Nexi S.p.A.

"Full Year 2023 Financial Results Conference Call"

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BERNARDO MINGRONE, CHIEF FINANCIAL OFFICER

OPERATOR: Good morning. This is the Chorus Call conference operator. Welcome and thank you for joining the Nexi Full Year 2023 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, Chief Executive Officer of Nexi. Please go ahead, sir.

PAOLO BERTOLUZZO: Thank you and good morning to everyone. Welcome to our call for full year results for 2023. As usual, I'm here with Bernardo Mingrone, our CFO and Deputy General Manager and Ms. Stefania Mantegazza, who leads our Investor Relations activities.

I will start with the key messages and comment as usual volumes and our progress in merchant services. I will then hand it over to Bernardo, that will take us through the financial results, and then I will close with the new year guidance and the outlook for the medium-term.

Let me jump to Page 3 that summarizes the key messages of today. First of all, in the last quarter of 2023, we have seen continued volume growth in all geographies. While Italy and the Nordics have been trailing at around mid-single-digit year-on-year growth, we do continue to see strong double-digit growth in the DACH region in the quarter as well. The beginning of the year has been more or less in line with the end of last year, with growth across all geographies in January and in February despite the macro weakness that we see around us.

Second key message, we have seen in the year and also in the quarter continued top line growth, very strong margin expansion and cash generation. Revenue growth for the year has been at around 7% with merchant solutions growing closer to 8% and with Germany and eCommerce growing double-digit in the year. On EBITDA, we've seen a

growth of about 10% versus last year with almost 150 basis points of EBITDA margin expansion, despite the inflationary pressure that we have seen on the cost base.

Third, we've seen continued strong excess cash generation that is closing the year at around €600 million, slightly above €600 million which was our target for the year. In this context, we've seen a continued debt leverage reduction. We're closing the year at about 3.0x EBITDA, which is down from 3.3x at the end of last year.

Last but not least, we had to take a non-cash technical impairment of goodwill and intangible of about €1.2 billion to reflect the share price evolution and the current market conditions. De facto, this is related to the mergers from 2021 that were done in shares with no cash component.

The third message, given this strong cash generation and the outlook of continued growing cash generation, we have decided to propose to our AGM to start a €500 million share buy-back program. Overall, our strategy execution is progressing well, we are seeing more and more opportunities for efficiency and synergy delivery on the back of the Group integration, and we'll take them starting from this year at an accelerated pace.

The 2024 guidance and the revised medium-term plan confirm continued margin expansion and strong growth in cash generation in a more uncertain macro outlook, at least in the shorter-term. In this context, we have decided to evolve our capital allocation strategy. We will continue to reduce leverage that remains a key priority. We will always continue to cover the actually limited M&A opportunities that we see and that we expect to have in the near term. But at the same time, we are entering a

new phase for our company in terms of capital allocation and we start returning capital to our shareholders.

And given where the share price is today, the management and Board believes that the share price doesn't fully reflect the value of the business and its outlook. We decided to propose to our Shareholders Meeting a share buy-back program up to €500 million over the next 18 months.

Consistently, over the next couple of years, we are confirming that we will pay down the €1.3 billion of debt maturities with existing cash and this will materially reduce our gross debt and, obviously, our cost of debt.

And last but not least, we continue to progress on our ESG plan, and in annex you can see a page that summarizes the progress that we've done during 2023. Overall, we have delivered the guidance for last year despite a macroeconomic environment that during the year has become much more complex and challenging than what we were expecting at the beginning of the year when we gave the guidance.

Let me now move to Page 4, where you see, as usual, the volume dynamics. As I did say last time, this is the last time we're providing all these details. This page was intended to also understand what was happening during and after the COVID period. Hopefully, this is history and therefore we'll move to a more simplified explanation of our volume dynamics.

To comment on what we have in front of us today, basically, you see that all geographies are growing. Italy is basically moving at around 5% - 6% over the last few months. Nordics are seeing a similar trend, while in the DACH region we continue to see a double-digit growth over the last quarter and also at the beginning of the year.

When you look at the different categories, it's good to see that we have a very solid growth across all geographies on basic consumption that remains strong, and it continues to be a clear signal of the very strong cash-to-digital payments shift that continues to happen across all geographies. While you see that the category that is suffering the most actually is discretionary consumption, as it is normal in a phase where macro is difficult, and consumers need to rationalize the way they spend and this is particularly visible in Italy and in DACH as well.

