Nexi S.p.A.

"Nine Months 2024 Financial Results Presentation"

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OPERATOR: Good morning. This is the Chorus Call conference operator. Welcome, and thank you for joining for the Nexi's 9 Months 2024 Financial Results 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, Chief Executive Officer of Nexi. Please go ahead, sir.

PAOLO BERTOLUZZO: Thank you, and good morning to everyone. Welcome to the Nexi third quarter results call. As usual, I'm here with Bernardo Mingrone, our Deputy GM; and Stefania Mantegazza, who leads Investor Relations.

As usual, I will start giving you a little bit of summary of the quarter. Then, we will have a deep dive as we have done over the last couple of calls. This time, we have chosen the topic of merchant services growth drivers, and I will tell you later why. After that, I will hand over to Bernardo that will cover the results of the quarter more in detail and then I will come back with closing remarks.

Now, let me start with the summary on Page 3. The three usual messages, continued delivery of growth and margin expansion. Year-to-date in 2024, in the nine months, we did grow revenues 5.6% with Merchant Solutions revenues up 6.9% for the nine months. EBITDA is up 7.3% year-to-date with an 82 basis points EBITDA margin expansion. Here, I want to anticipate the fact that we expect to accelerate EBITDA margin expansion in the fourth quarter also supported by the effect of the efficiency initiatives that we've implemented during the first part of the year.

Second, we continue to shape Nexi for future profitable growth. I just want to draw your attention on two topics. On the top-line side, in Merchant Solutions, our growth will benefit from structural growth drivers and we will also give a special focus to customer base value growth acceleration based on advanced solutions and value-added services and up and cross-selling. We will have a deep dive here. And second, in parallel, we continue to work on efficiency on a structural basis also on the back of the cost synergies that we continue to extract from the group integration. This is also a key element that will continue to support into next year and in the following years as well our margin expansion and our cash generation acceleration.

Third, we continue to create value for our shareholders. Year-to-date, we have reimbursed €700 million of our debt maturities with the cash that we already had. We confirm our plan to pay down maturities '24 and '25 with existing cash, as already said in the past. In the quarter we have also accelerated our €0.5 billion share buy-back program. It was supposed to be an 18-month program, but we have decided to accelerate it and complete it in September and, by now, we have already cancelled about €83 million of treasury shares.

Third point, despite having accelerated the share buy-back and having, therefore, the full impact of the share buy-back investment, our leverage ratio is broadly stable at around 2.8x. And last but not least, at the end of October, we have completed the disposal of our Nordic eID business.

Overall, based on these results and what we see happening out there, we want to confirm the guidance for 2024, revenue up mid-single-digit, EBITDA margin expansions at least 100 basis points, excess cash more than €700 million, and we want to confirm this guidance despite a softer than expected macro environment.

Now let me drive into the topic of Merchant Solutions revenue growth drivers. Why did we choose this topic? We have chosen this topic basically for two reasons. First of all, because we have received many questions on this from investors and therefore, we want to pick this opportunity to try and give a structured overview on the topic. But second, also because we want to focus your attention on two or three topics in the space of customer value growth that we feel are normally undervalued.

Overall, there are three structural long-term growth drivers, and then you can also have extraordinary events. Let me start with the structural long-term growth drivers. First of all, you have market volume growth as a main driver, the secular shift from cash to digital payments. This remains the strongest driver of the growth for the company and, we believe, for the sector more broadly. We continue to see a shift that can be measured in about one to two percentage points of penetration increase on a yearly basis. Obviously, this can vary by market depending on the stage they are in their own development, but we continue to see markets developing very close to two percentage points per year, and we see this continuing for the very long term.

On top of it, obviously, market volume growth is also influenced by market nominal consumer spending. This is something that we can do nothing about. This is normally a low single-digit driver but, obviously, it really depends on a market-by-market basis and most importantly, it depends on the phase of the economy, on the phase of macro.

The second important driver is customer base growth. Here, one element is the continued incremental penetration of digital payments adoption of merchants in the various economies. This is something that maybe is becoming less relevant in more developed digital economies like, for example, the Nordics, but actually this continues to be a supporting driver in other economies that are a little bit behind in terms of digital payments penetration, such as, for example, Poland, Italy, Greece, Croatia and so on and so forth, and therefore it is still relevant and will remain relevant for some time. Obviously, on top of it, you have market share dynamics that have an influence on customer base growth. And here, as we always said in the past, we normally take share where we are challengers, starting from a smaller position, while actually we defend our position and accept to also see sometimes a little bit of erosion in the markets where instead we are leaders.

