Nexi S.p.A.

"First Quarter, 2023 Financial Results Conference Call"

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OPERATOR: Good morning. This is the Chorus Call conference operator. Welcome and thank you for joining the Nexi First Quarter 2023 Financial Results Presentation Conference Call.

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, good morning to everyone, and welcome to our results call for the first quarter of 2023. As usual, I am here with Bernardo Mingrone and Stefania Mantegazza who is leading our Investor Relations team.

I will make a few introductory remarks and comment on volume dynamics that you have observed over the last 4 months and then I would hand over to Bernardo who will cover our financial results.

Let me jump straight to Page 3 with our key messages, as usual. First message, across the quarter, across all geographies, we have seen a double-digit volume growth. As we have anticipated, January has been particularly strong benefiting from an easier year-on-year comp because last year January was still a COVID month, hopefully the last one. We've seen a positive volume growth across all categories with a particularly strong contribution from what we define the high impact consumption, restaurants, hotels, travels, entertainment, and also in April, which is instead a normal month with, I would say, more standard comparison versus last year. We continue to observe a double-digit growth across all geographies, so overall, a quite strong double-digit volume growth.

Second key message, in the quarter, we have seen strong, financial performance with solid margin expansion. Revenue grew 9% in the quarter, with strong performance across all geographies, Bernardo will comment more on this. We have seen a double-digit revenue growth in Merchant Solutions with a particularly strong performance in Italy and DACH and Poland. And last but not least, EBITDA growth has been at 13.6% versus the same quarter of last year, with a margin expansion of almost 2 percentage points, so strong financial performance across the quarter.

Third and last message, we continue to progress the execution of our strategy. We are well on track with the execution of our strategy announced back in September at our Capital Markets Day. That strategy, we want to reiterate, is expected to generate about €2.8 billion of organic cash over the 3 years. Over time, we will be allocating most of this cash to leverage reduction still leaving a lot of room for manoeuvre to both return money to shareholders and do high value accretive M&A.

We see stronger growth performance of the recently acquired assets, the BPER merchant book in Italy, the book we bought in Greece, Croatia and Spain that we plan to close later in the year. And last but not least, we are progressing well on our non-core asset disposals and he will tell you more over the next few months as we progress and we come to the signing of these deals. Overall, we are therefore confirming our guidance for the full year, with revenues expected to be at above 7% growth, EBITDA growth expected to be at above 10% and excess cash generation at above €600 million.

Let me now move to Page 4 and let me comment on the volumes that we have been observing over the last 4 months. Here the comparison is with 2022. You see that across all geographies, we have been observing a total volume growth, that is the blue line, well into double-digit space with the peaks in January. Italy, you see 18% in January, 13% in February, 13% in March, well supported by the high impact consumption sector growing above 20% and with a contribution from the foreign cards growth and the foreign international travel remaining very strong at above 50% growth. In the Nordics as well, we've been observing a stronger volume growth especially in January, and this growth is continuing also in April.

Last but not least, DACH, also here very strong volume growth, above 20% across the quarter. I think here the relevant line is the dotted blue line, so as you see, 29% in February, 21% in March still continuing on a more normalized April at around 16%. So, across all geographies we see the trends that we were expecting and we see these trends are also continuing in April in line with our expectations.

Let me now hand over to Bernardo to comment the financial performance.

BERNARDO MINGRONE: Yes, Paolo. Good morning. I am on Slide 6, so moving on to have Nexi performed from a financial standpoint in the context of the growing volumes that Paolo has just described. So top line growth, we've seen grew 11% if you look at it gross of scheme fees, 9% on a net basis, whereas EBITDA as we have seen, grew almost 14% with a margin expansion of just shy of 200 basis points taking it to 45% at the end of the first quarter of this year.

Moving on to Slide 7, we have Merchant Services, top line growth again double-digit. Paolo has already called out the strong performance we've had in Italy and the DACH and in the Polish regions. This 11.5% of course is 14% gross of scheme fees and this growth was sustained by strong volumes particularly in international schemes as we see in the charts on the page. But it's important also to notice how it's not only the volumes fuelling the growth of our top line but also the expansion of our footprint in terms of growth in the number of customers both in the physical acquiring and the e-com space. Across all geographies and segments, we have strong wins in SME and LAKA and we are further expanding our partnerships and our footprint in terms of our presence of acquiring through ISVs.