Let me now move to Page 5 that summarizes some of the progress we've made in the merchant services space. Let me just speak on a few of the points on this page. First of all, in SMEs, where we continue to see good volume and revenue growth, we have continued to expand our customer base similarly to what we've done in the previous quarters, with particularly strong growth in Italy, in Germany and in Poland.

Second, this is very strategic for us. We continue to progress on integrated payments, on the convergence of software and payments with a good number of new ISV partnership wins in the last quarter as well, both in the ECR space and in vertical solution space with a special focus in the sectors that we believe are the most exposed to this dynamic, being retail, hospitality, mobility, and ticketing.

Moving to eCommerce, where we've seen during the year a good double-digit growth of revenues, we've seen also here a continued customer base expansion with about 7% growth, with a strong continued focus on mid-market that we see as the sweet spot for us. And, also in this space, we continue to sign partnerships with key strategic eCom platforms. In the last quarter, we signed a group-wide partnership with WooCommerce and

it is coming on top of the ones that we signed in the recent past with Magento, Shopware and Prestashop.

Last but not least, on LAKA, we continue to see a solid pipeline of customer wins and cross selling and up selling opportunity. Here, our focus is more and more on mid-corporate and on national large merchant space, where the local integrated capabilities are a key differentiator and where we are keeping as much as possible a strong focus on some key verticals like omni channel retail, hospitality and EV charging and petrol.

Let me now hand over to Bernardo that will take us through the financial results.

BERNARDO MINGRONE: Thanks, Paolo, we'll go through these slides, you've anticipated the Group results.

Starting from Slide 7, looking at the Group as a whole, as Paolo has already said, we grew revenues in the year by 7%. This was in line with the guidance we confirmed back in November and notwithstanding the market environment we spoke of.

The fourth quarter was roughly similar to the whole year or a little lighter. I think it's important to note how notwithstanding the tougher market conditions, we still benefit from significant operating leverage and, as we grow revenues, EBITDA margin grew 146 basis points in the year, roughly 140 in the quarter, taking us to 52% group wide EBITDA margin for the year, which is in line, I would say, with a high historical performance and track record. In this context, our EBITDA grew double-digit, 10%, slightly lower than that in the fourth quarter, but again very much in line with the guidance we gave for the year.

Moving on to Merchant Solutions, we can see how top line growth has been little lower than what historically we have been used to, but roughly 8% for the year and a little softer than that in the fourth quarter, consistent with what we said with regards to the overall performance. However, if we only looked at international schemes, we obviously benefit from the strong growth in international schemes we've highlighted, and more importantly, I think it's fundamental to look at our growth in Germany and eCommerce, which are two of the key pillars of growth for our strategy going forward, which are growing double-digit and the eCommerce is probably growing twice the speed of the market.

Moving on to Issuing Solutions on Slide 9, the results are at the top end of the guidance we have always provided for this business unit, which is to grow mid-to-high single-digit. So, growth for the year was 7.6% and, as we knew and as we had planned for at the beginning of the year, it is a stronger fourth quarter than the rest of the year and this is due to number of things we've highlighted on the top right-hand corner of page. As you know, a lot of work gets done for banks. These are primary partners in issuing solutions and the phasing of the project work we did for banks was skewed towards the end of the year.

As I said, it was planned, but you should think of it also as something which is hard to predict upfront for next year. And indeed, the reason why I call this out is that, given the more prudent environment, we want to manage for next year. I think we've been a little more conservative in '24 than in '23 with regards to this kind of project work.

The fundamental important points I would like to highlight on issuing solutions are basically the first and the last in the page. The first one is that we've gone past the 6 million international debit cards in Italy. As you know, we've discussed this number of times, this product for us is

significantly more valuable than traditional simpler domestic scheme cards, and there was a strong push in the year, which also contributed to this result.

And the final point, which is also crucially important to our success and our strategy, we continue to upsell and cross sell value-added services in different geographies, also in Italy, clearly, but also outside of it. And this is important when we'll come to see progress in the DACH region in the fourth quarter as well in a couple of slides.

