Nexi S.p.A.

"First Quarter 2024 Presentation Call"

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OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome, and thank you for joining for the Nexi's First Quarter 2024 Presentation. 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, CEO of Nexi. Please go ahead, sir.

PAOLO BERTOLUZZO: Good morning to everyone and welcome to Nexi call for first quarter results 2024. As usual, I'm here with Bernardo Mingrone, Stefania Mantegazza, who leads our Investor Relations activities.

I will start by summarizing the key messages, then I will deep dive in a topic that is very strategic for us, and we understand attracts a lot of interest from our investors, the topic of payments and software integration. I'll then hand over to Bernardo, that will cover results in more detail, and I will come back for final comments.

Now, let me start with the key messages of today on Page 3. The first message is that we continue to consistently deliver on growth and also on margin expansion at the same time. In the quarter our revenues did grow about 6%, with merchant solutions at 6.8% and with e-commerce actually growing double-digit. This growth that is broadly in line with our own expectations has been supported by good volume dynamics in line with last quarter of last year, maybe slightly better.

` EBITDA growth has been at 8.6% in the quarter with a very strong EBITDA margin expansion of 112 basis points. Second key message, we continue to shape our company for future profitable growth. We continue to execute our growth strategy. Two specific topics we want to mention here. We're increasing day-by-day our focus on our payments, and software integration strategy execution, based on partnering with the best-in-class local ISVs and we will have a deeper dive on the topic. And in parallel, we're obviously working on efficiency and profitability, accelerating the cost synergies and more broadly our efficiency initiatives, also on the back of the integration of the group, and this will have more visible effects later in the year.

Third, simple message, we continue to pursue a capital allocation to create value for our shareholders. We are starting actually today, this morning the share buyback program that we have announced in early March, it's a €500 million share buyback program that will last for a maximum of 18 months.

Second key message, our net leverage in the quarter has been down to 2.8x EBITDA from 3.0x at the end of last year. Again, we consider this as clear evidence of our ability to strongly generate cash at the organic level, and therefore, the leverage if we don't have a better usage of capital. Obviously, the impact of the buyback will happen later in the year. But for this quarter, where there was no material M&A, and no buyback effect, you see that the leverage went down 0.2x in 3 months.

Last but not least, we confirm as anticipated, that €1.3 billion debt maturities that expire in '24 and '25 will be fully paid down with existing cash, and actually €220 million of that has been already reimbursed during the month of April. Overall, in this context, we want to confirm our guidance. That is, I remember to everyone, revenues growing mid-single-digit, EBITDA growing mid-to-high single-digit with an EBITDA expansion of at least 100 basis points, and excess cash generation of at least €700 million.

Now, before handing over to Bernardo for results, you remember that in the past we were covering volume details. This was a heritage of the COVID days. As I've anticipated a couple of times, we will not do this going forward. Obviously, Bernardo will comment and will give you more color on volumes in the context of revenue growth. At the same time, in the past we were also providing an overview of our progress on the various fronts of merchant services. We continue to do this and it is in the same page you will find at the end of the presentation.

This time, instead, we'd like to focus a bit more on a topic that is attracting a lot of attention and is always a central topic in the conversations we are having with our investors and with all of you. More broadly, it is payment software integration, and here we want to provide you our point of view on the topic and, most importantly, summarize our strategy.

And therefore, let me jump on Page #4, starting with the way we look at this ecosystem. When you compare Europe versus the US, it's really important to observe the fact that the software and payment integration ecosystem in SMEs is much more fragmented and definitely very local. There are SME software market specific characteristics and there are European structural characteristics. Starting with the SME software market characteristics that you find summarized on the left of this chart.

First of all, this is a highly fragmented and extremely local market, the market of software providers for SMEs. There are hundreds of players in each market. And by the way, they are normally different by market. Normally, the Top 5 to 10 cover less than 20% of market share, and therefore, there is a long, long tail.

Second point, in general, these software providers are less developed in their propositions, and are actually much smaller than what you find in the US. In fact, not 90% of their proposition are still relying on standalone or lightly integrated payments, and moving into integrated payments is more by obsession for the moment.

And last but not least, the fact that we have smaller SMEs plus specific market characteristics basically creates a lower unit economics for integrated payment solutions versus the US. Normally, how much can be charged to a SME for an integrated software and payment solution is normally half or in any case much lower than what you would find in the US, which makes these markets much more difficult for large players to be entered and most importantly much more difficult to be developed cross border in Europe.

At the same time, on the right you can see a number of specific characteristics that are actually structural for Europe. First of all, you have very country specific tax rules and fiscal infrastructure to be integrated. Second, when you look at it from the vertical standpoint, you find even more differences in terms of local regulations. Let me give you a simple example, the way you need to present food allergies in a restaurant menu in Germany is completely different from the way you have to present them in Italy or in Switzerland, therefore, creating further complexity on top of the more regular ones.

