Nuvei First Quarter 2023 Earnings Transcript

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Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Nuvei Corporation First Quarter 2023 Earnings Call. As a reminder, this conference is being recorded. I'd now like to turn the conference over to Chris Mammone, Head of IR. Please go ahead, Mr. Mammone.

Chris Mammone, *Head of Investor Relations, Nuvei*

Thank you, operator, and thanks to everyone for joining us this morning. With us today are Philip Fayer, Chair and CEO; and David Schwartz, CFO. As a reminder, this conference call is being recorded and webcast and is copyrighted property of Nuvei. Rebroadcast of this information in whole or in part without written consent of Nuvei is prohibited. Earlier this morning, Nuvei issued a press release announcing financial results for the three-months period ended March 31, 2023. The release as well as an accompanying supplemental slide deck is available in the Events section of our Investor Relations website, investors.nuvei.com.

During this call, we may make certain forward-looking statements within the meaning of the applicable securities laws. Such forward-looking statements involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the business or developments in Nuvei's industry to differ materially from anticipated results, performance, achievements and developments expressed or implied by such forward-looking statements. Information about these factors that could cause actual results to differ materially from anticipated results or performance can be found in Nuvei's filings with the Canadian securities regulatory authority and on the company's website.

Our discussions today will include non-IFRS measures, including but not limited to adjusted EBITDA, adjusted net income, and adjusted net income per share. Management believes non-IFRS results are useful in order to enhance our understanding of our ongoing performance, but they are not a supplement to—and should not be considered in isolation from—or as a substitute for IFRS financial matters. Reconciliation of these measures to IFRS measures is available in our earnings release and MD&A. We'll open up the call for your questions after our prepared remarks. During that portion of the call, in order to get to as many people in queue within the allotted time, we ask that you limit to one question and one follow-up. And with that, I'd like to now turn the call over to Phil.

Phil Fayer, *Chairman & Chief Executive Officer, Nuvei*

Thank you, Chris, and good morning, everyone. We have a lot to share with you today, so I'll jump right in. As you've now seen, Nuvei is off to an excellent start in 2023, delivering first quarter results ahead of our financial outlook as we remain heads down executing our strategic initiatives, growing our market share, winning new customers and expanding with existing customers, driving innovation and extending our geographic reach. As we celebrate our 20th year, it's incredible to reflect on everything we've accomplished.

Today, Nuvei enables leading discretionary and nondiscretionary use cases all over the world with tremendous white space for continued growth in a very large and addressable market and naturally, we fully intend on continuing to scale the business and grow both organically and inorganically and yet even after all the growth, innovation and learnings, we're still very much on the ground floor with the best yet to come. Great businesses are not built overnight, and our success is directly attributable to our people and culture, and I want to take a moment to thank our more than 2,000 colleagues around the world for their tireless efforts, passion and dedication to growing our business and supporting our customers. You guys are rock stars, and it's truly a privilege to be working with you.

So this morning, I'm excited to share 2 recent changes to our leadership team. First is a promotion of Scott Calliham to Chief Strategy Officer, a newly created global role reporting to me. Scott, who has led M&A efforts since 2018 will now lead strategy, integration and M&A. Second is welcoming Caitlin Shetter, previously Paya's Chief People Officer, as our new Global Chief People Officer replacing Nikki Zinman. We thank Nikki for many contributions during their time at Nuvei and wish her well in her future endeavors. I look forward to partnering with Scott and Catlin.

Turning now to Paya, which, as a reminder, the deal rationale adds B2B, government and ISV through highly attractive, growing, non-discretionary and largely underpenetrated channels to our business.

We completed the acquisition in February, and the integration is on plan as we've combined 2 fantastic teams into a single organization and are now focused on applying additional resources towards accelerating the go-to-market strategy, which I'll touch upon later in my prepared remarks. Paya’s CEO, Jeff Hack; and CFO, Glenn Renzulli, will be departing the company within the next few weeks. I can’t thank Jeff and Glenn enough for their professionalism and operating with such class in dignity throughout the entire process.

Looking further at our progress with the integration, we've now retired one of Paya's legacy payment gateways, and we have a deliberate plan in place to sunset the rest over time, freeing up additional resources for continued investments. Having now aligned our leadership team and eliminated public company costs, we’ve started to execute on our estimated $21 million cost synergy target.

As we have stated previously, the majority of the cost synergies are expected to be recognized towards the end of the 24-month period following the completion of the acquisition. Furthermore, by plugging Paya into Nuvei’s tech stack, we've identified between $50 million and $100 million of new revenue synergy opportunity above Paya’s stand-alone base case by 2027, consistent with our thesis of accelerating Paya’s growth trajectory. We see ample opportunity to achieve this revenue growth by enabling global opportunities and implementing our go-to-market playbook.

The key takeaways I'll leave you with on Paya are that we're on plan, we feel really good about the acquisition and the deal rationale, and are confident in our ability to accelerate the growth of the business.

Turning now to our financial results, which above all else, indicate that we continue to scale the platform and win market share. Total volume for the first quarter was $42 billion, increasing 45% on a reported basis and 48% on a constant currency basis over the prior year's first quarter. Total volume on an organic constant currency basis grew 29%. Revenue for the first quarter was $256 million, increasing approximately 20% on a reported basis and 22% on a constant currency basis. Organic revenue growth on a constant currency basis, excluding digital assets and cryptocurrencies grew 26%.

