Nexi S.p.A

"Full Year 2022 Financial Results Conference Call"

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MODERATORS: PAOLO BERTOLUZZO, CHIEF EXECUTIVE OFFICER

BERNARDO MINGRONE, CHIEF FINANCIAL OFFICER

STEFANIA MANTEGAZZA, INVESTOR RELATIONS

OPERATOR: Good morning. This is the Chorus Call conference operator. Welcome and thank you for joining the Nexi Full Year 2022 Financial Results 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 to all of you, and welcome to Nexi call on results for full year 2022. As usual, I'm here with Bernardo Mingrone, our CFO, Stefania Mantegazza, who leads Investor Relations. As usual, we'll summarize the key messages and give you a short business update, and I will then hand over to Bernardo that will cover results more in detail.

Let me jump on Page 3 with the key messages. Overall, we consider 2022 an year of strong progress for our company despite a macro environment that has been more challenging than what we would have expected only 1 year ago.

First of all, we've seen strong volume growth across the year, in particular also despite more difficult comparisons with the previous year. We have seen double-digit volume growth across all geographies. In particular, we have seen a strong growth in SMEs that did grow volumes across the year for about 25%. And you know how much SMEs are the core of our strategy, and therefore, it's really important.

The good news is that when we look at the beginning of this year 2023, we see an accelerated volume growth with an year-to-date of about 17% with positive evolution across all geographies. Clearly, this is little bit helped by an easier comparison in January, given the fact that last year, January was not a completely clean year in terms of openings due to COVID but still it's a good signal for the new year.

Second key message, overall, we had a very solid financial performance despite the macro environment with strong margin expansion in the year and accelerated cash generation in the year as well. Revenue did grow about 7.1% in the year with Merchant Services and Merchant Solutions growing double-digits. EBITDA grew 14.2% with an exceptional 311 basis point EBITDA margin expansion despite some early signals of inflationary pressures on the cost base.

Last but not least, and this is the first time we underline it, if you take the operating cash generation measured as EBITDA minus CapEx and minus non-recurring cash items, that item did grow 56%, and that's very important as we focus more and more on cash generation.

Third key message, we have seen strong progress in creating the European PayTech leader. We did deliver more synergies than what we had planned about €110 million, 10% more than our initial target. We did progress a lot on our M&A activities, both in terms of acquisition, but also disposals and the future will look like this with a mix of both. The intention here is to continue to focus more and more the company on core strategic growth opportunities.

Last but not least, we have announced only last week, our entry into Spain. This is a very attractive market through the strategic partnership with Banco Sabadell. Overall, as a combination of all of this, we have delivered our ambition for 2022 despite a macro that has been more challenging than what we expected.

Let me start by giving you a bit of more flavor on Spain and moving to Page 4. We're actually very happy for this win. And I'm particularly proud for the fact that we've been chosen especially for our capabilities and for our people and the work we've done with the bank over the last few months.

Entering to Spain is for us very strategic. First of all, the Spanish market is a large market, which presents good economy potential with unique structural characteristics and a very significant growth potential. Card penetration is as low as 38%, which is more or less in line with the average of our portfolio. The market is SME dominated, with an accelerating e-commerce dynamic, and the payment distribution is still dominated by banks. As you can see from these characteristics is quite similar to the Italian market.

Second, we are very proud of this partnership with Banco Sabadell, which allows us to start in Spain from strong a very strong challenger position. Banco Sabadell is a very dynamic Spanish bank located in Barcelona. They cover the entire Spanish market with 1,200 branches, they are the second merchant acquirer that always had a special focus on payments. They have 380,000 merchants, generating almost €50 billion of acquiring transaction volumes and they have a very diversified and attractive portfolio of customers with a stronger SME focus.

Third key element, this market has a lot of potential in terms of innovation and digital proposition, but also in terms of commercial innovation, channel innovation, pricing, innovation and so on and so forth, which is exactly where we can leverage our capabilities developed over time on many similar situations.

And last but not least, this is particularly important to me as CEO of the company, this is very simple and lean integration and execution. This is adding zero complexity to everything as it is a stand-alone initiative where we'll really be able to inject the best of our products and capabilities to accelerate growth.

