Nexi S.p.A.

"First Half 2024 Financial Results Conference 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 Half 2024 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 of Nexi. Please go ahead, sir.

PAOLO BERTOLUZZO: Good morning to everyone, and welcome to our call for the results for the first half of 2024. As usual, I'm here with Bernardo Mingrone, our CFO, and Stefania Mantegazza, who is leading our Investor Relations activities.

The program is very similar to the one that we had last time. So, I will start by summarizing the key messages, then we will deep dive on a topic that we believe is particularly relevant for Nexi but most importantly for our investors and for the market. This time, we will deep dive on our cash acceleration formula and our capital allocation strategy. As you remember, last time, we deep dived on our strategy on software and payment integration, this time we've chosen this topic instead. Then I will hand over to Bernardo that will take us through results.

So, let me start at Page 3, as usual with a summary of the key messages of today. First of all, in the first half of the year and the second quarter of the year, we have continued to deliver our growth and, most importantly, EBITDA margin expansion and, as of today, communicate also our excess cash. We have, in particular, accelerated very materially our excess cash generation on the back of a number of positives.

Revenues did grow in the first half about 5.9%, of which Merchant Solutions revenues up 7%, with a slight acceleration in the second quarter compared to the first quarter and with the e-commerce that continues to grow double-digit.

EBITDA did grow about 8% in the first half, with an EBITDA margin expansion close to 100 basis points. As a reminder, we remain committed to expand it by at least 100 basis points for the full year, and in the second half we expect a higher EBITDA margin expansion also on the back of a number of efficiency and synergy acceleration measures that we have already put in place.

Last but not least, in the first half of the year, we have seen a strong acceleration of our excess cash generation, which is the cash that we generate from our organic business, also after our investment in organic growth. In the first half of the year, we generated €383 million, which is up more than 40% compared to last year. There are phasing elements here but, in any case, it is a strong performance, that compounds revenue growth, operating leverage and CAPEX reduction.

Second key message. In parallel, we continue to invest to shape Nexi for future profitable growth. In the first half of the year, we had a number of very important areas of progress. Let me just point to some of them. In MS, we have accelerated the development of our direct channels in Italy that are so important given the evolution of the market there, as well as we've continued to accelerate our ISV partnerships across all our geographies.

At the same time, still in MS, we had a strong development of our most advanced digital proposition. Just to name a few, we have launched as first in market Apple Tap-to-Pay not only in Italy where we're market leaders, but also in Germany where we are a challenger.

In Germany, and I would say more broadly in DACH, we started to capture the benefits of the bundling of the Nexi and the Computop propositions across e-com and omni channel. In Italy, we've started to serve Amazon on Bancomat Pay as an acquirer, not just as a processor for Bancomat Pay. And just to add another one, we have launched a pretty strong partnership with Klarna in the Nordics and we will expand it across our geographies as well.

Last but not least, we continue to accelerate our efficiency and cost synergies delivery on the back of the Group integration as we did anticipate a few months ago, and the impact of this will become even more visible in the second half of this year.

Third, a very important point, this strong cash generation acceleration is allowing us to continue to progress our deleveraging with net debt to EBITDA down to 2.8x EBITDA as of June. This will be 2.7x pre-share buyback effect. We confirm again that we will pay down €1.3 billion of the debt maturities and, therefore, all the maturities expected in '24 and '25 with existing cash. Out of this, €220 million have already been reimbursed in April and another €536 million will be reimbursed in the fourth quarter, giving us a benefit on the cost of debt as well.

Finally, as you remember, we announced in March, €0.5 billion buyback program across 18 months, launched in May. We are progressing and we have now decided to accelerate the program and complete it in full, by the end of 2024.

On the back of the progress that we had also in the second quarter, we confirmed the guidance for the year, which, as a reminder, says that we will grow revenues around mid-single-digit, we will grow EBITDA around mid-to-high single-digit with 100 basis point EBITDA margin expansion at least, and we will generate excess cash for more than €700 million.

Now let me go in the deep dive, and I will cover basically two topics: the Nexi cash acceleration formula and our capital allocation strategy. Let me start with the first, I think is simple and quite unique of Nexi at least in some of the components.

