Nexi S.p.A.

"Full Year 2024 Financial Results Presentation"

Friday, February 28, 2025, 08:00 CET

MODERATORS: PAOLO BERTOLUZZO, CHIEF EXECUTIVE OFFICER
BERNARDO MINGRONE, CHIEF FINANCIAL OFFICER AND DEPUTY GENERAL MANAGER
STEFANIA MANTEGAZZA, INVESTOR RELATIONS

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome, and thank you for joining the Nexi Full Year 2024 Financial Results Presentation.

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 very much, and good morning to everyone. Welcome to our call for 2024 full year results. And here, as usual, with Bernardo Mingrone, our CFO and Deputy General Manager, with Stefania Mantegazza, who is our Investor Relations activities and a few other members of our team.

Today, I will start as usual with a summary of the key messages. Then I will spend a few minutes to deep dive on capital allocation, both in terms of how we see it and how we generate more and more cash over time, the results that we have achieved in 2024. And most importantly, the commitments we are taking for '25 and going forward. I will then hand over to Bernardo for full year results description. And then we'll come back to talk about the next year guidance.

Now, let me start with the key messages. As usual, at Page 3, 3 key messages. First of all, a continued delivery of growth and most importantly, strong acceleration of cash generation. Revenues in the year did grow for 5.1% versus the previous years with Merchant Solutions going up 6.3%. EBITDA growth was at 7.1%, with 101 basis points EBITDA margin expansion in the year, thanks to a very strong cost control throughout. The growth of excess cash has continued in a very remarkable way. We have closed the year at €717 million, which is a 19% growth versus the previous year. And overall, normalized EPS has been at €0.59 which represents an 11% growth to the previous year, also embedding the effect of the buyback that we've done last year.

Second key message, we continue to shape the company for future profitable growth, which is our strongest focus. First of all, we did continue to progress the execution of our integrated payment strategy, integrated as always means a combination of payments and software, especially for SMEs. In the year, we've been working with more than 500 ISV partners across the various geographies, and we have now Nexi integrated payment software bundles in more than 6 markets.

Second element that we want to underline, which is a strong value, not just for the year but actually for the future as well. In Italy, we have been strengthening our complementary channels for SMEs that basically operate in addition to our bank partnerships. And actually, in the last quarter of the year these additional channels have been representing 30% of total new sales, and this is up from about 15% last year, and the additional 15% is all driven by the new face-to-face channels that we have been developing throughout the year. And I also want to underline the fact that this growth is actually coming on top of the performance of the bank partnerships that has been in line with the previous years.

Third point that we want to underline, we have been fully executing our efficiency plan and organizational synergies. And this is very well witnessed by the fact that in the last quarter of the year, our OPEX are broadly flat, compared to the same quarter of the previous year.

And last but not least, we also want to underline that we are leveraging as much as we can, the opportunities offered by Gen AI and AI more in general. For now, we've been focusing a lot on IT, both software development and software testing and operations across the board, and we start to see some material value generated by the implementation of Gen AI. And as we go forward, we will continue to do that more and more.

Third key message, creating value for our shareholders. Let me start from the achievements from last year. Leverage ratio went down from

3.0 to 2.7 times EBITDA, this would have been before the buyback effect 2.4 times. We've been upgraded to investment grade by Fitch Ratings in December 2024, and you all know very well what it means for us. And we've completed our €500 million share buyback in '24.

Most importantly, going forward, the plan for 2025, we plan to return to shareholders most of the excess cash, and we start distributing dividends from this year and then these dividends will grow over time. While at the same time, we remain committed to maintain an investment-grade status. More precisely, in 2025, we’ll return to shareholders a total of about €600 million, which is 20% more than last year. And this €600 million will be a combination of the €300 million dividends and an additional €300 million share buyback program that we'll be executing in the year. Overall, we have been delivering the guidance that we provided to you one year ago for 2024.