Taking it one step further, that 26% growth rate means that we faced approximately $32 million of revenue headwinds in the quarter, which comprised of $5 million from changes in foreign exchange rates and $27 million from digital assets and cryptocurrencies on a constant currency basis. Remember that because we are an at-scale platform, the majority of these associated dollars flow to adjusted EBITDA and free cash flow. We believe this helps frame the operating scalability of our business. Adjusted EBITDA increased 5% to $96 million with a 38% margin in the quarter, and free cash flow was $84 million, also an increase from the prior year.

We continue to believe that we are a fintech unlike any other with our differentiating and compelling financial profile, which features a unique combination of growth, profitability, low CapEx and high free cash flow generation. As you may recall, we manage our go-to-market effort in 3 distribution channels: global eCommerce, eCommerce resellers and SMB. With Paya, we've now added 3 new channels, including B2B, government and ISV.

Double-clicking on our results for the quarter by channel. Global eCommerce, which is our primary focus and core value proposition, grew 37% at constant currency, excluding digital assets and cryptocurrencies. And I can't stress this enough: We believe this is class-leading growth and shows that we're truly winning market share and more importantly, growing faster than our high-growth peers.

Beyond global eCommerce, Nuvei continues to support our legacy channels, which include eCommerce resellers and SMBs, both of which are predominantly driven by independent sales organizations in North America and on a combined basis, represent a smaller percentage of revenue compared to global eCommerce.

For the quarter, revenue at constant currency increased 8% for eCommerce resellers and declined 1% in SMB. I will expand on SMB and what we're seeing there later on in my prepared remarks.

So there should be no surprise, and as we've been saying, we continue to see high growth in Global eCommerce, winning market share and driving category-leading performance, which is being offset somewhat by slower growth in our legacy reseller and SMB channels. Naturally, as eCommerce continues to grow and becomes a greater percentage of our business, these smaller legacy channels will become less relevant to our growth profile.

Now looking at our B2B, Government, and ISV channels—on a pro forma basis for the first quarter, B2B grew 15%, Government grew 15%, and ISVs grew 17%. As I just outlined, we're encouraged by this baseline performance and expect to accelerate growth in these channels over the coming quarters and years.

Paya also has a lower growth legacy channel, which is a mix of resellers and SMBs and declined 1% on a pro forma basis in the first quarter. So the key takeaway here with respect to our channels is that by leveraging our technology, our global eCommerce business is exhibiting best-in-class growth benefiting from our focused investments and strategy, and we expect to accelerate performance in our newer B2B, government and ISV channels, which, over time, will render our smaller reseller and SMB channels less meaningful and less of a headwind to our overall growth. With this additional information, we hope you can appreciate the momentum of the business, the opportunities that lie ahead of us, and hopefully, you can share the excitement of why we continue to feel that we're very much on the ground floor.

Taking a closer look at our results by region. In North America, revenue grew 55% in the first quarter to $125 million from $81 million. Excluding Paya, revenue in the region was 17%, driven by continued growth in our global eCommerce channel, which grew by approximately 51% over last year's first quarter. In EMEA, revenue declined 4% to $120 million from $125 million. However, revenue excluding digital assets and cryptocurrencies grew 27% as the majority of that exposure originates from European operators. In LATAM, revenue increased 68% to $11 million from $6 million as we continue to see our business accelerating rapidly driven by investments in the region. In APAC, while revenue decreased to $1.1 million from $2.9 million, it is important to note that our actual processed volume has increased as we continue moving our customers from international to local and see a lot of opportunity to continue accelerating our business in the region.

Turning now to operating trends for the first quarter. Our observations echo earlier comments made by others but underscores strong results and performance in our global eCommerce, B2B, government and IV channels, and slowdowns in domestic SMB. Double clicking for the quarter, certain organic revenue trends we saw by vertical include: online retail grew by 84%, travel grew by 65%, online gaming grew by 53%, video and social gains grew by 51%. And our SMB channel, which I discussed earlier and is largely our card-present business in North America, which includes consumer retail, restaurants and other verticals, declined 3% on a reported basis and 1% on a constant currency basis. Digital assets and cryptocurrencies were down approximately 61% compared to last year's first quarter and declined 10% sequentially. As we stated previously, this vertical is immaterial to Nuvei, and going forward is expected to continue to decline and represent approximately 5% (of total revenues).

Moving on now to an update on our go-to-market efforts. As you can appreciate from the commentary I just provided on our sales channels, we're really excited about the momentum of our sales efforts. Our capabilities give us the right to win our fair share of new business, and we're winning as demonstrated by our global eCommerce revenue growth rate of 37% at constant currency excluding digital assets and cryptocurrencies in this year's first quarter. And with our new B2B, government, and ISV channels, we are applying our playbook, knowledge and experience to build out a class leading go-to-market efforts globally.

While it's early, new in-year business excluding digital assets and cryptocurrency through the first quarter is promising, up more than 125% compared to the same period last year. We also have some very large implementations launching the second and third quarters, which should contribute to our results in the second half of the year.

Turning now to an update on product and innovation. We are a technology company at heart and never standing still as we continue to accelerate our differentiated feature functionality globally. Our technology investments increased by approximately 40% year-over-year, while keeping capital expenditures within our medium-term target range. As we continue to grow, we will favor purposeful investments that propel our differentiated value proposition forward. This is how we stay ahead of the competition, and we're progressing nicely across our strategic initiatives, namely our unified commerce, embedded finance and open banking offerings.

Finally, in an area that is clearly fastening for everyone, we continue to test and implement new use cases for artificial intelligence to enhance internal support channels, customer support, merchant onboarding, risk management, underwriting, and compliance. We look forward to seeing this develop further.