Let me jump on Page 5. This page, you may remember it from our Capital Market Day presentation is mapping our markets across 2 dimensions. Vertically, the card penetration, and therefore, how much more structural growth there is in the market, and horizontally the Nexi market share and position. And here, you see Spain jumping in to the map. And as you see very well, we expect Spain to provide both opportunities in terms of market expansion as penetration grows and new innovative propositions come to market, but also in terms of growing market share further. The summary is that it's like adding another Italy to the portfolio that we have, given the characteristics and the growth opportunity there.

Let me summarize on Page 6, the key elements of the transaction. First of all, we are acquiring the 80% of PayComet. which is a fully owned company by Sabadell that already includes payment activities, after Sabadell will transfer into PayComet all assets associated to merchant acquiring. You may immediately understand why this is a very simple integration because there is a team up and running, there is a company up and running, there is a license up and running, there are processes up and running, and therefore, integration effort will be minimal.

We are paying for this €280 million with available cash, with an implied multiple of about 11.5x. The closing is expected in the fourth quarter of the year subject to the necessary approvals, even if we don't see any issue coming out of that. As always, this acquisition is combined with a long-term distribution agreement for the next 10 years renewable by another 5 plus 5.

And last but not least, as always, we have wanted to fully align our interest with the interest of our partner through a rebate mechanism plus potential earn-outs that are subject to an overachievement of the plan. And as a reminder, every single time you see us paying earn-outs, is a very good news, because normally the multiple on the earn-outs is much lower and therefore in case we end up paying these earn-outs, this means that the implied multiple for the overall asset will be much lower than 10x EBITDA.

Let me now jump to volume update, as usual, in Page 7. As have anticipated, overall double-digit volume growth in the fourth quarter across all geographies. Here, we're representing the growth rates across our markets and macro-segment versus last year, which is an approach we have taken more recently given the fact that the benchmarking with 2019 is less meaningful, even if, as usual and probably for the last time, we are actually adding in the appendix also the comparison with 2019 pre-COVID numbers.

Let me just comment rapidly, you see here, Italy trending at around 10% for the last quarter, but actually accelerating to about 15% in the new year, this is basically a combination of January and almost all February. And here, you see how much high impact consumption is actually accelerating the growth. You see that we continue to see a very solid performance of Italian cards, but actually the traffic from foreign cards and for visitors to Italy is also contributing more and more to volume growth, coming back gradually to normal levels.

In the Nordics, we had a similar pattern, a good fourth quarter accelerating through the quarter from 105 in October to 17% and actually year-to-date we're at about21% growth. Again, here high impact consumption is becoming a big driver.

And last but not least, for Germany I suggest to look at the blue dotted line that is neutralizing the effect of volume reduction that we have imposed ourselves, as we decided to give up certain high-volume relationships that were not worth having in terms of value creation. And here you see that throughout the quarter, we are also trending from 14% in October and November to 29% in December, and then at the beginning of this year up to 31%.

Let me just now jump to Page 8 and give you a quick update on Merchant Solutions and the key business progress here. As have anticipated SMEs volume growth versus last year was at +25% well supported by a strong continued customer base growth that we measure by an increased number of terminals by 200,000 in FY22, mainly driven by Italy, DACH and Poland.

We continue to see a good traction, especially in Italy of the new-to-cards propositions that for us is a mobile-POS that is very important in a market that is still growing and where the base is still expanding. And here, the very important strategic evolution for us is that we're seeing very good traction from digital sales, digital channels, and this is something that we'll be replicating across all markets over time. Last but not least, we continue to expand materially our partner base with a specific focus on ISV partnerships, both with market leaders like Olivetti in Italy, but also with vertical specialists across all geographies. And here, you see a few names from wellness, ticketing and so on and so forth.

Coming to e-commerce. E-commerce, had 12% volume growth in the year, with a continued customer base growth of about 20% versus the end of the previous year and with a stronger focus on the mid-segment that is more and more of a core target for us.