DBS, I think, had a very strong year. It is the business unit which relies less on growth in volumes. However, the exposure to instant payment growth in the European market, where we are a very significant player thanks to our partnership with EBA Clearing, has helped basically offset the loss of customers in prior years. So, we lost bank customers through banking mergers, and the loss of those revenues has been more than offset by the growth in the business. So, strong year for digital banking solutions, which grows about 2% the top line, in line again with our guidance for this kind of business.

Slide 11 gives you the geographic breakdown of the growth in our businesses with Italy growing 7.5% and Nordic slightly lower than that in the mid-single-digit range. DACH & Poland is a key driver to the top line growth with growth in the year of 8%.

The fourth quarter is more driven by some project work, again, as I was mentioning on issuing and some customers we won in Germany in particular. But in general, it has been a strong year for the DACH and Poland region, South Eastern Europe and other benefits from the acquisition we closed in February 2023, the Intesa merchants book in Croatia, which also contributed materially to the growth in the period.

Slide 12 is an important slide for us to spend a moment on, it is cost performance. We guided to costs being lower than 4% in the year, at least to discuss, that was our outlook during 2023 and, indeed, we closed the year at 3.8%. This is notwithstanding the significant inflationary pressures, which all of us are keenly aware of, and this is very much so in renegotiating labor contracts throughout Europe and Italy in particular, where we have half, or just under half, of our business, including the workforce.

And as some of you might know, given, I'd say, the strength in the banking market, thanks to the higher rate environment, we have the national credit contract applying to our colleagues in Italy. There's a very front-end skewed negotiation in terms of updating that contract, which impacted us at the back end of 2023, so much so that if we normalize for that big one-off we had to book in December, growth in HR costs in the fourth quarter would have actually been zero.

In any event, I think through synergies, which we continue to benefit for efficiency programs and which we continue to implement, we managed to contain cost growth on the non-HR expenses to 2% and overall, to under 4% for the Group, showing our continued commitment with regards to cost control.

Moving on to CAPEX, the trend has inverted. We are down year-on-year by approximately €25 million, a c. 5% reduction. This is also thanks to the fact that we are finalizing what we had earmarked as transformation costs following the mergers with Nets and SIA, which were announced at the end of 2020, but implemented ultimately from 2022 onwards, at least with regards to the merger with SIA. And we expect, and Paolo will say it in

the guidance, we expect this trend to be consistent with what we discussed in the past with regards to CAPEX.

It's important to highlight how and we give you an indicator here of the progress of simplifying our platforms, reducing them by number, and also data centers, even though we measure a number of data-centers and it should be square meters, this is just a course measure of how we are gaining those efficiencies, synergies and lower CAPEX.

Slide 14, as usual, highlights the costs which are booked below EBITDA because they are non-recurring in nature, because they're not related to the ordinary business. Transformation and integration costs, which are cash costs, are down 24% year-on-year, the trajectory will continue as planned.

In the right part of that, you can see some other costs, clearly including the impairment charge Paolo spoke of, which is non-cash. We never paid cash for the mergers with Nets and SIA, so all of this is an impairment of an intangible, which was not generated by cash acquisition. I'd say, it's obviously unfortunately we had to devalue the goodwill, but at least it wasn't paid for in cash.

And we have the usual other buckets which include non-cash costs like LTI or, even though 5 years down the line, there's still some IPO related costs borne by the initial financial sponsors. In M&A, impact fees and others, we have the impact of earn-outs, M&A carried out in the past and so on and so forth.

Slide 15 is the walk through €600 million of cash generation in the year, as per guidance. This is a 27% increase year-on-year, taking into account that we benefited from a higher cash balance coming into 2023, due to the deferral of tax component from 2022. Taking that into account, cash

generation was €500 million in year compared to €400 million the year before, it's a €100 million increase, so in line with our expectation and our guidance.

Slide 16 is about the leverage. We've come down from 3.3x to 3x. That trajectory will inertially continue, this is a very highly generating cash business. The debt stack was generated from the sponsors acquisitions of Nets and Nexi, very little of this is related to M&A activity and in general, it's coming down. From April, we'll start reducing gross debt, we will pay back Nexi notes in April, as they come due, and as we've committed to, and so on and so forth in October with the publicly traded bonds.