Turning now to our disciplined capital allocation strategy. As we said previously, aside from debt repayment and continuing to be opportunistic with strategic M&A, we expect to prioritize our excess cash towards share buybacks. To this end, in March, we renewed our normal course issuer bid (NCIB), pursuant to which we may purchase up to 10% of our public float over a 12-month period. We've also implemented an automatic share repurchase plan (ASPP), which allows us to purchase shares during blackout periods under predefined terms.

Subsequently, we purchased 1.35 million shares in the first quarter or roughly 2% of the public float for a total consideration of $56 million. As stewards of capital as a young public company, we've returned a total of $223 million to shareholders in the form of stock buybacks.

I'll now discuss recent market trends and how that informs our views for the current quarter and the rest of the year. So far, it's been a continuation of what we talked about before with positive momentum in our global eCommerce coupled with stability in B2B, government, and ISV, consistency in our reseller channel, and light headwinds in SMB. When it comes to our second quarter, there is seasonality sequentially when considering events such as Super Bowl, March Madness, spring break, charitable giving, and tax payments in the first quarter. Nevertheless, volume in both April and the first week of May is in line with our expectations.

With respect to the full year, we continue to take a balanced tone as the macro environment remains challenging to predict, even though we haven't seen any significant changes so far. I'll leave Dave to discuss the outlook for the second quarter and full year in 2023 in greater detail, but we continue to expect Nuvei's organic growth rate at constant currency, excluding digital assets and cryptocurrencies to be between 23% and 28% for the full year. We are raising the low end of our full year outlook by the amount we beat in Q1, as we remain cautious on the macro for the remainder of the year. We are also reiterating our medium and long-term targets for revenue, adjusted EBITDA and CapEx.

I am confident that Nuvei's growing leadership position within the payment ecosystem, global scale, product innovation, talent and platform advantages will allow us to continue to deliver sustainable, profitable and durable growth.

With that, I'll now turn the call over to Dave.

David Schwartz, *Chief Financial Officer, Nuvei*

Thanks, Phil, and good morning, everyone. I'll start by reviewing our financial performance for the first quarter. I'll then discuss our outlook for the second quarter and fiscal year 2023.

Looking at our performance during the March quarter, I am pleased to say that we are off to a strong start to the year. Total volume for the first quarter increased by 45% to $42 billion, which was 3% above the high end of our outlook range. The stronger-than-expected results were driven by our focused investments and execution within our global eCommerce direct channel. Our eCommerce volume represented 90% of total volume in the period. On a constant currency basis, total volume increased by 48%. Naturally, the inclusion of Paya for approximately 5 weeks during the quarter was a meaningful contributor to our growth. Excluding Paya, total volume on a constant currency basis grew organically by 29%.

Revenue for the quarter was $256 million, up 20% year-over-year. On a constant currency basis, revenue grew 22% and also exceeded the high end of our outlook range. Paya contributed $30 million of revenue from the date of acquisition through the end of Q1. On a pro forma basis, Paya generated $70 million in total revenue for the first quarter, up 10% year-over-year. All revenue figures for Paya are expressed net of interchange to be consistent with Nuvei's definition of revenue on a net basis. Paya’s performance for the quarter was driven primarily by mid-teens growth across its B2B, ISV and government channels. Paya's legacy reseller channel experienced same-store sales headwinds in the quarter. This is consistent with what we saw on an organic basis in our legacy SMB channel and seems to be indicative of an industry-wide trend.

Consistent with our focus on driving incremental gross profit dollars through our land-and-expand approach, gross profit increased by $34 million compared to last year's first quarter to $202 million, representing gross margin of approximately 79%.

Selling, general and administrative costs in the first quarter increased by $48 million or 32% year-over-year to $295 million. The vast majority of this can be attributable to 2 components, both relating to Paya. The first item relates to one-time professional fees during the quarter, which were higher primarily due to the acquisition and integration-related costs in conjunction with the Paya acquisition. And the second component relates to the contribution of SG&A from Paya for the period since the acquisition date. In particular, commissions paid during the quarter were higher, mostly due to Paya's operating model, which places a higher reliance on indirect partner distribution.

Employee compensation other than share-based payments for the quarter increased by almost $8 million versus the comparable period. Here again, the increase year-over-year reflects the inclusion of Paya for a partial quarter. The other main driver was investments such as in our product, technology and commercial teams to drive growth. Share-based payments decreased 4% versus last year, and I'll revisit this topic toward the end of my remarks.

Adjusted EBITDA for the quarter was $96 million, which was slightly above the top end of our outlook range, representing an adjusted EBITDA margin of 37.5% in the quarter.

Looking at other line items on the income statement. Net finance cost was $13 million compared to $7 million in last year's first quarter. We earned higher finance income of $5 million, primarily due to a higher interest rate environment. That was more than offset by an increase in finance costs of about $11 million to service our outstanding debt, inclusive of the new $800 million credit facility we entered into in late February in connection with the closing of the Paya acquisition.

Net loss for the quarter was $8 million or $0.07 per share compared to net income of $4.5 million or $0.02 per share. As I mentioned earlier, the results include one-time Paya-related acquisition and integration costs of approximately $20 million, which represented approximately $0.12 per diluted share.

Adjusted net income was $64 million or $0.44 per diluted share for the first quarter.

Turning to the balance sheet and cash flow. As of March 31, 2023, we had cash and cash equivalents of $133 million. We also had term debt of $1.3 billion.

Meanwhile, our cash generation remains strong. Cash flow from operating activities for the 3-month period was $57 million compared to $66 million for the comparable period last year. Importantly, this year's figure was impacted by some of the one-time acquisition-related fees paid during the period primarily related to the Paya acquisition. During the first quarter, as part of our capital allocation strategy and shortly after renewing our normal course issuer bid (NCIB), we deployed $56 million towards repurchasing 1.35 million shares, representing approximately 2% of our public float.