The third structural driver of growth for Merchant Solutions is customer value management, customer value growth and this is an area where we want to spend a bit more time in the following pages. First of all, customer base mix has an impact here and we see this as a positive contributor because of our focus on SMEs. We read a lot about other companies focusing on very large deals and being proud about them and so on and so forth. The reality is that we believe that the sweet spot is where we are focused on, which is SMEs, where we see more growth and, in particular, more profitable growth with less complexity as well.

A second structural driver has to do with the payment method mix and the cost dynamics of each one of these methods. Here, depending on the phase, depending on the market, this can be a contributor, a positive contributor, but also in some cases, a drag where you are facing, for example, scheme cost increases. Obviously, you have competitive pricing dynamics that in a growing market normally are putting pressure on your growth. And then there are three growth drivers that we believe are normally undervalued where instead we want to focus your attention on. They are pricing optimization initiatives, advanced solutions up and cross-selling and, last but not least, value-added services upselling.

Last but not least, you can also have extraordinary events that may impact growth trajectory in the short term in the specific year with no impact on the underlying structural growth. This can be project work that we do for our customers or contract renegotiations, wins or losses, mainly associated to banks and banks' M&A. Normally, they happen every year and do not have a visible impact on yearly growth rates. However, when these discontinuities are particularly large, they can have impact on the growth rate of the specific business unit or geography, especially if you look at them on the quarterly view or if they are particularly large as, for example, Banco BPM M&A effects next year, they may also have a visible impact on the overall growth rate of the specific year, again, with no impact on the underlying structural growth of the business.

Now let me jump on the topic of customer value growth and in particular, on the three levers that I've mentioned before. Let me start with pricing optimization initiatives and here, I anticipate that I may become a little bit operational for this type of calls, but we really do want to give you a practical sense on the way we run the business and what really creates value ultimately for our business and for our shareholders.

Let's start with pricing optimization initiatives. Here, we have two areas of continuous focus. First of all, customer base management. Here, we continuously optimize pricing on specific customer base segments. We normally focus on low or negative profitability customers, but we also intervene on the back of adjustments to payment methods cost increases, like, for example, a scheme prices increases or a mix shift when the market shifts from a certain type of payment methods to another as it happened for example over the last couple of years on the back of a reshuffling of the different sectors. And last but not least, we also adjust to competitive dynamics.

A couple of examples here. In Switzerland, this year, we have been reviewing the pricing of low margin, or negative margin in some cases, customer segments and this has been contributing a plus 3% on Merchant Solutions net revenue growth in the country. Or more visibly, in the case of Greece, where this year we have adjusted to payment methods, cost increases and mix changes that happened over the last couple of years. In one shot, this is contributing this year to the growth of Greece with a plus 15% Merchant Solutions revenues that obviously goes on top of volume growth and the other drivers.

The second area of focus has to do with new offers that we can obviously bring to our current customers, but also to new customers. Here, there are basically two fronts that we try to work on. The first one is simplified blended flat fees for national and international schemes, and the second one are the bundles where we try to combine in one proposition terminal, acquiring and value-added services. Both of these examples actually are quite important because they combine a higher margin for Nexi in the vast majority of the cases, but also a higher customer satisfaction and a higher competitiveness for us in the market.

Again, here, a couple of examples. Our SmartPay blended pricing that was launched in Germany last year is driving up to a plus 30% on merchant value or, for example, we recently launched our SmartPOS integrated bundles in Finland and this is already representing 70% of the front book in the country. If you combine everything in this non-pricing optimization initiative space, this can have a pretty material support to growth. It can be anywhere between 1 and 2 percentage points additional growth. And that's the reason why we are so focused and we'll continue to be so focused on this.

Let me now move to the second of the three levers that we wanted to focus on, and this is the one of advanced solutions up and cross-selling. And here, there are three areas of focus in this phase, and I think this will continue to be the three areas of focus for a long time. The first one is the one that we have already covered a couple of calls ago, and this is the one of the integration of software and payments into integrated commerce solutions. I will not spend more time on this one because we have covered the topic already. Here, we continue to develop our partnerships. We are well above 500 partnerships in the space and more and more, we start to sell ourselves bundles with payments and software from some of our very key partners. In the short term, this will continue to have a pretty limited impact, not because we don't believe into it, but simply because European market is much less mature than the US one for the many reasons that we've been covering in the past. But clearly, in the longer term, we see this growing in importance and that's the reason why we are so much focused on this topic.

The second area that has been an area of focus for us for several years is the one on the up and cross-selling of e-commerce and omnichannel solutions. Here, there are three fronts: the cross-selling of e-commerce and omnichannel solutions on our in-store physical commerce merchant segment. The second one is the upselling of more advanced e-commerce checkout acceptance solutions on legacy gateways or on acquiring-only customers as well. And last but not least, on all e-com customers, we continue to upsell new payment methods acceptance and this is something that normally is quite profitable for us. This is something that we see already in our numbers as in general, e-commerce has a higher growth rate than physical commerce. This will continue to have an important and growing impact on our structural growth as we strengthen our proposition and, most importantly, as we deploy them across our various markets.

