Nuvei Fireside Chat – Barclays Emerging Payments and FinTech Forum – May 17, 2023

CORPORATE PARTICIPANTS

David Schwartz, Chief Financial Officer, Nuvei

OTHER PARTICIPANTS

Gary Katz, Managing Director and Global Head of Payments, Barclays

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All right. Well, David, thank you very much for joining us today. It's fantastic to see you, and it's fantastic to do this with you. We've been looking forward to it for a long time. More importantly, thank you to everybody for joining. I think this is the last obstacle you guys have between yourselves and drinks. So we'll try to be efficient.

Dave, for those new to the story, maybe I'll just start at the very top. Would you just share kind of a high-level overview of the business. How you guys fit in the marketplace and just tell them the story about Nuvei.

David Schwartz, Chief Financial Officer, Nuvei

Sure. Thanks, Gary. Thanks for having me, and thanks for coming, everyone. So Nuvei, we're a payments technology provider. We're global. We focus on very specific verticals, specifically those that are high growth. We're not trying to be everything to everyone from a payments perspective. The company was founded and we're actually celebrating our 20th anniversary this year, so founded 20 years ago by Phil Fayer, our CEO. And we've grown pretty significantly, organically and inorganically over the past several years. And just to put it into perspective—where we focus is really cross-border global customers, high-growth customers, specifically online e-commerce.

And you think about the complexity that's required to operate in a global environment. That's where we like to operate. So for a business that is just operating in a local domestic market, that's great, but they'll grow over time. And so you think about just in that domestic market, you think about all the connectivity you must have from a payments perspective. They have to have potentially a gateway, an acquirer, and they may need fraud and risk management services, etc. So what we do is we pull all of that together as a single payments suite. Basically, through one integration, you can get access to the entire payment suite and all reconciliations through one deposit. We do that on a global basis.

So you think about the complexity of moving outside of that domestic local market and when you go to other markets and there's cross-border and there's regulatory regimes, that's the space we play in. So that's how we add value. Our purpose is really to accelerate our customers' business, and that's how we do things. We try and really work with our customers and partners to drive growth for them. And it's been successful, and we're heads down executing on that strategy and that plan.

Gary Katz, Managing Director and Global Head of Payments, Barclays

So maybe double click into the customers, if I can ask you about that. Who's the typical customer? How do you target them?

David Schwartz, Chief Financial Officer, Nuvei

Yes. So I think probably the best way to think about it is from a distribution perspective, we have both a direct model and an indirect model. So on the direct side, we're really going after medium to large-size enterprises, again, with an e-commerce focus, but there is also an omnichannel (or what we call) unified commerce component. So direct, it's really on the medium to large-sized merchants specifically focused on certain verticals. So that can be (video and) social games, online gaming, travel, online retail, marketplaces—those are some of the focus verticals that we target. That summarizes the direct side, which is really the (primary) focus of our business.

Then on the indirect side, which is becoming more of a focus through an acquisition we made earlier this year. On the indirect side, we partner with other providers, such as independent software providers (ISVs). We integrate into them and then that's run more like a middle marketplace. The customers in that space, the middle market, it's more diverse from an industry vertical perspective. But nonetheless, there is still some concentration and focus from an industry vertical perspective in that mid-market. Primary examples here would be around government, non-profit, B2B, and healthcare. And so that's really it from a distribution and customer perspective. And in all cases, it's really about those that want to go international. That's really where we play best on a global scale.

Gary Katz, Managing Director and Global Head of Payments, Barclays

And so maybe you could overlay that now with competition? It's obviously different players across everything that you've described, but who do you view as your core competitors? And how are you positioned there?

David Schwartz, Chief Financial Officer, Nuvei

So the way that we look at it, there's really (only) 5. If you are looking domestically, there's lots of players, in the domestic market. But if you want to look at who can provide the payments technology needed for enterprises to operate internationally and globally, it really comes down to just a handful. The way that I think about it is big tech has FAANG and in payments we have SWANC. So there's Stripe, Worldpay, Adyen, Nuvei and Checkout.com. So there's really just that handful of SWANC players that I'd say that play in the international and global sphere as it relates to payments. Certainly there's differences amongst them, but that's probably the peer set that we come up against the most on a global basis.