In addition to share repurchases, we intend to use excess cash to further reduce our leverage from current levels, while still maintaining the flexibility to invest in our business in pursuit of both organic and inorganic growth.

I will now turn to our outlook and would refer you to our forward-looking information disclosure in our press release and MD&A. As a reminder, our revenue growth profile this year will be a tale of 2 halves. During the first half of the year, we expect our growth to be impacted by challenging compares in digital assets. Then in the second half, we expect our growth rates to accelerate as we lap those factors. Excluding digital assets and cryptocurrencies, we continue to expect our organic revenue growth rate to be between 23% and 28% on a full year basis.

Our first quarter growth rate was 26%, positioning us favorably to achieve this objective. That said, we do expect some variability within the remaining quarters. Specifically, we expect the second quarter to be below the full year expectation. But we remain confident with the full year organic revenue growth rate, excluding digital assets and cryptocurrencies of between 23% and 28%.

For the second quarter, which will represent the first full quarter including Paya, we expect total volume of between $50 billion and $52 billion, revenue of between $300 million and $308 million, revenue at constant currency between $301 million and $309 million, and adjusted EBITDA of between $105 million and $110 million.

As you can see, we expect the second quarter to include several milestones, as we expect to achieve in excess of $50 billion in total volume, $300 million in revenue and $100 million in adjusted EBITDA. These quarterly milestones speak to our success in scaling our global platform.

For the full year 2023, we are marginally raising our previously-announced outlook to reflect our first quarter results. But as our view of the macro environment has remained relatively consistent during the 2 months that have elapsed since we first issued our full year outlook, we are keeping our outlook mostly intact. It follows that we now expect total volume of between $196 billion and $202 billion, revenue of between $1.23 billion and $1.26 billion and adjusted EBITDA of between $456 million and $477 million, representing an adjusted EBITDA margin of approximately 37% to 38%.

We continue to believe our outlook is appropriately balanced between the global macro environment and the strong business momentum year-to-date. Specifically, the first quarter's organic revenue growth on a constant currency basis, excluding digital assets and cryptocurrencies of 26%, driven by the momentum in our global eCommerce channel, which grew 37% at constant currency and excluding digital assets and cryptocurrencies.

Before concluding, I'd like to briefly discuss share-based compensation from both a dilution and expense perspective. In terms of dilution, there are 2 important takeaways. First, there is a significant portion of outstanding awards, almost 25%, which are significantly out of the money or failing to meet their performance conditions. Second, we expect to continue purchasing shares through our normal course issuer bid (NCIB), which will exceed dilution resulting from the settlement of awards during the year.

From an expense perspective, it is notable that share-based payments have been relatively stable within a range of $33 million to $37 million over the past 6 consecutive quarters. However, as a percentage of revenue, share-based expense decreased from approximately 16% on average through the 5 quarters ended Q4 2022 to 14% in the first quarter of this year.

All else being equal, as our revenue continues to increase and as some of the larger one-time grants start to anniversary such as our 2020 IPO grant to all employees, share-based payments as a percentage of revenue is expected to continue to trend down over time. Considering our 20% medium-term revenue growth target, share-based compensation could be in the single digits as a percentage of revenue over the next 3 to 5 years.

I'll now turn the call back over to Phil for some closing remarks.

Phil Fayer, *Chairman & Chief Executive Officer, Nuvei*

Thanks, Dave. Before opening up to questions, I would like to reiterate the key takeaways from today's call. First, organic revenue at constant currency, excluding digital assets and cryptocurrencies was 26% in the quarter. Second, global eCommerce revenue growth of 37%, excluding digital assets and cryptocurrencies at constant currency. Third, the integration of Paya is going according to plan, and we've identified $50 million to $100 million of new revenue synergy opportunities above Paya's standalone base case by 2027. Fourth, we continue to invest in the business as appropriate, including in our commercial, technology, and product teams. And fifth, we'll continue our disciplined focus towards capital allocation.

With that, operator, we're ready to take questions.

QUESTIONS AND ANSWERS

William Nance, *Goldman Sachs*

I wanted to follow up on some of the stuff that you're seeing on the reseller and SMB business. I mean I detect the note of caution in some of your remarks there. Just wondering if you can maybe size the combined total. How big are those as a percentage of the combined organization right now? And is your expectation that those will continue to be relatively flattish over the remainder of the year?

Phil Fayer, *Chairman & Chief Executive Officer, Nuvei*

Will, it's Phil. I think we've been pretty clear on our investment focus on direct eCommerce for the past 3 to 4 years and really love the momentum that we're building in our global eCommerce business and that's why we want to unpack what we're seeing in eCommerce, what we're seeing in resellers and what we are seeing in SMB. We've been seeing very good momentum in eCommerce and cross-border along with some interesting momentum in Paya's channels in ISV, B2B and government. From an SMB standpoint, as we continue scaling our core channels, which on an organic basis for Nuvei, Global eCommerce is over 70% today and continues to drive the majority of our growth, the headwinds that we may see in SMB and resellers will continue to climb. So we are investing in our growth. We are maintaining our SMB and reseller channels and overall, if you look at the business in the medium term, the vast majority will continue to be global eCommerce, B2B, and government.

William Nance, *Goldman Sachs*

Understood and then I know there was some commentary on 2Q and that being a little bit below where you're targeting kind of for the full year. Can you walk through some of the puts and takes on the second quarter guide and just how you're thinking about the acceleration in the back half of the year? I know you mentioned some big wins that are coming into the numbers and maybe one for David, if you could just touch on the seasonality of yields over the course of the year. I know you guys don't manage to that number, but it seems like the guidance implies a step-up in yields in the back half of the year and I know historically, there's been some negative seasonality in the fourth quarter. So just wondering if you could talk through some of the moving pieces there.