Last but not least, something that may sound a little bit more tactical, but it's still very important for us, especially in the short term, is the upselling of advanced terminal solutions. Here, again, three fronts. First of all, the cross-selling of terminals on acquiring-only merchants. In some geographies, we still have acquiring-only merchants from the past, and we focus a lot on upselling terminals into this base. Second, the upselling of next-generation terminals, for example, SmartPOS on customers that are on legacy terminals and, last but not least, the cross-selling of additional acceptance devices and solutions, which very often are software solutions for extended customer experience. Here, an easy example is the SoftPOS solution that we upsell on our larger and smaller customers as well for mobility acceptance solutions, so, for example, for queue management in store. This is something that is impactful in the short term. Over time, this will probably become less relevant as impact, but the good news is that, in the meantime, the other two levers will grow in importance and impact.

And let me close with the value-added services upselling in the following page. Here, there are many opportunities that we try to capture and that they will become different over time. But we want to focus on two that are particularly important now. The first one is Dynamic

Currency Conversion (DCC) and the second one is merchant financing. On DCC, you know very well what the dynamic currency conversion is. For a company like ours that is present in touristic geographies like Italy, Greece, Switzerland and Croatia or in non-euro countries like, for example, some in the Nordics and in Poland, this is particularly relevant and we're working to increase penetration. This is something that can create value for us but, at the same time, it's also very important for merchants because it can help increasing their revenues from payments as well.

And here, just to give you a sense of the importance of this, on the merchants that start having DCC active and promoting it actively to the customers, we can see a plus 15% to 20% merchant average value increase. This is maybe less strategic, but creates value short term. For example, this year, we see a material contribution in the Nordics.

Second area that we want to bring your attention to is the one on merchant financing and it's much more strategic and valuable long term. You know very well what merchant financing is. Here we are talking about working capital financing. I want to be clear, we integrated this proposition in our digital properties that normally customers use to interact with us but, actually, we deploy this proposition with partners that are specialized financial providers and they are the ones bearing the funding and credit risk, so we don't get ourselves into this space. However, this is highly strategic for value creation, but also most importantly for customer satisfaction and stickiness, this creates strong loyalty from customers.

We went live in the year in the Nordics, in Germany and Poland, we'll roll out in Italy and Switzerland into next year as well. And here, just to give you a sense of it, this can increase customer value anywhere between 50% and 100% when they activate these plans. The level of customer satisfaction is such that we see an NPS at 90 or even more, which is quite extraordinary. And clearly, this is a good anticipation of customer loyalty and customer stickiness.

Let me now hand over to Bernardo for results.

BERNARDO MINGRONE: Thanks, Paolo. We'll go through the slides. You've seen the highlights at the beginning of Paolo's presentation with regards to the group's overall performance for the 9 months. If we look on Slide 9, how this breaks down between the third quarter performance and the 9-month performance in terms of revenues. They're broadly in line, a slight slowdown. We've mentioned the challenging macro environment, which continues throughout 2024, in particular, a summer in which volumes continue to grow, they are growing less than they did in 2023. We had a record year indeed in some of our key geographies in 2023 with regards to tourism, which obviously makes for the more difficult comp year-on-year. In this environment, however, we believe our business remains resilient. And as we have already noted, we have confirmed guidance for 2024 and performance in the third quarter is in line with this.

Moving on to EBITDA, even there, a slight slowdown. This is primarily driven by phasing we'll see on costs, and we can have a word on the outlook for the year on the cost base to understand how the margin accretion we expect to recover, that 100 basis points, which is within our guidance.

Moving on to Merchant Solutions. I'd like to call out the fact that we continue to see sustained volume growth across the Group. This is, as usual, driven primarily by international schemes, in particular, in Italy, DACH and Poland. However, we do see an impact on the total volumes coming from the shift from national schemes to international schemes, which somehow impact overall volumes for us. However, in terms of the core of our business, we continue to see strong growth in SMEs, and this is clearly important in countries like Italy, DACH and Denmark, where we are significant players.

Moving on to Issuing. In Issuing, I remember that we talked about one-off or more than one-off project-related work we had in 2023, which provided us a slight boost to revenues in that quarter, and that skewed the first half year-on-year comparison in this quarter. The truth is we don't have much to report in terms of exceptionals, if not, maybe that some project work, which is always very difficult to call in terms of the monthly calendarization. Probably it was booked a little earlier in June and May of this year, impacting performance in the third quarter in terms of Issuing. However, I think the more important part is that all of this was expected. And as we called out, we did expect the second half of Issuing to be slightly lower in terms of year-on-year growth than the first half.