Let me now move into capital allocation. We went through this about 6 months ago, but let me go through it again. We are benefiting from the combined effect of top line growth, operating leverage and what we call cash leverage. Revenues grow depending on the year, but we can see continuous growth. And in 2024, this has been a bit above 5%. We continue to have on top of that very strong cost control, and this is generating the operating leverage that is allowing us to continue to expand EBITDA margin and, therefore, support more than 7% EBITDA growth. Together with that, we have CAPEX going down, non-recurring cash items going down. And over time, we will also see net cash interest expenses going down as we reduced our debt and interest rates go down. And this is what is generating a very strong generation of excess cash. And most importantly a strong growth of excess cash, that for the year has been 19% to €717 million. And here on the right, you see the journey we are on: 2022 about €400 million, 2023 about €600 million, 2024 more than €700 million, and we expect to see more than €800 million in 2025.

Now, let me go back to '24 for a moment. What did we achieve across our 3 priorities: debt leverage reduction we have reduced leverage to 2.7 times EBITDA, which would have been before the share buyback 2.4 times. I want to underline again what we discussed in the past, our strong organic deleveraging capacity. If we're not allocating €0.5 billion to shareholders would have been deleveraging 0.6 times EBITDA in the single year. And we have also paid the debt maturities of 2024. We reimburse them for more than €700 million, and we plan to reimburse the €0.5 billion that we have maturing in 2025 with available cash.

The second key point. In the year, we returned €500 million to shareholders through the share buyback we've completed in September, and we have cancelled the about 83 million shares.

Last but not least, M&A. As we said in the past, our M&A activity is extremely focused on the most available opportunities that we assess with extreme rigor. And at the same time, we continue to rationalize our portfolio with a focus on DBS. In the year, it's important to underline the fact that actually the money that came into the company through selling assets has been actually higher than what we spent on M&A and therefore, in this specific year, M&A has been a positive contributor to cash, that we could use to return to shareholders or to reduce leverage. Overall, this progress has been well taken into account by rating agencies that have been upgrading us to investment grade at the end of the year.

Now what is the plan going forward? Next page, Page 6, the basis for this capital allocation is the cash that we have been generating last year, €717 million, together with the outlook for this year, €800 million, and more broadly for the outlook of the coming years, where we expect to continue to increase the cash that is generated by the business.

First of all, we'll maintain as a key priority the debt and leverage reduction: here we have a clear commitment to maintain the investment grade status that we have obtained. And in parallel, continue on the gradual deleveraging towards the 2 to 2.5 times EBITDA target leverage as we discussed in the past.

At the same time, let me go on the far right, we will maintain a very rigorous approach to M&A, very focused and probably very small in size, very accretive acquisitions. While at the same time, continue to focus on the rationalization of the portfolio in DBS.

And now, let me focus on the core of the message, today we will report more and more value, more and more cash to our shareholders. And here, there are 2 sets to it, a longer-term view and outlook. Going forward, we plan to return most of the excess cash generated by the business to shareholders. And as a part of that, from this year, we will start distributing dividends that then we expect to grow over time.

More precisely, in 2025, we will start with a dividend distribution of about €300 million, precise number is going to be €0.25 per share. And on top of that, we will also add €300 million of share buyback. In total, we'll be returning to shareholders about €600 million, which is 20% more than last year. And this is about 10% of the equity value of the company at current share price with an implied yield of more than 10%.

Now, let me hand over to Bernardo for results.

BERNARDO MINGRONE: Thanks, Paolo. Good morning. So starting from Slide 8, where we begin with the consolidated view of our P&L Paolo has already mentioned. Our revenues are growing just north of 5% for the year, slightly less in the fourth quarter due to some effects we'll speak of in the business units. But in general, performance albeit being seasonal as our business is, was pretty homogeneously spread throughout the year. The growth was pretty consistent, as per our guidance back in February last year.

EBITDA margin clearly peaked in the fourth quarter in terms of its accretion, 153 basis points. This is a function of the strong expected cost performance in the fourth quarter. We'll speak of in a second. In general, for the year, we continue to increase our EBITDA margin by about 100 basis points as in previous years. All of this, thanks to the operating leverage we benefit from as a business in this sector. Overall, EBITDA grew 7.1% for the year, slightly less than the quarter at 6.7%, again, pretty much in line with our expectations and guidance at the beginning of 2024.