Phil Fayer, *Chairman & Chief Executive Officer, Nuvei*

Certainly, I'm happy to answer it. I think we never provided a Q2 guide, right? So we're very confident with the full year. So from a second quarter perspective, as we continue diversifying the business, we do have some seasonality. When you think about Super Bowl or March Madness or spring break and some of the tax payments as well as charitable payments that we see through the first quarter. Nevertheless, we see really good momentum. I want to remind everyone that every year we start effectively a new sales journey. So our mid-market and large client implementations typically go from the second quarter to third quarter and then certainly ramp in the fourth quarter. So nothing to flag beyond normal business process. In the late second quarter, we'll see a pickup of travel -- and certainly other verticals that pick up as well. So we are diversifying the base. We are building up exposure in each quarter with respect to opportunities from a sales perspective and the momentum is strong, and there are no surprises ultimately to flag for the second quarter. I'll turn it over to Dave.

David Schwartz, *Chief Financial Officer, Nuvei*

So yes, I mean, just to add on to what Phil said, with respect to the second half of the year, we said, if you recall, last quarter, when we spoke to you not that long ago, we talked about the tale of 2 halves for 2023. And certainly, part of that is the headwinds that we faced in the first half on digital assets. So that will lap in the second half. What you saw in Q4 and what you see again in Q1 is 26% organic growth ex digital assets in cryptocurrency. So 2 consecutive quarters that are within that guidance we gave for the full year--23% to 28% and if you do the math, you'll see that from a second half perspective, if you take Q2 as kind of our base case and then kind of see what growth we need to have in the second half to get to the full year revenue range, it's about a 3.5% increase in the second half over that Q2 base.

So we feel confident with it and like Phil mentioned, the new business, we saw really good -- granted it's early, it's just the first quarter, but we saw new business also pick up, 125% higher than last year's first quarter. So that's going to contribute as well as we get later in the year. The other things I'd point to, certainly with respect to the synergies, that will take some time. So that obviously hasn't kicked in yet, but that will take some time. And with respect to take rate, like you said, we don't manage specifically to take rate. There are fluctuations. Certainly, what we do see is typically Q4 being a little bit lower and then it steps up in Q1, and we saw that last year and you see that it again this year.

And then, I guess, from a go-forward perspective, certainly, we'll have a full quarter of Paya in the second quarter. So that will have an impact slightly on take rate. That will be a little bit lower. But for the most part, don't expect much variability from a take rate perspective.

Operator

Next question is from Darrin Peller with Wolfe Research.

Darrin Peller, *Wolfe Research*

The first quarter obviously did underscore the strength of the e-com business. When we look at April, May trends, I know you made a quick comment on it, just maybe reiterate or just touch again on what you're seeing now and then more importantly, just looking through the rest of the year, now that you have a little more insight into Paya. If you could help us understand what the updated expectations are for the different subsegments within that business going forward as well as monetization rates and it's really good to hear on the revenue synergies also, Phil. So anything more on what those are and how you think you're going to recognize those.

Phil Fayer, *Chairman & Chief Executive Officer, Nuvei*

Yes. Thanks, Darrin. I'll echo previous comments. So we've seen strong momentum in eCommerce throughout the first quarter. So January (and February) was very strong results. We did see some slowdown in March, but that's predominantly some seasonality that picked up at the end of March and interestingly enough, we saw daily average volume increase in April. So total eCommerce volume was higher in April, even though (the month) ended on a weekend and had one less day. So we actually really like what's happening around eCommerce.

In the Paya business, we saw, again, strong January, February, softer March with a stronger uptick in April. So overall, it's just allowed us to form the opinion and when we broke it down, you see certain verticals have strong stability, which we're quite excited about and some have really good momentum.

I think the other element that's interesting from our book of business is that we see different events in different countries that we operate around the world as well as our end markets. So we see really good momentum across all of our core verticals, and we believe that strengthens our view for the full year. In terms of Paya, without double clicking too much, I want to give a good sense of the baseline that we have with Paya and something that we're really proud of. Paya has done an excellent and all of the resources they had. Just a great group of folks that have executed really well. What we find interesting is we're bringing our playbook now and we've unpacked all of Paya's core channels, B2B, what we're doing in government, what we're doing in ISVs and obviously spent a lot of time with our current partners and customers and from unpacking global opportunities to unpacking product capabilities that Nuvei and Paya had on the road map as well as looking at some cross-sell opportunities.

Certainly not tomorrow, but something that as we integrate Paya into Nuvei’s flow and we connect them technically, there are a lot of tentacles for continued growth. So bringing our playbook from sales enablement, from marketing, from account management, from distribution that we do in the highly competitive sphere of eCommerce into the Paya verticals that we think are largely underpenetrated is very exciting for us.

Darrin Peller, *Wolfe Research*

I guess a very quick follow-up, just on online gaming. I think we saw over 50% growth, and that's obviously a meaningful part of the story. So just any comment on what's happening and driving that magnitude of strength? I'll leave it there.

Phil Fayer, *Chairman & Chief Executive Officer, Nuvei*

Yes, pleasure. I think online gaming is more about executing on our playbook. So we are seeing now really good momentum in North America. We are seeing new markets coming online as well. So overall, it's about executing with our customers. We've always said that we're going to crawl, walk, run in North America. We're running now. We have lots of good opportunities that we're executing on across the entire market, not just the U.S., but what we've done in Ontario, there's talk of Alberta coming online. There's been some new states that have activated in the U.S. that will continue driving that journey as well as real meaningful opportunities that we see in '24 with respect to some proposals in the UAE and what's happening in Brazil and other markets. So gaming is more of extending our position, investing wisely, having resources and technology that are relevant for the markets that we're operating in and we're just at that inflection point now.