Gary Katz, Managing Director and Global Head of Payments, Barclays

And in terms of relative performance and probably more importantly, relative to the whole market, I think all of you SWANC players (as I've just learned) are taking share from the market. How do you think about that? Why are you winning relative to those? And more importantly, why are all of you taking share from the market?

David Schwartz, Chief Financial Officer, Nuvei

Yes. So we are definitely taking market share. If you look at our first quarter organic volume growth, we grew 29% organically from a volume perspective. So clearly, we're able to win market share. The way that we differentiate ourselves is a few things. One is from an offering perspective, from a technology and product perspective. We're differentiated in that we offer multiple services, value-added services and the more obvious payment services being gateway and acquiring but other value-added services through one integration. But the difference is that we offer it on an a la carte basis. .

So if you want to only take one of our services, if a merchant only wants one service, they can take it like that. And what that does to us is positions us in a very unique way to land and expand, to get our initial relationship with the merchant and then expand from there. If you look at the breadth of our offering, we think that's also a differentiating factor, in the sense that just from an overall scope perspective, we can offer our services and let our customers transact with their customers in about 200 markets.

We have local acquiring in 47 markets. Alternative payment methods (APMs), we can offer over 600 alternative payment methods. I'm not sure to what extent everyone's familiar with APMs, but in the North American context, we think about the obvious payment methods, Visa, Mastercard, American Express, PayPal, ACH. But then, when you go locally, there's a lot of other payment methods out there. So we have 600 in our portfolio. So that really is a door opener, 150 currencies. So that scope all through one integration is quite unique.

And the other differentiating factors that I would mention relate to the expertise that we have in those specific verticals that we concentrate on. So that is something we built over years. That's not something that you can acquire overnight. So the relationships and expertise and knowledge we have within those verticals, be it (video and) social games, online gaming, travel, that's something that the customer really appreciates because we can speak their language, understand their language, understand their pain points.

So it's that understanding and expertise, and then how we serve them. For the large merchants that we have as customers, they're not calling and getting a call center. They're calling and they're speaking to someone who can actually understand their business and solve a challenge or an issue they have. So that's effectively how we compete.

And in terms of how we're winning and why we're winning, if you come back to that 29% organic volume growth (in Q1), it's really around our new business. We expand with our existing customers by expanding our geographic reach and going into new markets, or expanding our product offering with new customers just by getting into the markets where we are solving that pain point and that challenge, be it whether they want to expand geographically or they have some challenges that they're trying to solve and they want us to help.

Gary Katz, Managing Director and Global Head of Payments, Barclays
So maybe just staying with the verticals. In Q1, I think you talked about online retail, travel, gaming, video gaming, as the areas of outsized growth. Maybe you can double-click on that for us? Is it the customer base that you already have new opportunities? Why are you winning there? Why highlight those? What are the keys behind those wins?

David Schwartz, Chief Financial Officer, Nuvei
Yes. So in Q1, which we just announced last week, we did have good growth in some of our key verticals. So if you think about (video and) social games, that was up 51% year-over-year organic. Online gaming is up 53% organically. We had travel up 65%, and we had online retail, it was up about 84%. And why are we winning? It's a combination of many factors, a lot of which I already mentioned--it's both a combination of expanding with existing customers and bringing in new customers.

On the existing customer base, if you drill down into some of those verticals, there's some geographic expansion. If you think about a topical one, which is online gaming. Certainly, the U.S. has been a market that's expanded over the last year or so as states individually are opening up. So that has certainly contributed to that vertical. And then thinking about travel, of course, in the pandemic, there wasn't much travel happening. There was that pent-up demand, and we do have an expertise on the travel side. So it is also an area that we focus on and we have had good growth there.