Last but not least, when you look at the local regulations for highly integrated business models, they tend to be more difficult than what you have in other places, and therefore, this makes models highly integrated, like the payfac model, more difficult and expensive to be deployed. And these are the software market characteristics.

On top of this, we should always remember that also the payment market is highly fragmented itself, with more than 150 local payment methods and more than 10 national debit schemes to be managed. Therefore, the software SME market is more fragmented and complex than the payments one.

Now, for all these reasons, what we are seeing and what we are expecting as a consequence as well, but it is already happening, is that in Europe these markets will develop at a lower speed, and with different dynamics and very local dynamics, I would add versus what we've seen in the US.

Now, our strategy in this context to make integrated payments an opportunity for us is based on two very simple pillars. The first one is that we want to be the partner of choice for local ISVs. We are the partner of choice already in most cases for local ISVs, we provide the Nexi payment solutions to local ISVs relevant in the key verticals, and then integrate, bundle them with their software solutions. These integrated bundles are normally distributed by their own channels. We offer a number of flexible business models to these partners of all size and maturity, and this is very important given the fragmentation of the market, and the very different nature of the players that we find in the different markets.

Among these business models, we also have what we call a smart payfac model for larger and more sophisticated ISVs, again is more an exception rather than a rule, but it's a model that allows on the one side a simpler life, a more efficient life in terms of complexity management to the ISV, and on the other side more customer and experience control for Nexi. In this context, we have developed and already launched a digital integration platform that is enabling an integrated CRM across Nexi, the software partner and the merchant to allow, for example, frictionless on boarding, and therefore, merchant and partner utilization.

Last but not least, we are also launching a partner program to help these ISVs to be effective when they sell integrated solutions to the market. Again, the vast majority of them don't have experience in payments and it's in our best interest to help them to be effective in that space on the back of our solutions. And this is the first pillar.

The second pillar goes in parallel to this: we very selectively bundle a very small number of best-in-class software solutions from our preferred local partners with our Nexi payment solutions, and we distribute them through our channels, even if not all channels are good for selling integrated solutions. But over time, this will expand more and more.

We are obviously starting with basic core solutions that work across most of the simple application, starting with retail. And over time, we'll expand into a few selected key verticals. When we are able to upsell to a merchant, normally we see an increase in terms of value of the merchant to us in terms of net revenues of about 50% to 100% depending on the specific situation.

So these are the 2 strategic pillars that we are executing. In parallel to that, we are also leveraging Orderbird for learning and development. This is a very specific investment we have done a couple of years ago. Orderbird is a leading SME hospitality point-of-sale software provider in Germany that is fully-owned by Nexi. We have developed with them an integrated payment software proposition that is distributed by Orderbird channels, but now also by Nexi channels. They are fully integrated on the digital platform and obviously, we leverage Orderbird also to develop this platform and in general, the capabilities that we have in payment software integration further. And obviously, even if it's not necessarily a plan today, we remain with the option to expand Orderbird into further verticals in Germany or into new markets or both.

On Page 6, you'll find a few examples of things that are live today. Here, I just want to mention the fact that on Pillar 1, being the partner of ISVs, we already have more than 500 partnerships in more than 8 markets. Here, the focus is covering the market with all the relevant applications and all the relevant solutions being available in the market. While on the second pillar, the rule again is more focus and selection. Here, you see three examples of what we are doing in Denmark where we have selected three solutions from three key partners we bundle them and distribute them together with our own services.

Let me now hand over to Bernardo for results.

BERNARDO MINGRONE: Thanks, Paolo. Good morning. As Paolo has already mentioned, we had a reasonably good start to the year with revenues growing 6% compared to last year and EBITDA growing just south of 9% versus 1Q23, which allows us to increase our EBITDA margin by just north of 100 basis points.

Within the overall group revenue growth, we can see that merchant solutions contributed 6.8% in terms of its top line growth, and this continues to be sustained by international scheme volumes, which you can see grew 8.3% in the quarter. This international scheme volume growth, if you strip out the cash component being the cash withdrawals, was actually growing healthfully in the double-digit area in DACH and in Italy being in a very high single-digit area. Throughout Europe, we see continued growth in the important SME segment. And more importantly, we point out how e-commerce revenues are growing year-on-year, driven by the volume growth and the market, but also thanks to customer acquisition and customer base growth. We actually believe that we are growing substantially more than the market in e-commerce.