Moving on to Merchant Solutions. Merchant Solutions benefited as most of our business from strong growth in volumes throughout the year. In terms of the value of managed transactions and international schemes, you can see the growth being just shy of 10%. Revenue growth at 6.3% in the full year, with a slight decrease in the growth rate in the fourth quarter. We have highlighted how in Italy we have had the beginning of the impact of the migration of one large client, which is expected and started towards the end of the year. In other geographies, in the Nordics in particular, we suffered a bit from a slightly weaker macro and some phasing effects on partner commissions or scheme related fees and incentives.

In general, I think it's important to highlight how we have benefited from strong growth in our core business of SMEs. E-commerce continues to support this top line growth and we have some additional contribution coming from upselling and cross selling of value-added products and services.

On the issuing front, I'd say a bit of a positive surprise compared to when we guided back in February last year in terms of the full year performance. Overall, revenues grew in the mid-single-digit range at just north of 4% in the fourth quarter. Even in issuing, you can see international scheme volumes growing just north of 9%. And I think the name of the game here continues to be strong performance in Italy driven by international debit product. We continue to upsell and cross sell our advanced digital issuing solutions across the board. And I think the slightly better end of the year than what we had forecast has really got to do with phasing effects or delays in migration particularly with one client in the Nordics.

Slide 11, talks about Digital Banking solutions here. We're talking little swings one quarter to the other, which might impact, also hundreds of thousands of euros or very slow single-digit millions of euros in the quarter. So it's very hard to comment quarterly performance, especially in this business, which is less than the others, tied to volume growth, but has a more infrastructure like characteristic and has a lot of project work in it. So rather comment full year, which is year-on-year growth of 1.6%. I think this is a strong performance given that in the past this was hardest hit by client losses coming from bank M&A in Italy. And notwithstanding this, it is a business which still grow the top line thanks to the exposure it does have to areas like instant payments and so on and so forth, which do provide some benefit from volumes growing.

On Slide 12, I would highlight the fourth quarter performance in DACH and Poland, which was double-digit. Southeastern Europe throughout the year was pretty consistent in terms of the high-single-digit kind of growth around the 7%, 8% you see for the full year. Italy, I mentioned slight slowdown impact in the fourth quarter impacted by the banking M&A I was referring to earlier when I was speaking of Merchant Solutions, Nordics impacted as well by some phasing effect on commissions and generally weaker macro, especially in some of the geographies in the Nordics.

Slide 13 on costs, I think we're pretty happy and proud of achievements during the course of '24. During the course of the year we kind of indicated we're expecting full year cost growth to be below 3%. It's 2.9% benefiting from the fourth quarter, which is essentially flat. As you can see, the HR costs were down 6%. That's not a surprise as we carried out a very large plan to incentivize exits and right size our workforce during the course of '24, which basically gave its benefits mostly in the second half and primarily in the fourth quarter.

On the non-HR front, we also did I think a reasonably good job of trying to contain upward pressure coming from inflation. But also let's not forget that close to 10% growth in number of transactions, which is what feeds our costs. Ultimately, our cost base is 20% variable. So that 10% growth in number of transactions translates automatically in a 2% growth in processing costs for us. And notwithstanding this inflationary pressure, wage drift, volume growth, we managed to contain cost growth to 2.9% for the year, which is what we guided to, if not slightly better.

On CAPEX, the trajectory is a healthy decrease close to 11%, €50 million less of CAPEX in the year compared to the prior year. Obviously, this is a function of the progress towards completing our transformation. And this is notwithstanding the fact that we continue to invest to support our innovation, quality, security. We closed down our largest data centre in Italy back in July and continued to rationalize the duplication of platforms and data centres and the streamlining of our cost base, which ultimately translates in a lower absolute level of CAPEX. Even in relative terms, you've come down from 15% to 13%, which is another step in the right direction.

Moving on to non-recurring items, if we focus on integration and transformation costs, they're down 20% year-on-year. I think last year they were down more than that 50%, but the downward trend is something we expect to continue going forward and it is in line with expectations. We also had a very large one-off charge, which is fully booked in the year, €164 million in terms of severance. Speaking of the benefits we got from that severance with the costs, this is the upfront P&L item. Half of this more or less was paid out in cash during the course of '24 and the remaining half will be flowing through our cash flow in '25 and '26.