Online retail for the most part, the historical growth that Nuvei had really came through word of mouth. And only recently in the past year or so, we really started to invest in our distribution channel. And we're really starting to see the results of that investment. And so we brought our new customers last year and some verticals that were smaller for us. And we'd certainly be able to bring on new customers this year. And talking about that growth and in the first quarter of this year, the revenue from new customers we brought on was 125% greater than it was in the first quarter of last year. So our new business has really grown. It's a small base. It's a small number in the first quarter because we basically look at new businesses starting from January 1, (in other words) a new merchant that we bring on beginning on Jan 1. So it's a small base, but it's really good momentum that we see and the results are paying off from the investments that we've made.

And overall, our growth has some noise within our numbers. One of the items is we had cryptocurrencies that had significant growth last year. And of course, everyone knows that business has kind of gone south. If you strip out (digital assets) and cryptocurrencies and you look at our organic revenue growth rate on a constant currency basis—so take out the FX—we grew 26% year-over-year in Q1, which is the same growth rate we had (on that basis) in Q4. So you can see, consistently 26% growth two sequential quarters in a row. And we foresee for the full year of 2023, being between 23% and 28% growth on that same basis. So business is performing well. We're really happy with the execution, but certainly more work and a lot more opportunities to come.

Gary Katz, Managing Director and Global Head of Payments, Barclays
So maybe pivoting a little bit to the product road map. One of the stats that jumped out at me when I listened to the Q1 call, is a 40% increase in investment in R&D, right? So I know that was a big focus throughout and then sort of the increased emphasis on that. Can you double-click on how do people think about the road map, the increased investment and so forth?

David Schwartz, Chief Financial Officer, Nuvei
Yes. So that 40% increase is specific to CapEx. It includes the fact that we did an acquisition earlier in the year, so it is an inorganic basis, with some smaller portion of acquisition impact there. We have spent a fair amount. We're fortunate as a company because we have very good margins, and we are profitable and we generate cash. So that cash generation allows us to be flexible in how we invest in the business and allows us to reinvest back into the business. And so we've been investing—I mentioned before—from a people perspective on the commercial side, as well as other parts of the business we've been investing in -- for sure in technology, that's the core of what we offer, our core technology.

So people, product, technology have been across the board investments. Yes, there's a 40% growth year-over-year as it relates to CapEx. The way that we think about our CapEx spend, like we do with all of our investment decisions, we take a very disciplined approach. We're within our targeted range. Our target from a medium-term perspective is to be between 4% and 6% CapEx as a percentage of revenue, which I think is a good number. It allows us to reinvest back in the business, but also be disciplined from a cash generation perspective and a capital allocation perspective.

Gary Katz, Managing Director and Global Head of Payments, Barclays
So maybe we pivot to Paya. First of all congrats on that acquisition, closing that acquisition earlier this year. Maybe take half a step back and provide a refresher for the newer folks so that they know about the thoughts around that deal, the rationale and more importantly, how it's going so far?

David Schwartz, Chief Financial Officer, Nuvei
Yes. So we announced the acquisition of a company called Paya earlier this year. You may be familiar with them. We closed on February 22nd of this year. So Paya is a U.S. based/focused business. They also have a very interesting financial profile, which was decent growth (historically) at low double-digit percentages year-over-year and EBITDA margin of about 26%. So lower than our EBITDA margin, but an interesting financial profile. And what we saw in them was certain capabilities that we didn't have expertise in, specifically around integrated payments.

So we feel strongly that from a strategic perspective, integrated payments is how the mid-level market is going to consume payments on a go-forward basis. I'll give you an easy example, but it's not necessarily relevant for Paya, because Paya is more focused on e-commerce. But if you think just about the restaurant downstairs, where they have software that runs their operation, runs the kitchen and inventory, runs even in some cases—if you look at Toast as an example—runs the POS that they bring to the table (for patrons) to pay. I'm sure you've all seen it. So integrated payments is having payments embedded into that core software. So we believe that will be how the middle market will consume payments, and it's a large market. It's a $35 trillion market, the ISV market. So that's the #1 rationale for Paya.