I think the key elements here in terms of structural performance on issuing is the continued success of international debit. In Italy, we have now reached 7.5 million cards. This is, for us, a very strong contributor to the top line given the revenues and the profitability associated with it, and we continue to make progress in terms of upselling and cross-selling our advanced digital Issuing Solutions or what we call CVM, one of the things Paolo was mentioning about Merchant Solutions that also applies to issuing across our client base.

On DBS, and this is a slightly smaller business unit and clearly a few hundred thousand of euros of revenues associated to project work can make a bit of a difference in terms of year-on-year growth, we have an acceleration in the third quarter. I wouldn't read too much into this. I think the year has been a strong year for a business, which is primarily infrastructure, with close to 3% growth for the 9 months, and we expect this to continue also for the full year contributing to our performance in terms of the guidance.

I'd call out one of the best-performing businesses in DBS, which is EBA Clearing, our partnership with EBA, where we manage a significant portion of the European instant payments transfers, which is one of the highest growing businesses within the overall group, not only DBS, and is obviously supporting this growth.

From a geographic standpoint, you see it on Slide 13, we have the Italian performance broadly in line in the quarter with the rest of the 9 months, a very slight acceleration but same holds true for Nordics, DACH and Poland, where the slight slowdown in the quarterly performance compared to the 9 months is primarily driven by Poland, whereas in South-eastern Europe we have some issuer processing slowdown in Greece, which has been a bit of a drag to the top line. But otherwise, again, all expected and all built into the guidance we've given.

Moving on to costs. As expected, we have a slowdown in the year-on-year growth in HR costs. This, as you know, is the function of the cost reduction plan on HR which we had discussed, the transformation costs we've booked and people started to leave during the end of the first half of this year, and we see the benefit of it in the third quarter, and we'll see more and more of it going forward, including the fourth quarter and 2025.

With regards to non-HR costs, a slight increase compared to the previous quarters. This has more to do with invoicing, very difficult for us to be 100% exact and precise also with regards to the project work expenses. The phasing of this, intra-quarter or intra-year is less relevant than the full year guidance. And as we had said in the first half call, we expected that plus 3.9% of total cost growth year-on-year to start to come down. It has come down to 3.6%. I expect this to come down further in the fourth quarter and to help us deliver through this cost performance, the EBITDA margin accretion and the overall EBITDA growth that we have spoken of in our guidance.

Moving on to Slide 15. We look at our capital stack. I think Paolo mentioned the key elements here. We have a broadly stable leverage, notwithstanding the fact that we have completed, during the third quarter, the €500 million share buy-back. Overall, we have approximately €500 million of cash out in the quarter between taxes, restructuring charges and then the buy-back. Notwithstanding this, the overall net leverage is pretty flat. We have, as already mentioned, at the end of October, reimbursed the outstanding senior bonds after having reimbursed the Nassa notes in April. That makes it approximately €700 million reimbursed of our total gross debt in the year-to-date, and we have another €60 million more of maturities in December, and then we move on to 2025 to complete the €1.3 billion total reimbursement for '24 and '25.

Another point to call out, I think it's, for us, an important sign of appreciation for the work we're doing in terms of digitizing the economies in which we are operating with regards to payments. We have signed with EIB, the European Investment Bank, an important funding agreement, €220 million of financing, an 8-year term to fund our investment in the digital infrastructure we work on. And obviously, this is a kind of a rubber stamp of approval given the significant due diligence which EIB goes through before lending to anyone and, in particular, to a company like Nexi.

So that said, I would hand the floor back to Paolo for his closing remarks.

PAOLO BERTOLUZZO: Thank you, Bernardo. Let me jump to Page 17, just to confirm the guidance that we have given in early March despite a softer-than-expected macro environment. So, we confirm a mid-single-digit top line growth; EBITDA margin expansion of at least 100 basis points; excess cash of more than €700 million and a net leverage that will decrease below 2.9x EBITDA, including everything. Here, you have seen that we are already at 2.8x and we have already factored in the full effects of the share buy-back, and we don't see any new cash out for M&A in the latter part of the year.

So let me just close where we have started. Continued top line growth and margin expansion. The numbers have been covered by Bernardo already. We continue to work to shape Nexi for future profitable growth and here we've been focusing on the drivers of structural growth for Merchant Solutions, trying to highlight the fact that customer value management is and will be more and more one of these drivers. In parallel, we continue to drive structural efficiency improvements and, last but not least, creating value for our shareholders with the buy-back completed and, at the same time, continue to deleverage as we go along.