Cash, Paolo spoke of the 19% year-on-year growth of excess cash. I think you know this was pretty much in line with expectations we guided to north of €700 million. A lot of work went into optimizing working capital you see was slightly positive in the year. But in general, I think the excess cash result for the year reflects the underlying performance of the business, so EBITDA growth, the CAPEX coming down, non-recurring cash items obviously slightly higher than what we would have had if we hadn't had their severance, but notwithstanding all of this optimization around the board, even on cash taxes and net cash interest expense, helped to achieve this strong result on cash generation.

Moving on to Slide 17, just a quick recap on some of our key strengths. I believe strong increase in cash generation 20% year-on-year from €600 million to €700 million and also how this translates in terms of earnings growth. You can see how normalized EPS, stripping out exceptional D&A related to M&A and the non-recurring items, are growing from €0.54 to €0.59, 11% year-on-year, compounded by the effects of the buyback. We bought back more than 80 million shares during the course of last year, which obviously helped stimulate this growth. And normalized net profit being €731 million.

Finally, before handing the floor back to Paolo, on net debt 2024 was a remarkable year for us in terms of capital allocation. We started to buy back shares and return €0.5 billion to investors and at the same time, reduced gross debt by three quarters of a billion euros. Importantly, we were upgraded to investment grade by one of the rating agencies. This was a long time in the making, a lot of work went into this after very significant number of consecutive upgrades.

We have managed to secure funding from EIB and Cassa Depositi e Prestiti to support our growth, our CAPEX and this is a very long term financing, very stable, very attractive rates. And you see here, we call out the fact that we're in the process of managing maturities well beyond

2025, which will be paid down in cash as Paolo said. But looking to 2026 and 2027, we're now talking with our partner banks with regards to the term loans, the RCF, to try and refinance them in a very effective way.

We've received the commitments significantly in excess of what is due in 2026. And therefore, in the coming days, I think we will be able to announce successfully refinancing maturities for 2026 and possibly 2027. So in terms of the maturity profile of our debt, that 2.4 years will be substantially increased in the not too distant future.

Let me hand the floor back over to Paolo with regards to our guidance for 2025.

PAOLO BERTOLUZZO: Thank you, Bernardo. As far as 2025 guidance is concerned, let me go through what we see for the development of the company. Top line growth, net revenues, we expect to have a low to mid-single-digit year-on-year growth. Here we see some underlying growth acceleration despite a softer than expected macro, but we also see the effect of some extraordinary events such as Italian banks M&A, Banco BPM in particular, and some other small contract renegotiations or terminations across Europe.

The point is that these effects are not extraordinary, in the sense that every year we have some of them. What is extraordinary in 2025 is the concentration in the year that makes it absolutely a unique year from this point of view. Nevertheless, we expect to continue to expand our EBITDA margin by at least 50 basis points thanks to a continued strong cost control. And last but not least, we will continue to grow strongly the excess cash that we generate, and we expect to land for the year at more than €800 million, bringing the growth to about another €100 million compared to 2024.

Let me now close by summarizing the key messages again on Page 21. First of all, we continue to see the delivery of growth and strong excess cash generation. Again, let me underline 19% higher cash generation in 2024. Second, we continue to shape Nexi for future profitable growth across all fronts from what supports underlying future growth to what supports efficiency, to what supports competitiveness. Last but not least, we continue to create value for our shareholders, returning more and more cash while continuing to reduce our leverage. We have delivered the guidance for 2024 and as we look forward, we commit to an additional €100 million growth of the excess cash generation, which we expect to be at more than €800 million. And we continue our journey of returning more and more value to our shareholders. In 2025, we'll return about €600 million, which is a 20% increase. Out of this €600 million, €300 million will be a dividend that we start in 2025 and we expect to grow over time. And on top of that, we will add an additional €300 million of share buyback. So a total of €600 million, which is more than a 10% yield at current share price.