Let me take you through Page 4, going horizontally. First of all, top line growth, we did guide the market for mid-single digit in the year, in the first half with a 6% growth. Second, our continued efforts to contain

OPEX growth despite inflation, despite higher volumes, despite investments in growth. We expect OPEX to continue to grow at the low single-digit pace this year, but also in the future. Combining the top line growth, the EBITDA margin and this cost-to-income reduction, we continue to see EBITDA acceleration and in particular, EBITDA margin expansion that we are guiding to at least 100 basis points now and also in the midterm.

In the first half, we have grown EBITDA 8% with EBITDA margin expansion close to 100 basis points. Again, this EBITDA margin expansion positions Nexi at the very high end of our industry across not just Europe, but I think the US as well.

And then on top of this operating leverage, we are already benefiting from what we like to call cash leverage. We understand it's a little bit of invented expression but let me take you through it. We have CAPEX that over time will continue to go down in absolute terms and most importantly, in percentage terms. We will have and we already have non-recurring cash items following the same path, and therefore, going down in absolute terms and in percentage terms. And we will have also net cash interest expenses going down in absolute terms and in percentage terms on the back of the reduction of our gross debt as well as, over time, we believe, a positive evolution of interest rates.

So, these 3 components, maybe they have been a little bit of a drag for Nexi on the back of the transformation M&A we have done and the transformation efforts on the back of it, but going forward and already today, they are actually Nexi’s unique points of strength. And if you combine the EBITDA margin expansion and the operating leverage with these components, this is what is generating excess cash strong acceleration.

We have guided and we are committed to the market to generate at least €700 million excess cash this year. In the medium/long term, we see this organic cash generation growth continuing strongly and we plan to be at around €1 billion by 2026, which is only 2 years from now. In the first half of the year, we've generated already €383 million, which is up more than 40%, also benefiting some phasing effects, but we remain committed to the more than €700 million for the full year.

Now, let me start at Page 5, reiterating our strategic approach, and then I will go on the next page on the progress in the year so far. So, as you have understood from our previous conversations, this excess cash allows us, at the same time, to allocate capital to reduce debt quite rapidly, but at the same time, materially return capital to shareholders.

Let me start with debt and leverage reduction. First of all, and we always like to remind it, we have a very well-balanced debt profile in terms of maturities and mix, with an average pre-tax cash cost of debt, which is at around 2.8%, slightly lower than what it was last quarter, and we expect, in general, the absolute cost of debt to continue to go down, as I said before.

Second key point, we have a target leverage of about 2x to 2.5x EBITDA by 2026, after further capital return to shareholders. This is a top priority, it’s a kind of a precondition for us and it is also commitment and what we are seeing now gives us a lot of comfort that it is the direction of travel that will allow us at the same time to return capital to shareholders. And again, I want to confirm that we will pay down €1.3 billion of gross debt that is maturing this year and next year with the existing cash. So, this is it in terms of debt and leverage reduction strategy.

Second, thanks to the excess cash we are generating and despite our commitment to reduce target leverage of 2x to 2.5x EBITDA by 2026, the strong accelerated cash generation will allow us to structurally return capital to shareholders. And therefore, we plan to allocate a material share of excess cash to shareholders on an ongoing basis, either via share buybacks or dividends, depending on market conditions. And therefore, you should not see the current buyback as an exception. For us, again, returning capital to shareholders, either via buybacks or dividends, depending on market conditions, is the rule of the game, and will remain a structural characteristic of Nexi.

Last but not least, as far as M&A is concerned, we will continue to remain extremely selective and focus on value accretive acquisitions, normally on merchant books and/or strategic product and tech capabilities enhancement. But in parallel, we'll continue to sell non-core businesses, especially in the Digital Banking Solutions area, even if we are not in a hurry, and we will remain very rational in making sure that we capture the value that we associate with this business, but this will happen over time.

Now, let me jump up to the third and last page of this session to give you a more precise update on how this strategy has been executed in the first half of this year. As far as debt and leverage reduction are concerned, as I've anticipated, we are now down to 2.8x versus 3.0x at the end of last year and, actually, this 2.8x would be 2.7x pre-share buyback effect. The only reason why we are highlighting this is because this is just confirming our ability to deleverage quite rapidly, 0.3x in half a year.

Second, we have already reimbursed €220 million in April of gross debt, the debt maturities, and we will reimburse another more than €0.5 billion by the end of the year completing the full year commitment on this front.