Operator

Our next question is from Sanjay Sakhrani with KBW.

Sanjay Sakhrani, *Keefe, Bruyette, & Woods*

I appreciate all the commentary on the macro. Obviously, that's front and center with the investment community. I'm just curious if the lack of seeing anything on the macro is a function of you guys taking share inside your merchant base? Or is it that your merchants are just not seeing a significant impact related to the macro yet? Could you just elaborate a little bit on that balanced view you're taking into the forward look?

Phil Fayer, *Chairman & Chief Executive Officer, Nuvei*

Certainly. Thanks, Sanjay. I think it's not just a linear market. So many of the other peers that you follow are talking about the U.S. only and so we have that global footprint. -- some of our verticals have high growth in new markets, and that does give us some tailwinds. I think in general there's 2 rules of thumb certainly. We sign up a customer and we participate (in their growth). Keep in mind that none of our customers are new businesses, meaning they come to us for a specific issue that they're trying to resolve and thereafter, we grow with them and we grow with them by adding capabilities, adhering to their road map, or adding geographies. We think there's lots of upside in our own customer base to continue driving greater wallet share by executing with them and being the partner that they need thereafter in terms of what their business journey and what their environment looks like.

We think there's greater opportunity within our customers to continue growing wallet share versus the exposure from a macro perspective within our own customers. On the SMB side, we're taking a more cautious approach. We are seeing same-store sales decline and so we are watching that. I think what's different in our SMB versus the peers that you follow, is we've elected not to do significant repricing. So what you end up seeing here is true same-store sales and that is probably a different lever than you’re seeing in others. So we're watching it carefully. To date, on SMB besides volume slowdowns, we have not seen any delta in terms of merchant bankruptcies or losses. So from a macro perspective, some headwinds in SMB, really good momentum in Global eCommerce, and we think lots of opportunity in B2B, ISV and specifically government as well.

Operator

Our next question is from Joseph Vafi with Canaccord Genuity.

Joseph Vafi, *Canaccord Genuity*

Nice results and the start to the year. Just wanted to circle back on Paya real quick to begin. I know you indicated you're going to be closing some of those payment gateways there. Was that contemplated in the cost synergies before the acquisition? Or should we look at that as incremental?

Phil Fayer, *Chairman & Chief Executive Officer, Nuvei*

Good question, Joe. It is part of the cost synergies for us. The overall plan actually is to utilize the APIs and rich library of integrations wherever possible and connecting them into Nuvei's tech stack. Paya has multiple gateways. So they had a little bit of technical debt from M&A that they've done in the past and they were on that journey consolidating. So from our perspective, it's maintaining the really good (Paya capabilities), adding to what Nuvei brings to the table, and then reallocating the resources because Paya's got a great workforce to help us accelerate growth and capabilities in B2B, ISV and government. So it's all of the above—retiring, refocusing, and accelerating.

Joseph Vafi, *Canaccord Genuity*

Great, and then I know you mentioned that new business in the quarter was up over 100% year-over-year. Is there anything to call out there in terms of size of some of those customers in the new incremental adds versus a year ago, and how that trajectory of new business could expand and contribute during the year?

Phil Fayer, *Chairman & Chief Executive Officer, Nuvei*

Yes, it's a great question, Joe. I think the biggest thing that I would highlight for everyone is every year, we build a new portfolio of customers, and it takes a while, like building blocks. January starts at zero and at the end of the year, it drives momentum for the following year. So it is a big part of the following year's growth. It is the in-year gardening. I wouldn't tally too much from the first quarter. It's a nice place to start, but it's more about what's going to happen in terms of this momentum into the second, third and fourth quarter that's what we're excited about. I wouldn't call anything out in terms of specific customers because we'd like to do that when they actually go live, but as they work through implementations, but it's been a good start to the year.

Operator

Our next question is from Jason Kupferberg with Bank of America.

Jason Kupferberg, *BofA Securities*

I just wanted to come back to the comments around Q2 organic growth ex crypto being below the full year range of 23% to 28%. Why is that the case? And what drives that second half reacceleration that you referenced?

David Schwartz, *Chief Financial Officer, Nuvei*

Jason, it's David. We expected some seasonality (in Q2), so really nothing out of the ordinary. So no surprise there, and really what we saw (growth-wise) in Q1 2023 and Q4 (2022), we expect that to continue at that rate within the 23% to 28%. So really nothing out of the ordinary. Part of it certainly also is the new business that we see that will grow in the latter half of the year. But like I said earlier, if you do the math on the core, it's a 3.5% second half versus first half (growth rate).

So we feel really good about the full year numbers and we always try and take a balanced view, right? That's always been our approach, considering the macro and just considering that overall just by our nature, to take a more conservative view. So we feel good about it and there's great momentum that we're building, both as we see kind of month-to-month in the volumes that Phil talked about, but also in the new business. So both new and existing businesses are performing well.

Jason Kupferberg, *BofA Securities*

Understood. And then just as a follow-up. On volumes, you basically raised the midpoint of the full year guidance by the same amount that you beat the Q1 midpoint. But then on revenue, it looks like you beat the midpoint in Q1 by a solid $4 million. (However) I think you only ticked up the low end of the full year range by $1 million, so essentially the midpoint didn't really change there. I know these are small numbers, but it did kind of jump out at us. So wondering if this is a function of mix or take rates or other dynamics?

