proactively manage ahead of time maturities due in '24, '25 and '26, with a benefit in terms both of the duration profile of the portfolio but also managing the cost base very effectively.

That said, Paolo, I will hand the floor back to you for your concluding remarks. Thanks.

PAOLO BERTOLUZZO: Thank you, Bernardo. If we can move to Page #16, I will not go through it because you know it very well. We simply want to reiterate the fact that we confirm our ambition for 2022 and where we will land will depend on the performance that we will see in November and December, and that will be very much determined by the overall market conditions. Never forget that we always said that the second half of the year would have been lower than the first half because of the comparison due to the recovery dynamics out of COVID.

So, to conclude on the next page, again, 3 simple messages. We have seen continued volume growth in the third quarter, double-digit across all geographies, despite summer last year was also a good summer. Solid financial performance that allows us to confirm our ambition for the year and continued progress on the combination of our company and the creation of European PayTech leader.