Second, in terms of return to shareholders, we have announced this €0.5 billion share buyback 18-months program. As I have anticipated, the board has decided to accelerate this program to complete it in 2024 and we feel very comfortable in doing it, considering the M&A outlook that we see for the rest of the year and into next year as well. At the end of the quarter, we had already purchased €118 million equivalent of shares, €201 million as of July 26. And again, as a reminder, we plan to cancel all the shares that we are buying back and in fact, we've already cancelled more than 26 million of shares.

Last but not least, as far as M&A is concerned, we have closed the Sparkasse merchant book acquisition. We invested about €30 million, and we expect to complete the sale of the Nordic eID business by the summer 2024, and this should bring in something around €100 million of cash. So, unless something else happens that we don't see now happening, this year M&A could be a positive contributor to cash flow generation for the company.

Let me stop there and let me now hand over to Bernardo for results.

BERNARDO MINGRONE: Good morning to everyone. So, as you've seen, the second quarter and indeed the first half continues to exhibit solid revenue growth, coupled with margin expansion and EBITDA growth. It's been a rather consistent second quarter, in line with the performance of the first quarter. We had revenue growing at 5.8% in the quarter, that's close to 6% for the first half.

Margin expansion has been close to the 1 percentage point we've guided for the year and, as Paolo said, we confirmed the guidance and we stand by our prediction to improve margin by 100 basis points or more for the full year. EBITDA grew 7.5% in the quarter, pretty aligned to the growth of 8% in the first half. A slight dip, I would say, in terms of EBITDA margin expansion really comes from the nature of the one-offs we had highlighted with regard to 2023, where we had some upfront project work which had very high EBITDA margin in the month of June of last year. But as I said, we expect EBITDA margin to accrete by 100 basis points or more for the full year.

Moving on to Merchant Solutions, again, similar performance as for the Group, very consistent in the second quarter compared to the first quarter. We have a slight acceleration in terms of the top line growth, 7.2% in the quarter compared to 7% for the half. We have seen solid volume growth across the group driven by international schemes which contributed the most, I'd say, through our revenue growth. We've seen customer base expansion and e-commerce that continues to grow faster than the market.

In general, I think Germany is an important geography for us, and we'd like to call out how SME Germany revenue growth has been double-digit in the second quarter. So good performance overall, I'd say, for Merchant Solutions as well.

Moving on to issuing, we've had more consistency in terms of top line growth, 5% in the quarter, 5.1% for the first half. We continue to see strong support of international schemes. This is particularly true in Italy in issuing where we have a very strong and solid growth of international debit where we've reached more than 7.5 million cards and obviously, that's very beneficial to our top line given, let's say, the more attractive economics associated to this. And issuing is where that one-off last year creates a bit of a step effect compared to both our profitability and our growth year-on-year.

But I would say the continued upselling and cross-selling of our value-added services across the Group and the progress we're making in advanced digital Issuing Solutions is another big contributor to our top line. So, notwithstanding the one-off from last year, we still have, I would say, very positive performance in Issuing Solutions as well.

DBS growth of 2.4% in the first half and slightly lower in the quarter. This is the business unit which is most exposed, let's say, to a more lumpy set of revenues coming from project work. This is just purely the nature of this business. So, the difference in the quarterly performance isn't something which needs to be focused on. I think the overall plan is for this low single-digit growth to be confirmed for the full year, and we've seen positive contribution also coming from those businesses which do rely on volume growth like EBA Clearing and open banking in general, so a good performance from DBS as well.

So, the overall revenue performance, which has been you know, substantially in line with our expectations, absolutely consistent with the guidance we provided for the year. From a geographical basis, you can see broken down on Slide 12, Italy pretty much consistent quarter-on-quarter and for the first half at 6%. Nordics, as you know, a market which is more mature and therefore structurally has a slightly lower growth rate of 2% in the quarter.

I will just highlight how in DACH and Poland, in general, we've had, as a geography DACH has had on the issuing front, a bit of a shift or, let's say, from a timing perspective, issuing had a very strong first quarter in DACH and a weaker second quarter, again, that has more to do with the project work relating to some customers we have won in the region. This has kind of skewed the top line growth towards the first quarter compared to the second quarter. But if we focus on Merchant Solutions revenue, in Germany, we have been hovering around a very high single-digit growth, which is pretty much in line with our expectations.

Moving on to costs on slide 13, I'd like to underscore how the significant work has gone into try to limit our cost growth, which has upward pressure coming from volume growth, which we see throughout the geographies coming from inflation. Even though inflation is coming down, there is a tail effect to inflation in renegotiating contracts, which come due over time. So, notwithstanding this upward pressure on costs, thanks to the work we're doing on our cost base and thanks to synergies, we've been able to limit this cost growth and, similarly to revenues, you can see how costs have been pretty flat in the first half with a similar performance in the first quarter compared to the second quarter.