David Schwartz, *Chief Financial Officer, Nuvei*

Yes. It's always going to be a function of mix, like you said. You can call it take rate, you can call it mix. They certainly moved directionally in line but not necessarily by the same magnitude. So we feel good about both the volume and the revenue guidance we've given for the full year.

Operator

Our next question is from John Davis with Raymond James.

John Davis, *Raymond James & Associates*

David, I just want to clarify that despite the incremental opportunity from a revenue perspective or revenue synergies with Paya, the full year revenue and EBITDA guide still includes very limited, if any, Paya synergies. Just want to confirm that.

David Schwartz, *Chief Financial Officer, Nuvei*

That's correct. It's a longer build on the revenue side, for sure. Even on the cost side, which will be, like we said in our prepared remarks, more towards the latter half of that 24-month period. To some extent certainly, there's some that are more current on the cost side, like public company costs, but others take more time. So yes, there's no significant impact from a synergy perspective on our current year outlook... Correct.

John Davis, *Raymond James & Associates*

Okay, and then, Phil, earlier in response I think maybe to Darrin's question, you talked about pricing trends and that you guys have elected not to increase as we've seen a lot of your larger peers kind of raise price across the board. So curious there, just pricing philosophy, it's not just SMB where we've seen price increases. We've seen them in eCommerce as well. So just curious, have you guys raised price at all? Like how do you think about it as a lever that you have to pull in the future? Just any comments there would be helpful.

Phil Fayer, *Chairman & Chief Executive Officer, Nuvei*

Yes, certainly. I think you have to break it down by group. So large enterprise clients, pricing is not a lever. It's never been a lever just because it's certainly not how they operate. In SMBs, it is a potential lever. I think we'll watch and see how the year progresses. But from our perspective now, we typically follow and pass-through increases that are happening from card associations and may be opportunistic on those in terms of what happens in the twice per year increases. But nothing else to flag, John. From our standpoint, pricing is always a short-term lever. We're more interested in investing into the future and driving growth with our customers.

Operator

Our next question is from Spencer James with William Blair.

Spencer James, *William Blair*

This is Spencer on for Bob Napoli. I was wondering if you could comment on the evolution of the mix of 2 parts of volume—payouts and cross-border as a percent of mix? And talk about any influence those might have had on take rate or might have on take rate over time.

Phil Fayer, *Chairman & Chief Executive Officer, Nuvei*

Yes. There is nothing to flag in terms of payouts and/or cross border. I mean, actually, we are a cross-border business when you think about global eCommerce. Our customers operate in myriad markets all around the world. So that is our core. In terms of payouts, if you unpack our modules, we provide our customers with a myriad of capabilities, which includes pay-ins and payouts globally. I wouldn't break that down (further). I think it's irrelevant in terms of double-clicking in breaking down the volume. I'm assuming this (question) comes from a recent disclosure from d-Local. But from our perspective, payouts, cross-border, pay-ins, our entire ethos is to help our customers connect with their customers, regardless of solution and regardless of payment modality.

Operator

Our next question is from Paul Treiber with RBC Capital Markets.

Paul Treiber, *RBC Capital Markets*

If you can elaborate on some of the large implementations you talked about that you expect to deploy in Q2 and Q3. Specifically, in terms of large deals, are you seeing more large deal momentum versus the past? And then what fundamentally is driving your traction there?

Phil Fayer, *Chairman & Chief Executive Officer, Nuvei*

I would tell you, it's about our perfection of our go-to-market. So we talked a little bit about this last time, but we've built out our sales enablement teams. We really perfected the commercial teams. We have realigned the organizational structure on a regional basis and on a country basis and that is allowing us to be present and relevant. We have also built out brand awareness, and that is now allowing us to be included in ultimately, some very, very compelling RFPs and then just blocking and tackling with our current customers and our current technology partners that is driving the sales momentum. So overall, a very significant pipeline with a lot of discussions at an advanced stage. And we think just in general, from a macro perspective, this bodes well to new enterprise customers that are evaluating payment efficiencies and technical efficiencies. We think this just bodes well as an opportunity for Nuvei.

Paul Treiber, *RBC Capital Markets*

And in regards to the tech investments, you mentioned up 40% YoY. Is that organic? Or does that include Paya? And can you elaborate on the key priorities here, which ones do you see as the most impactful to your near-term pipeline?

Phil Fayer, *Chairman & Chief Executive Officer, Nuvei*

Yes, good question. Tech investments do include Paya. But just keep in mind, as we retire Paya's tech stack, those resources will be realigned for Nuvei. We're excited to have that. For priorities, we put them into 2 key buckets. Bucket 1 is the road map to execute on our customers' journeys. And we see lots of opportunities there. And the 2nd (bucket) is about our own product capabilities that we've prioritized based on vertical, customer, and geography. We believe, for example, ISV requirements are different from what we have in terms of B2B, and with what we see in global eCommerce. So we prioritize them. I wouldn't double-click on any of them, but just a reminder that we do well over 150 different product releases a year, and we're excited about maintaining and expanding our leadership position in our current verticals where we have them, and building up a greater challenger position in those that we aspire to be larger.

Operator

Our next question is from Todd Coupland with CIBC.

Todd Coupland, *CIBC Capital Markets*

I wanted to ask about EBITDA margins. A little bit lighter in Q2 and then implied stronger in the second half of the year, Could you just walk us through the puts and takes of the down couple of points in Q2? And then what brings those back up in the second half of the year?