Second thing that I would like to mention is the further expansion of new partnerships, both with web agencies and developers and ISVs , there is clearly a gradual convergence with what we are doing with SMEs. And last but not least, and this is for us quite strategic going forward, a continued expansion of our enabled APMs. Here, we mentioned AliPay and WeChatPay in DACH and the Nordics. And this is particularly important also because it's leveraging the mid-layer that we call Nexi Relay that is allowing us to basically build scale across our geographies as we drive innovation, while still maintaining a strong local entrenchment local customer experience when it comes to front-end and scale when it comes to backend.

Last but not least, on LAKAs, we had 15% volume growth, even if here the volume growth is not really our key focus. Our key focus is value growth. As you all know, you may buy a very large volume contracts with very little to no margin, which is not our approach. Here, we have a strong pipeline of commercial wins across markets with a specific focus on omnichannel, grocery and retails and vertical solutions in petrol and EV charging.

Here, we mentioned the strategic partnership with Eni, it is one of the very largest Italian and European companies. This is already a very good long-term customer of us. And here, we're expanding the relationship, both in terms of innovative proposition across the board, but also in terms of geographies. And last but not least, we are more and more rolling out our omnichannel solutions in the DACH region, leveraging on the capabilities that we have developed over time in the Nordics and in Italy.

Let me now hand over to Bernardo for results.

BERNARDO MINGRONE: Thanks, Paolo. Good morning, everyone. We have a dozen or so slides with regards to financial performance for 2022 based on the perimeter consistent with the guidance we've given at the beginning of the year, and then I'll end with a couple of slides resetting the baseline for M&A, both one which has been completed or signed and the ones which we announced back at the Capital Markets Day.

So starting on Slide 10, a few call-outs here on the slide to try to give you transparency with regards to our kind of performance for the quarter and the year in order to be able to understand the underlying trend, in particular with regards to the fourth quarter and, therefore, to be able to have a good idea as to how we exited 2022 and look into 2023 ahead of Paolo's guidance at the end of the presentation.

So, revenues grew 7.1%. We then highlight how if you exclude Ratepay, which, as you know, we've been managing on an available for sale basis, and therefore, managed it's performance during the year in terms of revenues and growth in line with our ambition to sell the asset and therefore, not feeling the growth as in the past, the top line growth would have been 7.8%. And also to provide you further insight into our performance, gross of scheme fees, like other players in the sector do, top line growth would have been double-digit at 10.5%.

The fourth quarter was a little softer and slower than the rest of the year, as you know, because of comp reasons in particular compared to 2021. We have growth of 4% in the quarter. If you normalize for Ratepay, that's close to 6%, and if we look at the revenue growth gross of scheme fees that's close to 7%.

Moving on to EBITDA, we closed the year with EBITDA growth in the mid-teens at 14.2%, that's more than 300 basis points of margin accretion from 46% to 49%. In the fourth quarter, EBITDA grew close to 9%, and we had north of 200 basis points of margin accretion.

If you look at Slide 11, we have details on performance of Merchant Services, which is more than half of our revenues. And as you can see, gross of scheme fees, Merchant Services revenues grew 15.3%. If we look at the net of scheme fees is still double-digit in line with the guidance we provided in February last year. If you normalize for Ratepay, as I said, we pick up another almost 2 percentage points in terms of top line growth, consistent with the comments I made for the full year. In the quarter we had revenues growing 3.3% and, overall, if you exclude scheme fees, that's close to 8%.

In general, I think we can see in terms of volumes, and Paolo mentioned it in his opening remarks, strong continued volume growth across all geographies in the group. We also, more importantly, see growth in our customer base across business areas within Merchant Services. You see here how we added more than 200,000 POS terminals in the year, and we had a 20% plus growth in e-commerce clients.

SME transactions, which are at the heart of our business, are growing 25%. And as I said, we should look at fourth quarter performance net of Ratepay, which we're managing ahead of a sale in order not to consume liquidity and create bottom line losses.

One other call out about the fourth quarter 2021, I think I referenced to it last year, maybe in some of the one-on-ones. The phasing of scheme fees and the rebates to banks in Italy were effectively calculated towards the end of the year, and that's led to a fourth quarter in 2021 which was richer in terms of the top line to a normal year, and that is also affecting the performance in Merchant Services, in particular, in Italy.