Two was around Paya bringing us some other verticals. I mentioned before—government, B2B, not-for-profit, and health care. So other verticals that are lower growth than the verticals we've been focused on, but it provides a nice complement to our business from a seasonality perspective and from a cyclical perspective. And I talked about the financial profile and the really good team there, the expertise they had in Government, B2B, and ISV. That's what was really attractive about Paya and the integration is going really well. We really just started because we closed only 90 days or so ago.

So yes, great team and it's going well. We're really pleased and it's going to help propel our growth going forward. And like I said, they're a U.S. domestic base.

Gary Katz, Managing Director and Global Head of Payments, Barclays
So one of the new things that came out as part of the earnings call is the $50 million to $100 million of new revenue opportunities by 2027. You didn't talk about that as part of the original acquisition. So as much of a double click into that as you can provide, where are you seeing those opportunities come from? How do we think about it?

David Schwartz, Chief Financial Officer, Nuvei
Yes. So the $50 million to $100 million (of incremental revenue synergies by 2027) is something that we announced last week. Part of our thesis in acquiring Paya was that we thought just like the playbook for most of our M&A, we feel that we can accelerate the growth rates of many of the companies that we acquire.

In the case of Paya, like I said, they're U.S. based. But their (ISV partners) are U.S. and they're also global. So there's some low-hanging fruit there with respect to expanding some of their existing relationships. If you think about some of those relationships, they include large accounting platforms, as an example, software packages. As examples, Sage, ECI, and Acumatica are global software providers. Paya (today) is only providing service to them in the U.S. So these software vendors had to use someone else for the rest of the world. It's a no-brainer for them to now come and use Nuvei given that we have international capabilities. And we have spoken to some of them. Of course, we had limited ability to do that pre-announcement and pre-closing, but we're now able to do that post-closing and the reception has been great. They're asking us things like, can you help me in Australia, the U.K., (Holland), and Canada. And so there's some nice low-hanging fruit.

And then there's some other opportunities we see. Paya did a fantastic job with the limited resources they had. We are a larger company with significantly more cash generation. So we're able to take some of our cash flow, reinvest back into the business to ultimately propel future growth to reach some of that $50 million to $100 million by 2027. So it's going to take some time. Some of it is lower-hanging fruit, some would provide some more effort. But we're really pleased with what we achieved.

Gary Katz, Managing Director and Global Head of Payments, Barclays

That should be great to see. So maybe then just double-clicking on M&A a little bit more broader, right? This was your largest acquisition to date. You've been somewhat acquisitive throughout in terms of smaller deals. How do you think about M&A going forward in the short and medium term?

David Schwartz, Chief Financial Officer, Nuvei

So M&A for us has always been a part of our toolbox in terms of growth. We do it in a very disciplined way. We don't feel we need to (make acquisitions), but we do feel it's a way to access capabilities quicker, whether it's entering new markets or bringing on some of these capabilities. When we think about the 3 variables that interests us for M&A, it's geographic expansion, capability expansion, or scale.

Typically, an acquisition will have either geography or capabilities and possibly scale, but they'll usually have one of those first two. And like I said, we've taken a disciplined approach as part of our playbook. We are able to get past the question about how do you integrate M&A because it's hard. Some of our peers shy away from M&A. We actually have a really well-defined M&A playbook and a really solid M&A team. And so integration is key. We’ve walked away from many more deals than we closed, but we have a playbook that's worked for us and we're applying it now with Paya. And we're seeing the (early) results through those revenue synergies and some of the conversations that we're having with some of their partners.

Gary Katz, Managing Director and Global Head of Payments, Barclays

Yes. What about capital allocation more broadly? So we talked about M&A, share repurchases and debt repayment and so forth. Maybe you can comment on that.

