Nexi S.p.A.

"First Half 2023 Financial Results Conference Call"

Tuesday, August 01, 2023, 08:00 AM CET

MODERATORS: PAOLO BERTOLUZZO, CHIEF EXECUTIVE OFFICER

BERNARDO MINGRONE, CHIEF FINANCIAL OFFICER

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

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

PAOLO BERTOLUZZO: Thank you and good morning to everyone. Welcome to Nexi call for our results for the First Half of 2023. I'm here, as usual, with Bernardo Mingrone, our CFO and Deputy General Manager and with Stefania Mantegazza, who is leading our Investor Relations team.

As usual, I will start sharing with you the key messages for the first half of the year. I will briefly comment on volumes and key updates for the Merchant Services business. I will then hand over to Bernardo that will cover financial results. I will come back for final comments.

Let me jump to Page 3, with the key messages of today. First of all, we see continued solid volume growth in the second quarter of the year across all geographies, and this is despite a tougher comparison year-on-year due to COVID last year, as spring to summer last year was particularly strong, as the businesses across geographies were reopening for business at full speed after COVID. Despite that, we had good strong growth across all geographies in this year.

In particular, if you compare to pre-COVID levels and this is an important check that we always do, you see acceleration across geographies, all of them reaching 30% growth versus 2019, and this growth is consistent across all product categories that are now converging to more normal levels of growth, post all the various COVID effects.

Second key message in the quarter, in the first half of the year we had a solid financial performance with continued margin expansion. Revenue growth has been at 8.1% in the first half of the year with merchant solutions growing close to double-digit at 9.8%. EBITDA grew 11.6% with 153 basis points EBITDA margin expansion. And as a combination of these elements, plus our very rational approach to non-recurring items and CAPEX, the EBITDA minus CAPEX and non-recurring cash items did grow 18%.

Third and last key message, we continue to progress in creating the European PayTech leader. We are executing the strategy that we have announced at the Capital Market Day back in September last year, and we expect to generate €2.8 billion of organic excess cash in the 3 years '23 to '25.

Based on the M&A outlook for the next 12-18 months, both in and out, we feel comfortable in saying that we plan to allocate at least €1.5 billion for debt reduction, still leaving plenty of room for returning cash to shareholders and very selective strategic and value-accretive M&A.

Last but not least, we are progressing in our portfolio rationalization, and we are in advanced talks on Nets DBS and we hope to be able to announce soon something.

Overall, based on what we've seen in the first half of the year, we feel comfortable in confirming our 2023 guidance, with revenues growing at least 7%, EBITDA growing at least 10%, and excess cash generation at least €600 million.

Let me now move us to volumes, Page 4. As I've anticipated, we see continued volume growth across all geographies. Let me take it one-by-one. Italy is the one that probably had the toughest comparison with last year, as we are going towards the summer. Nevertheless, we still had a solid growth in mid-high single-digit. And if you look at it in comparison with pre-COVID, actually there is an acceleration at 35% compared to pre-COVID levels.

When you look at the Nordics, they have been moving in the double-digit space throughout the quarter, also accelerating at about 30% growth versus pre-COVID. Last but not least, in the DACH region, we also saw a strong double-digit growth across the quarter and, also in this region, actually volumes are accelerating at 31% versus pre-COVID.

If you look at the bigger picture, you see that the categories are converging to more normal levels of growth after the various rebounds and the effects of COVID. Probably, going forward, we will consider reducing the level of detail that we are providing on this page, also in order to simplify and making the understanding of the business simpler.

Let me now move to the key updates for our Merchant Services, that is the largest business unit in our portfolio. First of all, in the SME segment, we've seen in the first half of the year, growth of volume of 14%. We have seen continued strong customer base growth across the various geographies with a particularly strong growth in Italy and Poland. We have added in terms of terminal base, which is a good proxy of customer base, about 145,000 customers over the last 12 months.

Second comment I want to make, we continue to make progress in our software partnerships with ISVs and platform partners, and these are contributing strongly to our sales acceleration across the various geographies. Last but not least, we are more and more rolling out capabilities and best practices across markets and we are progressing across all our geographies with the rollout of the SoftPOS proposition, which we believe has a great potential, given the many types of applications and use cases that it can be applied to.

Moving to eCommerce, we’ve seen an 8% volume growth with actually a double-digit revenue growth. There are three points that I want to underline here. First the performance of our eCommerce Solutions in Italy and the Nordics and of our owned account-to-account solutions in

Poland and Finland. We continue to be strategically focused on the mid-market that we believe is the one with the biggest potential, and compared to where we were 1 year ago, we've seen a customer base growth of about 10% at the end of the first half of the year.