Moving on to issuing, we have strong growth in international debit in Italy, and, in general, in the licensing business model in Italy. this led to close to 5% growth in revenues, 4% in the quarter. I think it’s important to call out, based on also what we discussed at our Capital Markets Day, that our strategy in issuing to win new clients, and here, we call out the Commerzbank win, which is an important add in a very strategic geography for us, Germany, but also in terms of upselling and cross-selling to our customer base here and we call out how we are extending our advanced issuing solutions through bank customers across Europe. I think another call out here is about fourth quarter. We had a slight slowdown in project work in Southeastern Europe, which also slightly reduced growth in the fourth quarter compared to the full year.

Moving on to Slide 13, we have Digital Banking Solutions, which, contrary to the rest of the business, actually had an acceleration in the fourth quarter. This is driven primarily by projects across geographies. It's just generalized in any idea in Denmark and across bank customers in Europe, we had more project work than usual in the fourth quarter overall. We have growth in the year of just north of 1%.

If we look at the geographic breakdown, I think this tells a similar picture to what we described for the group as a whole. We have Italy growing just north of 7%. Same goes for Nordics. We have a slightly lower growth in Southeastern Europe. And if you look at DACH and Poland, these are the geographies which grow the most, if you exclude Ratepay, which as I said has been managed in terms of a slowdown, at 12.5% and if you include Ratepay that is 6.5% growth.

Moving on to Slide 15, I think this is a very important slide, where we give you details with regards to how our cost base behaved in a context of strong top line growth, but also inflationary pressures. So we saw how volumes are growing in the mid-teens level and, notwithstanding this volume growth, new client addition, an overall increased size of our business, overall costs increased less than 1% in the year. If you gross this up for scheme fees as we did for revenues, clearly, that is a higher growth close to 8%. But on a net basis, this is a 1% growth. And this is clearly due to a strong and focused effort to keep costs under control, delivery of synergies, but is also a strong testament to another claim we made in the Capital Markets Day that our business is one which benefits from strong operating leverage, so strong top line growth, does not necessarily translate into cost growth.

Moving on to Slide 16, we have CAPEX, which are in line with guidance we provided at the Capital Markets Day, growing to about 16% of revenues in the year. This is a peak year in terms of CAPEX, we see on Slide 17 expect overall CAPEX to trend to just south of 10% of total revenues as revenues grow and as the residual part of transformation integration CAPEX gets deployed over the next coming years.

Moving on to Slide 18, again, more details with regards to our costs below EBITDA, we have close to 50% reduction in transformation and integration costs. This is something we also had guided to. Overall, if you include other non-recurring items such as earn-outs or M&A-related fees and costs, but also include non-cash items or items which flow to our P&L but are borne there by others (for instance, the IPO costs, which are sustained by the sponsors that originally bought ICBPI), the overall non-recurring items figures €245 million, €186 million of this is cash. The rest is non-cash, which is broadly in line with the guidance we gave at the Capital Markets Day.

Moving on to Slide 19, we now introduce some slides on let's say, our cash generation compared to the past, and I would say, consistent to what we discussed back in September. So, we have close to 56% growth in terms of EBITDA, less CAPEX less non-recurring cash items at €186 million we saw in the earlier slide. And this translates into a 15% growth in terms of our bottom-line earnings per share on a normalized basis. And this is close to €700 million in terms of normalized net profit.

We also take a look at cash generation. And you remember, we gave a €2.8 billion cash generation target for the years '23, '24 and '25 in our Capital Markets Day. So, if we look at this chart on Slide 20, we can see how we move from the €1.6 billion of EBITDA to close to €400 million of cash generation in the year. And we break it down between the various items, both on an operating level, so including other than CAPEX and non-recurring cash items, also the narrow working capital change of €65 million. And then to the right of the operating cash flow, we have cash taxes, interest expense, and other cash items. We have a call out here about €100 million of cash taxes, which were basically deferred to 2023. The competence or on an accrual basis, they would be 2022 cash taxes, but we're actually going to be paying them in 2023. So that's important to note that our ending cash balance benefits from this and our cash flow for 2023 will be affected by it.