Let’s move on to issuing solutions on Slide 10. We have a very strong quarter given also our expectations and guidance for the year with a growth of 5.2%, again, driven by international scheme volumes. Here, we continue to call out the crucially important for us acceleration of international debit in Italy, indeed we were well above the 6 million cards in Italy at the beginning of this year. So, continued strong growth there, and we continue to focus and succeed in upselling and cross-selling our value-added services to our customer base across Europe.

I think it's fair and important to call out what we did last year, if you remember, in the second quarter of last year we called out how there was a one-off contribution coming from banking M&A, which flattered our performance, and this will obviously have an impact to our full year performance this year. This is obviously all expected, and it's just a year-on-year comp issue. So that 5.2% is a strong start to the year, but you should bear in mind that comp for 2023 gets worse as we move forward in 2024.

We move on to DBS. DBS had, I would say, a very strong start to the year with this growth of 4.3% coming from volumes in the EBA clearing space. So a number of bank transfers increasing double-digit in the year, but also project work coming in probably from a phasing perspective a little earlier than expected, but very good performance from DBS as well in the first quarter.

If we look at the split geographically, you can see the growth in the top line in Italy, as I mentioned earlier, supported by volumes in international schemes. If you look at the Nordics, the truth is you should probably look at that top line growth in the low single-digit area being split one on acquiring where the growth is more like mid-single digit and one on issuing where we have the runoff of some legacy contracts, not really in issuing, but more in the account to account space or in the DBS space, also tied to past M&A with MasterCard and the current sale of Nordic DBS business.

DACH and Poland I would say, you know, very strong performance in Poland and Germany, we spoke of the volumes in Germany in the merchant solutions part. And with regards to Southeastern Europe, I would only call out that Greece is performing well. But in general, I would say that Southeastern Europe is performing in line with expectations.

Moving on to costs on Slide 13,. we have grown in the quarter, which is very similar to the full year costs growth of last year. We've already spoken about the effect of inflation, wage drift and impact upward pressure on wages coming from renegotiations of collective agreements in Italy and outside of Italy. I would say that and we mentioned that last year when we had a big one-off from Italy in the fourth quarter. But starting from 1st of January this year, we are also taking a hit in Italy on the renegotiation of the contract, which, on a year-on-year perspective, actually, increases cost growth. Wages cost at 6.2% would be half of what it is if we hadn't had that three-year renegotiation hit us in the first quarter.

On operating costs, I would highlight how I think we have our performance flattered a little in the quarter. So, contrary to wages, on non-HR cost we have a bit of a benefit coming from phasing of projects. And I just remind you that clearly our guidance for the year, whether it be revenues, EBITDA, cash, etc, is for the year, not for the quarter, but I'd say good start to the year there as well.

Slide 14, Paolo mentioned how the strong cash generation in the quarter has reported us to reduce leverage to 2.8x. Clearly, the first quarter is one which benefit from the seasonality of tax payments, no M&A being completed in the quarter and so on and so forth, and that has led us to reduce leverage to around 2.8x.

Just following the quarter end, we paid down our notes. We have highlighted how we had earmarked €1.3 billion of available cash to pay down debt in '24 and '25 and we started doing so. in April, and we will continue for the rest of this year and next year as expected. And I would also highlight how rating agencies, and this is true after the call for the first quarter results, have actually been supported with regards to the leverage profile and our cash generation ability. So, from a net financial debt and net leverage position, I'd say a good quarter as well.

Finally, before handing the floor back to Paolo, as he mentioned we kicked off our share buyback program this morning, €500 million in total. The 18 month time horizon is a maximum period, clearly, the speed pace of delivery of this buyback program will depend on market conditions, share price and so on and so forth. It will start actually in about half an hour when the markets open.

I hand the floor back to Paolo. Thanks.

PAOLO BERTOLUZZO: Thank you, Bernardo. Let me conclude, first of all, by confirming again our guidance for the full year. We expect to have net revenues growing at around mid-single-digit y/y, EBITDA growing mid-to-high single-digit y/y with EBITDA margin expansion of at least 100 basis points. We expect to generate organic excess cash of more than €700 million, and we expect the leverage to be down at below 2.9x EBITDA, including the announced M&A and the share buyback effect. Otherwise, this will be down to 2.6x on an organic basis.

And let me conclude, just covering again key messages of today. First of all, we have continued the consistent delivery of growth and margin expansion Bernardo just went through it. Second, we continue to shape next year for future profitable growth both in terms of executing our strategies on the growth opportunities, but also at the same time, to continue driving efficiency in the business.

And last but not least, we will continue to pursue a capital allocation that we believe is the best to create value for our shareholders. And as you see today, at the same time, we continue to reduce our leverage, but also we start giving back value to shareholders through the share buyback that is starting today.