Second key message, we have developed a strategic partnership with Computop in DACH. Computop is the leading eCommerce provider in Germany, and this partnership is strengthening our online and omni-channel proposition, definitely in the DACH region but also beyond the DACH region, given the capabilities that Computop is bringing to our portfolio.

Last message that I want to underline, we continue to strengthen also in eCommerce our partnership portfolio. For example, we've signed a commercial agreement with Shopware across our geographies, and we're already live in Italy and the DACH region, and we signed a preferred partnership with Shopify in Poland.

Last but not least, our large merchant businesses grew 10% in terms of volumes in the first half of the year. Also here, we continue to see a healthy pipeline of commercial new wins and up-selling, cross-selling across multiple verticals and geographies. Just underlying a few of them: omnichannel retail, hospitality and restaurants, mobility and petrol. And here, as you may remember from our Capital Market Day presentations and discussions, our focus is more and more on the local and regional LAKAs that we believe are offering the best and most profitable opportunities.

Let me now hand over to Bernardo for financial results.

BERNARDO MINGRONE: Thanks, Paolo. Good morning from me as well. On Slide 7, so starting with the top line growth, EBITDA and margin expansion as Paolo was saying, I think we had a strong first half of the year. Notwithstanding, as we had anticipated the fact the first quarter was going to be the strongest and there's going to be a reversion towards pre-COVID level growth throughout the geographies in which we operate, we closed the first half with 8% top line growth, in the quarter it was 7.3%. Again, we gross up for scheme fees as we normally show. We added a couple of percentage points to this top line growth.

Within this context, margin continued to expand. We had, as usual, between 1 and 2 percentage points of margin expansion, it was 153 basis points in the first half, growing the EBITDA margin to 49%. And EBITDA overall grew close to 12% in the first half and just north of 10% in the second quarter.

Moving on to Merchant Solutions, I think a touch lighter than what we might have expected, still double-digit top line growth if we gross up for scheme fees, and this is in the context of sustained growth, the value of transactions throughout the group. So I would say that even in Merchant Solutions, we had sustained top line growth, notwithstanding the tough comparison compared to the second quarter last year which is probably going to be the toughest one in the year. Within Merchant Solutions, we've just heard from Paolo how SMEs volumes grew 14% faster than LAKAs and contributing significantly to top line growth.

In addition, I think it's important to call out how we benefit, not only from the structural growth in volumes, which as we've seen throughout the post-COVID years, have continued to grow significantly, but also thanks to the growth in our customer base and we call out how we added close to 150,000 terminals in the first half and eCommerce clients growing north of 10%.

Slide 9, on Issuing Solutions, it's fair to say, I think, we had a first half and the second quarter above expectations with strong top line growth, which was supported also, and we call this from a one-off, by the contribution of between 1 and 2 percentage points in the first half. This comes off the back of an M&A deal we closed at the end of last year. In general, I think focus that we'd like to call out is on up-selling, cross-selling of value-added services and the progress we're continuing to make on Advanced Digital Issuing Solutions also outside of Italy.

Digital Banking Solutions, notwithstanding the negative effect we suffered from banking consolidation in particular last year, we lost 2 client banks through banking mergers, we have growth in the quarter. So, the growth, which is driven primarily through volumes, were strong in EBA Clearing, the network of instant payments and bank transfer we manage across Europe, representing more than 40% of overall volumes. The growth in network services, but also growth in other businesses within DBS, more than compensated the loss of these clients last year. So I would say a very good quarter and a very good first half for Digital Banking Solutions.

Moving on to the geographical revenue breakdown on Slide 11. We can see how Italy has grown high single-digit as has the DACH region. We pick up again those 2 percentage points, grossing up for scheme fees, being double-digit growth for both geographies. Similar growth in the second quarter. South-eastern Europe, it's important to call out, I would say a couple of factors, the first is through the war in the Ukraine last year, we lost the bank in the region, let's take the core second quarter growth year-on-year from a comp perspective. The other factor to note is how the gross up of scheme fees here is much higher. This is due to the higher incidence of tourism and the proportionally higher incidence of tourism in the geographies in which we operate, Greece and Croatia in particular. But I'd say, a good quarter in South-eastern Europe as well.

In the Nordics, a little softer here. Margin compression, I'd say, in the Nordics is one of the primary drivers. A little phasing on project work on the issuing front is also part of the explanation for the 2.6% growth in the second quarter, but mid-single-digit for the first half, which is in line with our overall longer-term guidance for the region.