David Schwartz, *Chief Financial Officer, Nuvei*

Todd, good question. I'll start off by just saying, like we've always said, we're building for the future. So we're certainly investing in the company. Q2 specifically, it’s going down a bit to about 35%, 36% EBITDA margin. It includes the first full quarter of Paya, which did have a lower EBITDA margin. If you look back historically (Paya was) about 26% or so. As such, there is a slight drag from an EBITDA margin perspective. (And then) as we continue to invest in the business, not just for Paya, but to build incremental growth, such as brand awareness that we've been doing, and just increasing our sales distribution team.

So that's part of it too. And then as you think about later in the year, going back up for the full year to be at about 37%-38% margin is in line with where we were in Q1. Certainly, as we build from a new business perspective, that has a (positive) impact as well as we put in some of the synergies related to Paya. Some of that will (start to) flow as we go later on in the year. So those really are the building blocks as you think about the step down in Q2 and then how it steps back up in the latter part of the year and overall, if you think about our long-term margin, like I said at the beginning, we're building for the future and that long-term target of 50%-plus is still something we feel strongly about.

Todd Coupland, *CIBC Capital Markets*

Okay. That's helpful. And then as a follow-up, if we think about North America, very strong, up 55% in the quarter, a lot of new business, I assume, is ramping. And then in the second half of the year. Are there margin headwinds as that new business comes on as well? Is that something to keep in mind? Or is it simply just the mix shift and higher synergies, et cetera, in the second half?

David Schwartz, *Chief Financial Officer, Nuvei*

Todd, as you remember, we're in the business of generating gross profit dollars. So ultimately, as those businesses onboard, they will improve our operating margin. But we're investing for the long term. So we feel very confident with the pipeline and the journey that we take with our customers. They don't just onboard in one country. It starts the journey (in one) country and allows us to go from country to country. So nothing predominantly different to flag for you.

Operator

Our next question is from Kyle Lindgren with Credit Suisse.

Kyle Lindgren, *Credit Suisse*

This is Kyle on for Tim Chiodo. So Nuvei is obviously gaining share and you guys operate across a diverse set of verticals and geographies. But I was wondering if you could maybe discuss the underlying industry or end market growth that's implied versus the medium-term guidance that you've given? Thanks,

Phil Fayer, *Chairman & Chief Executive Officer, Nuvei*

Thanks Kyle. We urge you to go back to my comments in terms of industry growth that we've seen in the last quarter. I think we wouldn't go down vertical by vertical, but we actually build our business case by customer and the journey of the customer. But overall, we're seeing great momentum across all of our focus verticals. We're expanding our market share in new verticals like marketplaces, online retail and travel and extending what we believe is a leadership position in our core verticals as well. So I wouldn't flag anything different. I'd urge you to double-click on the disclosure in my prepared remarks.

Operator

Our next question is from Richard Tse with National Bank Financial.

Mihir Raul, *National Bank Financial*

This is Mihir calling in for Richard. Congrats on the quarter. So I just wanted to ask on Paya. You mentioned that commissions were up due to a higher sales model. How should we think about that going forward? Will that model be changed more to leveraging Nuvei's direct sales force? Or how should we think about that?

David Schwartz, *Chief Financial Officer, Nuvei*

No, I think the part of the model that interested us (the most) is the relationships they have with ISVs and other partners. So certainly, as a percentage of our overall, it will change because Q1 wasn't a full quarter of Paya, and we'll have a full quarter in Q2. But from a strategic perspective and how we go to market, as it relates to those channels, we don't expect anything to significantly change in terms of how we go to market.

Mihir Raul, *National Bank Financial*

Okay and then just one follow-up. Is there room to increase yields on Paya's volumes basically by selling payment types like virtual cards or other higher-yielding payment methods for B2B transactions.

David Schwartz, *Chief Financial Officer, Nuvei*

It's a good question. We group that more into the account payables opportunity. But so far, I would urge you to continue understanding Paya's current business. We're in the mix today in terms of growing that current business. And as we add product capabilities, it will be driven by what our B2B partners require and those will be prioritized.

Operator

Our final question is from Kevin Krishnaratne with Scotiabank.

Kevin Krishnaratne, *Scotiabank*

Just a question on Paya. The growth there mid-teens, I think you called it. How do we think about how much of that is land versus expand? And you also mentioned 125% growth in new business growth. I think that was at the company level. How does that look for Paya? And then I did want to ask on any sort of seasonality if you think about there, given the environment in terms of new customer wins, sales motion and pipeline build?

Phil Fayer, *Chairman & Chief Executive Officer, Nuvei*

Kevin, I lost track with all the questions. I'll try answering as many (as I can). Paya's business is slightly different because we partner with a municipality or we partner with an ISV or we partner with a B2B, and this absolutely is a one-on-one relationship. So as you implement it, you may extend some additional value propositions from a product perspective, but that is certainly a land in B2B. Those land and expand, where we create a partnership, we integrate with them and then we cross-sell within the VAR network, and that (process) typically has a longevity of multiple years to generate a significant base and a position within the B2B platform. And the same is true for ISV, where you partner with that ISV for a particular need, and then you're able to expand that relationship as the ISV goes from one country to the other. So I got 2 out of your 3. Thank you, Kevin.

Operator

We have reached the end of the question-and-answer session. I would now like to turn the conference back over to Chris Mammone for closing comments.

Chris Mammone, *Head of Investor Relations, Nuvei*

Thanks. Thanks again for joining us this morning. Anthony and I are both available to follow up, so please reach out to Investor Relations with your questions. We look forward to seeing many of you on the upcoming investor conference circuit. We're planning to be at events hosted by Barclays, JP Morgan, CIBC and William Blair in the upcoming weeks, among others. So bye for now.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.