I'd like to highlight how, as you know, we're investing part of our capital in a rightsizing plan, in particular in Italy, where we have exits, which will benefit our P&L in the second half of the year associated with the severance costs you will see in the transformation items. So we expect this cost growth to come down in the second half of the year.

Moving on to CAPEX, we have a 15% reduction year-on-year on the CAPEX. CAPEX tends to be seasonal; the second half is obviously heavier in terms of investment than the first half, I think Paolo summarized it well. We're on track delivering integration and the synergies coming from merging with Nets and SIA. We continue to rationalize our cost base, as you saw earlier, and this means also closing data-centers, moving towards our four target core processing platforms. That work continues and the reduction, as I said, is going to be consistent for the year. We've often spoken about €50 million or so reduction in CAPEX, I would stand by that projection for the year.

Moving on to transformation costs. On the left side of the slide, we show how we've had a very significant reduction year-on-year in integration and transformation costs. These were the costs associated with merging with SIA, Nets and completing the transformation in the three countries. And that is, again, consistent with the trajectory we had highlighted in the past with regards to reduction in transformation costs. Obviously, we have the large severance component, only €30 million of €130 million are cash. Around €70 million, €75 million of the total €150 million cost will be cash for the year. But again, if we treat that as a one-off – remember, the last time we had the severance program of this size 7 years ago - it's not something that can happen every year,nthe transformation costs and integration costs are down 30% otherwise.

Moving on to cash generation, which is obviously one of the strongest points in terms of the characteristics of Nexi. You can see how we have a 42% increase in the excess cash, which is the cash we generate after having invested in our business and managed the business for growth we've spoken of earlier. This 42% comes off the growth in EBITDA, I would say, a strong benefit in terms of managing our working capital, where we also had the benefit. And - maybe some of you will remember, we spoke of this when we discussed full year results last year - we had two customers, one large and one slightly smaller, who paid us midway through January rather than the year-end last year. This put pressure on our cash generation last year - nothing much we could do about it - and we get the benefit of it in this half. So, nothing particular there. I think it's part of ordinary business, but I would say that the very strong cash generation in the first half puts us in a good position to confirm our guidance for the year of at least €700 million.

On Slide 17, you see the net debt position. Paolo has already highlighted how, in the absence of M&A, notwithstanding the share buyback program, you can see, how, in the last year, we have come down from 3.2x leverage to 2.8x leverage, which would actually have been 2.7x leverage if we hadn't run the buyback. And in general, we are on a very steep, I would say, deleveraging trajectory. For the first time in a number of years, we also see gross financial debt coming down as we reimbursed the notionals. We will have more maturities coming in October 2024, where we will reimburse about €0.5 billion of bonds, and next year we have another €0.5 billion.

Just to reiterate, I mean, we have sufficient cash on balance sheet to meet all our liabilities through to 2026. The reason why we're not pre-paying these is, as Paolo highlighted, the cost of debt is actually lower than what our cash balances yield us, and therefore there's no real sense in giving away the benefit of this carry. But we're 100% committed to reducing our gross leverage and our net leverage as EBITDA increases.

That said, I will hand the floor back to Paolo for his final remarks.

PAOLO BERTOLUZZO: Thank you, Bernardo. Let me jump to Page 19. This is the guidance that we've announced back in March for the full year, and we are just confirming it. Net revenues growing mid-single-digit for the year. EBITDA mid-to-high single-digit with EBITDA margin expansion higher than 100 basis points. Excess cash generation more than €700 million and net leverage is increasing to below 2.9x EBITDA, including the announced M&A and the share buyback effect. As I said, we are already at 2.8x and actually 2.7x if you exclude the effect of the share buyback.

Let me just recap on Page 20 the key messages for the first half of the year. First of all, continued delivery on growth, margin expansion, and very strong cash generation acceleration. Number two, continue to shape Nexi for future profitable growth, working both on our growth engines and strengthening our position in the various markets, but at the same time, continuously working on efficiency and synergy extractions in the business. And last but not least, creating value for our shareholders, on the one side, continuing our deleveraging process, but at the same time, accelerating our ability to give back capital and cash to our shareholders in this environment, and this is, I think, a good example of how our future looks like.