David Schwartz, Chief Financial Officer, Nuvei

Yes. So we always take a disciplined approach to capital allocation as well. Again, we're lucky because of the cash generation we have. Our balance sheet looked different pre-Paya. We had a very strong cash position pre-Paya. Now we still are very cash generative, but we've taken on more debt with the Paya transaction. So what we have done in the past, we have done share buybacks. We did about $56 million worth of buybacks in the first quarter of this year. Since we put the buyback plan in place (in 2022), we bought back about $223 million worth of shares. So that has been part of our toolbox.

Now with this debt, our priority is really going to be around debt repayment. That will be the priority. We will continue to look at share buybacks opportunistically. We'll also continue to look at M&A opportunistically. But really the debt repayment side is going to be the higher priority. We'd like to pay down debt like we've done in the past. The other larger deals (we’ve done) paid down debt quickly, but we'll be opportunistic as well.

Gary Katz, Managing Director and Global Head of Payments, Barclays

I'm going to pivot the conversation a little bit because we're risking this being one of the few panels that doesn't discuss the great recession that's up and coming, and so I'll ask you a little bit about the market. So from your seat, obviously curious to see how you're thinking about the broader market backdrop, but specifically, what are you actually seeing in your business reflected in terms of your customers and how that may or may not be impacting you?

David Schwartz, Chief Financial Officer, Nuvei

Yes. Look, I mean it's hard to predict the future. It's hard to know what the future looks like. We feel really good about what we're seeing. Because of the diversity we have in our business from a geographic perspective and from a vertical perspective, it allows us to weather for the most part the storms that may happen. But we also try to take a conservative viewpoint, not just from an outlook perspective, but just from how we manage our business. (As an example), we never went out and hired people willy nilly. We really took and continue to take a disciplined approach to growing the team, because our team is super important to us. It's not something we want to lose grip over. So we've always taken that disciplined approach.

What we've seen in terms of the business, the metrics have been really strong. I mentioned growth from a volume perspective at 29% (organic at constant currency) in the first quarter, and mentioned some of the stats on some of the verticals. There are some areas of our business, too, that haven't performed as strongly. (As an example), our SMB legacy business, that's a really small point-of-sale business in North America in the first quarter, that declined about 3%. So it's not all perfect, but that isn't an area of focus for us. So you are seeing some positive, some negative. But overall, we feel really good about where we sit vis-a-vis our positioning and our diversity. But again, hard to know what the future will bring.

Gary Katz, Managing Director and Global Head of Payments, Barclays

Yes. And speaking of that, I'm going to ask a question that's unfair for multiple reasons, but how is Q2 progressing?

David Schwartz, Chief Financial Officer, Nuvei

Yes. So we just announced last week our Q1 results. Last week, we also mentioned that the volume that we're seeing in April and May are strong and (we have) good momentum. So we're feeling good about Q2 and the rest of the year.

Gary Katz, Managing Director and Global Head of Payments, Barclays

Okay. And let's take the opportunity to also talk about seasonality in Q2. That was a big topic last week (on the earnings call) and maybe you can take a minute or 2 on that seasonality topic more broadly.

David Schwartz, Chief Financial Officer, Nuvei

That's a great question. From a seasonality perspective, I'll talk about it in a couple of ways. I think it's important to understand. From a quarterly perspective, Q4 is always our strongest quarter. Why is that? You can imagine, just the traditional holiday season, you have retail (spending) that happens in Q4. Also, online gaming is one of our focused verticals. Q4 is a big quarter because you have NFL football. So Q4 is typically by far the strongest quarter of the year.

And then if we look sequentially, you go to Q1 which is also typically a good quarter as well. In both Q4 and Q1, you have government payments and real estate tax payments (happening) in both quarters. You have charitable donations, maybe more in Q4, but still some fall into Q1. And then in Q1, you also have some sporting events. You have Super Bowl. Can't forget about that one. You have March Madness. And so Q1 is a decent quarter.