If we move to Slide 12 on costs, I'd say, as expected and as anticipated, we have the slowdown on the year-on-year growth on costs. As for the first quarter, throughout the year, we will have four primary factors contributing to our cost base. First one is investment we've made in our people, in our business, which has driven the growth in HR costs, in particular, in the first quarter where it has peaked.

The second impact is clearly coming from inflation. And as we've discussed a number of times, we try and I think are successful in managing the impact on inflation over time, but nevertheless, at some point inflation does hit our cost base and you see that reflected in '23 numbers. Don't forget that last year we were flat year-on-year on costs.

The third is not all our costs are fixed. We have approximately 20% of our cost base, which is driven by volumes and the volume growth has driven some cost increases as well. And then offsetting part of this growth are the synergies, which we are on track to deliver in terms of our guidance and help us mitigate this overall impact on our cost line. However, I think the important point is, we peaked in terms of cost growth year-on-year in the first quarter, and we are now reverting to a more normalized growth level for the rest of the year starting from the second quarter.

Moving on to Slide 13, we continue to invest in our technology stack to support the innovation and the transformation of our IT platforms. Indeed, I think we don't give the details here, but R&D costs were down year-on-year this year, thanks to these investments we're making in the platforms. We have closed down overall 5 platforms of the 25, on track towards our 4-target platform level. And we've also decommissioned 11 data centers of the 45 we had, and we have further obviously coming in the second half of the year.

I think it's fair to call out how in the second quarter we had a bit more CAPEX spend on terminals. This is clearly directly linked to revenue, so good, but we also had some infrastructure-related renewals, et cetera, which from a timing difference shifted or actually were booked in the second quarter, making the year-on-year comparison a little less favourable than would otherwise have been. Overall, we target still to have a 2 percentage point reduction in CAPEX to revenues level for the year, which is on track towards our longer-term target.

Slide 14 shows the decrease in integration and transformation costs, or in general non-recurring items. We have a 25% reduction year-on-year in the first half. The target for the year was to reduce by more than 40% of this line. So if you look at the half year number, €76 million, I think we are perfectly on track to deliver that reduction compared to 2022.

Slide 15; again, going back to Paolo's comments, strong growth in EBITDA less CAPEX less non-recurring cash items close to 20%. We also have an 8% growth in normalized EPS.

And Slide 16, before we move on to the balance sheet, the cash generation in the first half was strong, €270.5 million. If we account for seasonality of certain items, but most importantly seasonality of earnings, with the second half obviously being stronger than the first half, I think we're well on track to deliver our goal for the year.

Finally on Slide 17, the balance sheet or leverage. We closed the quarter or the first half at 2.8 times. If we exclude synergies, we're just south of 3.2 times. So continued reduction in leverage. This was appreciated by rating agencies. We had an upgrade to BB+ by Fitch that follows the S&P upgrade and we're hopeful to continue on this trend in the coming months.

Two more things that I'd like to call out. The first is that we've activated the sustainability-linked clause on term loan. This will help not only saving a little money on the interest margin, which is always important, but I think is a strong testament to our commitment to ESG and achieving our targets.

And finally, and maybe more importantly, we have earmarked or, let's say, highlight how we already have more than sufficient cash on our balance sheet to meet short-term liabilities, both next year and the year after, but we call out here how 2024 maturity would be redeemed or reimbursed using existing cash resources. And this will lead to gross debt reduction, which is a step in the right direction. Paolo.

PAOLO BERTOLUZZO: Thank you, Bernardo. Let me just jump to Page 19. Based on the first half of the year, we confirm the guidance that we gave for the full year. Net revenues growing at least 7%, EBITDA growing at least 10%, excess cash generation at least €600 million. Net leverage going down on an organic basis at 2.9 times EBITDA by year-end, 2.6 times if you include run-rate synergies, and normalized EPS growing more than 10%.

Let me close on Page 20, reiterating the key messages, continued solid volume growth across all geographies for the quarter. Second message, a solid strong financial performance with continued margin expansion. And let me underline again, the growth of 18% of our EBITDA, minus CAPEX and non-recurring cash items.

And last but not least, strong progress in creating the European PayTech leader, and here we are adding to our previous comments the fact that based on the M&A outlook, both in and out, for the next 12 to 18 months we feel comfortable in saying that we plan to allocate at least €1.5 billion for debt reduction, still leaving plenty of room for returning cash to shareholders, and very selective strategic, value-accretive M&A. Overall, we confirm the guidance for the year.