Slide 21, net debt. We closed the year at just south of 3 times leverage that include the synergies we announced back at the acquisition date, and I forgot to mention this on costs, we're delivering just slightly ahead of target. We closed the year with €110 million cash synergies compared to €100 million we targeted for the year. If you exclude those synergies, it's 3.3 times. If you look on the right, we call out how we're proactively managing our €7 billion out of gross indebtedness to make sure that we are always in a comfortable position with regards to leverage. Overall, 3/4 of our indebtedness is fixed and only 1/4 is variable. And therefore, the rise in interest rates in the last 6 or 7 months has only partially affected our cost of debt. As you can see, we've moved from between 1.5 and 2 percentage points of cost of overall debt in the autumn of last year to just north of 2.5% now.

Moving on to the last 2 slides before I hand over the floor to Paolo. So overall, I think the year, and we benchmarked it based on the perimeter when we gave the guidance, has been a remarkable year in which we delivered what we were expecting to deliver, notwithstanding the fact we gave the guidance before war broke out in Ukraine, before inflation rose to levels which were pretty higher than expected and before the rate cycle rise, which started towards the spring of last year.

We now move on to resetting the baseline so that you have the right starting point for benchmarking guidance, which we'll speak to in a second. We've introduced the bottom line EPS normalization as well because from a bottom line basis, what we're doing in moving Ratepay and DBS to below EBITDA doesn't change their impact on EPS. What impacts EPS is the M&A activity that we're carrying out in terms of acquiring assets.

So, moving from the left, you can see the net revenues add approximately just north of €50 million of M&A. And this is the acquisition of the BPER book and the acquisition of Intesa's Croatian book. M&A out and AFS is substantially moving the revenues of Ratepay and of eID in Denmark to below EBITDA. And we close the Capital Markets Day perimeter with revenues at €3.143 billion. The same impact in terms of EBITDA. So, we had €40 million of EBITDA from M&A in and move to below EBITDA for 2022, approximately €60 million of EBITDA associated with DBS and Ratepay mostly Nets DBS, which is the eID business. So, we closed the perimeter at 1.59 to €billion in terms of EBITDA, which is your new baseline.

If you look at the net effect in terms of EPS, it's important to just focus on M&A out and available-for-sale assets. As you can see, there is no impact on bottom line and EPS.

Slide 23 gives you the same details broken down per business unit. So I won't dwell on this too much, and I would hand over the floor to Paolo just summarizing what our performance in terms of top line, EBITDA and margin expansion, bottom line would have been based on new perimeter. So 7.1% top line growth would have been 8%. The 14.2% EBITDA growth would have been 15.3% and the close to 15% EPS growth would have been 18%.

PAOLO BERTOLUZZO: Thank you, Bernardo. Let me now close with guidance for the new year and closing remarks. Basically, we have decided to confirm the guidance that we gave you at Capital Market Day, and therefore, 2023 is perfect in line with the longer-term targets that we did share with you back in September. Net revenues, we expect them to grow at least 7% with Merchant Solutions, again in the double-digit space. EBITDA, we expect to grow it at least 10%. We expect to generate an additional €600 million of cash with a very strong growth compared to 2022 and 2021. Net leverage will go down at 2.9 times EBITDA, 2.6x including rate synergies. This is the pre-Sabadell acquisition that we expect to close by the end of the year. If we include Sabadell, you should add another 0.1x. And last but not least, we expect to grow normalized EPS by at least 10%.

Let me clarify that our internal plans are actually higher than this 7% and 10% on revenues and EBITDA growth. And the simple way to look at it is to consider them at basically the lower end of a range of about 2 percentage points normally would have given the macro uncertainties.

Let me now close again, reminding you on Page 26, our key messages. Overall, an year of strong progress. Solid double-digit volume growth across all geographies and good start of 2023. Very solid financial performance despite the unexpected macro complexities in 2022 with exceptional margin expansion in the year and very strong cash generation acceleration in the year and strong progress in creating the European PayTech leader, with the add of Spain that we have announced last week and we will complete by year-end. Overall, we have delivered our ambition for 2022, and we enter with confidence in 2023 with a guidance that basically looks at a year where we expect to at least confirm the performance that we had in 2022.