Moving on to Issuing Solutions, particularly strong quarter, here, you can see top line growth of just north of 8% again. I'll call out the contribution to top line growth of volumes, in particular here we have a recovery in travel related volumes both in terms of Italian cards in particular being used abroad, but also commercial cards. To be fair, we have a slight benefit in this first part of the year in terms of better phasing, with regards to contract renewal we've spoken out in the past, so that has helped us, but most importantly I would say the key driver to top line growth being volumes and the overall advancement of our cost saving and upselling initiatives in particular in Advanced Digital issuing solutions.

Page 9 on DBS. Here DBS I would say the vast majority of this is Italy, once we recast our numbers moving EID business in available for sale, and this is a division which is most impacted in the past by domestic Italian banking M&A. So notwithstanding the fact that in the past we've lost clients, you can see some growth in the top line which is again benefiting from stronger volumes in the first half, in particular, on bank transfers and the EBA Clearing framework we manage.

If we look at the revenue performance, which as I said was strong in the first quarter, in every business unit we operate, the same holds true on a geographical basis which you see on Slide 10, with Italy and the DACH and Polish regions growing almost 10% top line, double-digit if you look at gross of scheme fees, and both Nordics and South Eastern Europe are growing above the minimum guidance for the year.

If we move on to costs on Slide 11, you see the cost performance essentially was being impacted by 4 key components. The first is the investment we've made in people during the course of 2022, and with start of this year this is catching up in terms of the cost dynamics.
The second effect is clearly the strong volume growth we've seen and part of this feeds into our cost base, notwithstanding the very strong operating leverage we benefit from. We then have some effects

coming from inflation, and as we had discussed back in September, when we looked at our projections for the 3-year period, we knew, we'd be able to manage the progressive impact of inflation, mitigating it, and we are starting to see some of it filters through this year. And then finally, obviously, we have the benefit of our synergies, which are helping to offset these trends and effects on inflation.

Finally, if we look at leverage on Slide 12, we have some good news in the quarter. We've already spoken of it. We have an upgrade from rating agencies, we hope for more to come. I think the key point to remark always is that we have sufficient cash on our balance sheet to cover commitments up until the end of 2025, which stands us in good stead given market conditions.

Overall, the book is that our debt stack is well balanced in terms of the maturity's profile, in terms of the mix of funding sources, in terms of the mix of fixed versus floating rate. So we see a leveraged profile, which is substantially flat the quarter, having closed the M&A deal in Croatia. And I think, you know, we benefit from a very sound balance sheet.

I'll hand the floor back to Paolo for his concluding remarks.

PAOLO BERTOLUZZO: Thank you, Bernardo. Let me move now to Page 14. As I've anticipated on the back of these results and what we see in the market, we confirm our 2023 guidance, that is, I want to remind it's fully in line with our medium-term Capital Markets Day growth targets. On net revenues, we plan to deliver at least a 7% growth. On EBITDA, we plan to deliver at least a 10% growth. We plan to generate at least €600 million of excess cash at the organic level. On the back of those, we expect net leverage to come down to 2.9 times EBITDA, organically 2.6 including run rate synergies.

If you include the announced deal in Spain with Banco Sabadell, you should top it up by 0.1, and therefore, 3 times EBITDA, and 2.7 times EBITDA including synergies, and normalize EPS we plan to grow at more than 10% year-over-year.

Let me now conclude reiterating the 3 key simple messages. Across the quarter, we're seeing double-digit growth across all geographies, and we see this double-digit growth continuing in April. Second point, strong financial performance, 9% top line growth, double-digit revenue growth in Merchant Solutions, particularly strong in Italy and DACH and Poland, EBITDA at almost 14% growth, with 183 basis points EBITDA margin expansion.

And again, last but not least, progressing well in executing our strategy which is expected to generate €2.8 billion of excess cash in 2025, that we plan over time to allocate mostly to leverage reduction, still leaving a lot of flexibility to also give back money to our shareholders and focus on highly value accretive M&A.