Q2, typically, if you think sequentially, it's a slower (growth) quarter. There's no real catalyst or events that happen in Q2. And then Q3 steps up from Q2. Think about back-to-school, so you get some of that retail, traditional retail, and then the NFL season kicks off. And then you're kind of into Q4 and that's obviously the biggest quarter (for the reasons I spoke about). So that's how you think about the quarterly seasonality, or the quarterly cadence, which may not be as well understood. So hopefully, that's clear to everybody.

And then the other way to look at it is to just look at first half vs. second half, that's another way to look at our performance. So if you look at last year where we had no M&A, it's kind of an organic year. I think it's probably the easiest way to compare things. Our second half last year was sequentially 11% up from the first half of last year. So there's an 11% step-up in the second half (versus the first half). And that's pretty consistent actually for the prior year as well on an organic basis.

Gary Katz, Managing Director and Global Head of Payments, Barclays
Okay. That's helpful. I guess, medium term (growth objectives), you talked about that a little bit upfront, but maybe we can get a double click on that. And I think specifically, what I think will be most interesting is the building blocks. So to unpack your business, what are the key building blocks or growth algorithm that goes into achieving those (objectives)? Maybe as we start wrapping up, we can double click into that.

David Schwartz, Chief Financial Officer, Nuvei
Okay. Great. So from a growth perspective, one of our medium-term targets is 20% plus (revenue) growth. Like I said earlier, Q1 2023 and Q4 2022 both were 26% organic, excluding (digital assets and) cryptocurrencies and on a constant currency basis. So we're above that target. But that growth algorithm is really driven by a few things. First, it's driven by our existing base. I talked about it a little bit before. So that existing base, if you think about all the levers we have from a growth perspective, it's actually quite interesting.

So our existing base of customers have their own growth initiatives. They're growing organically, but they also have their own growth initiatives on top of that. So it's percentage points there, their own growth initiatives add to that. Then we will bring new capabilities to them. So we'll add new capabilities to our suite (of services we're providing). We'll also add the geographies to our offering that allow them to expand geographically and from a capabilities perspective. So on the existing business, if you frame it in those areas, you get one growth (component) there.

And then, we talked earlier about the new business that we've been driving quite nicely. So on the new (in-year) business, what's interesting is it grows sequentially throughout the year from Q1 to Q4. But then another interesting part is the new business we had brought in last year. In terms of revenue dollars generating from that component of new business, it will more than double in the current year (from year 1 to year 2). Think about it. We'll sign some business Jan 1, some business December 31. So on average, that's half a year, call it. But they don't necessarily give us all their volume up front. Instead they'll slowly bring the volume on to us. So really, you'll end up with 2x (or so) the following year after new business comes on. So those effectively make up the organic growth algorithm and levers we have. And then, of course, you could add on the inorganic piece through M&A.

Gary Katz, Managing Director and Global Head of Payments, Barclays
Well, look, I think we're going to be sitting here hopefully in 5 years doing the same thing. Looking here towards that date, what is the longer-term vision? Maybe leave us with that thought.

David Schwartz, Chief Financial Officer, Nuvei
I mean, we talked a lot about Q1 and quarterly cadence. But really, internally we think long term. Quarters of course are important as a public company, but we're really here for the long term and we're going to keep doing what we've been doing, and that's heads-down execution. It's listening to our customers. We're not out there developing things that we think they might need. We're out there listening to what they do need and bringing it to market for them and working closely with our customers. That's our secret sauce. It's really working closely with our large customers in these specific verticals that we have expertise in, and we're going to continue to execute on that plan.

And now we have some new (channels and) verticals in the fold with us. So it allows us to expand our capabilities and bring it more international. So we're going to keep doing what we're doing. We think the fundamentals of the business are excellent, and we'll keep managing the business in a disciplined way.

Gary Katz, Managing Director and Global Head of Payments, Barclays
Good. I think that's a great way to wrap up, David. Thank you very much. Thanks for joining our call and thanks everyone for joining.

David Schwartz, Chief Financial Officer, Nuvei
Thanks