I think it's important to highlight how rating agencies have taken a favorable view with regards to the progress on the leverage and cash generation with six upgrades over the last couple of years, which is clearly very pleasing from our standpoint. And I always like to highlight how the cost of our debt stack is limited, less than 3%. At current rates is as if we had half of the debt we have on our balance sheet given the cost of this debt, and we will continue to benefit from this for quite a while longer.

Slide 17 summarizes what Paolo has said that we have reached a turning point in the company's transformation and journey. Now, we are capable and able to start returning capital to shareholders. We believe there are significant cash balances we already have, plus the cash generation going forward, the high visibility we have on the business, on M&A and on the debt maturities that allows us to plan for this and we believe that the stock price gives us the best and most compelling opportunity to do so. For these reasons, at the next EGM we will propose up to €500 million share buy-back program, which will commence shortly thereafter and last up to 18 months.

I think it's important to point out the last bullet point we put on this slide, which is we believe this is the start of a capital restitution phase in Nexi's corporate life. We believe that, after this initial 18-month period, in 2026 we will be at a point in time when we can consider other forms of capital restitution, maybe still buy-backs, maybe dividends, but this is not to be considered a one-off.

With that, I will hand the floor back to Paolo for his closing remarks.

PAOLO BERTOLUZZO: Thank you, Bernardo. Let me jump to Page 19 to cover guidance and updated medium-term outlook. Let me start with the guidance for the new year.

In terms of net revenues, we expect to see a mid-single-digit y/y growth in a macro environment that we expect to remain uncertain, fragile throughout the year. I just want to underline that, as far as merchant service is concerned, we expect to see a gradual acceleration towards high-single-digit.

As far as EBITDA is concerned, we expect to see a continued EBITDA margin expansion of 100 basis points plus, which basically means a mid-to-high single-digit y/y growth for EBITDA. As far as excess cash is concerned, we expect to generate more than €700 million. Actually, we hope to do materially more than that. This €700 million are already net of cash severance costs for about €70 to €80 million that we will have in the year that will support further efficiencies and synergies going forward. And, if you embed this into the €700 million, this means that we have more or less a gross cash generation pre-severance costs of about €800 million, therefore, continuing our strong growth of excess cash generation.

Last but not least, as far as net leverage is concerned, on an organic basis, therefore pre-M&A and pre-returning cash to shareholders, our organic leverage would be down to 2.6x EBITDA. Embedding already the announced M&A, Sabadell in particular, but also the share buy-back program we expect to be below 2.9x EBITDA and, therefore, continuing our deleveraging even if we return cash to shareholders.

As far as the medium-term outlook is concerned, assuming that we will continue to see, which is our conviction, a robust cash to digital payments conversion and we will have a macro environment gradually recovering in the medium-term, we expect to have a gradual acceleration of the top line from the mid-single-digit that we expect in 2024 towards a high single-digit space in the longer term. I want to underline that we see the underlying full potential of the business to be running at high-single-digit in the long run, hopefully, after macro tensions are over, inflation is over, wars are over and so on and so forth. In any case, we expect to continue to expand EBITDA margin above 100 basis points per year, and we expect to continue to increase our cash generation strongly, reaching about €1 billion in 2026.

Again, if you look at what does it means in terms of net leverage, on an organic basis and pre-M&A and pre-returning cash to shareholders, this will mean about 1.5x EBITDA. However, we believe that we want to operate with a target leverage of anywhere between 2.0x to 2.5x EBITDA, and we will reach that level by 2026 after the M&A that we speak to have and after the buy-back that we are announcing and potentially further capital allocation to shareholders in the future.

Let me now close on Page 20, summarizing the key messages of today for us. First, we continue to see growth across all geographies across the last quarter, but also at the beginning of this year. We are closing 2023 with

very solid revenue growth, with strong continued margin expansion and cash generation growth.

Last but not least, we see continued cash generation growth for the business on the back also of the updated outlook, and this enables us to basically develop and evolve further our capital allocation policy, start returning cash to our shareholders and we are starting now with a €500 million share buy-back program while continuing to deleverage.

Overall, we have delivered the guidance for last year despite a macro-environment that has been more challenging than expected and, as a consequence of all of this, we expect for the new year a mid-single-digit top line growth, a continued expansion of EBITDA margin, allowing us to deliver a mid-to-high single-digit EBITDA growth and excess cash for more than €700 million, and you should read this as an underlying more or less €800 million pre-impact of cash severance in the year.