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Chris Mammone, Head of Investor Relations, Nuvei

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John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

Let's go ahead and get started here. My name is John Davis. I'm the Payments and FinTech Analyst here at Ray Jay. We're excited to have Head of IR, Chris Mammone with us this morning from Nuvei. So Chris, first off, thanks for joining us.

Chris Mammone, Head of Investor Relations, Nuvei

Thanks for having me. Thanks everybody for being here. Appreciate it.

John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

Some pretty exciting news earlier this week, partnership with Microsoft, maybe a little context on what exactly you're doing for Microsoft, how this partnership came about. Just how to think about it would be helpful.

Chris Mammone, Head of Investor Relations, Nuvei

Sure. Yes, so we announced on Monday a new global partnership with Microsoft. It's a great marquee win for Nuvei. We've been talking for a while now about having a seat at the table with the largest organizations out there and being invited to RFPs, which frankly about three, four years ago, we wouldn't have been even asked to participate. So this is a great proof point for that momentum playing out in a great new win. As far as what we're doing, it's a global partnership. And it's a great example of how we really enter the fray at new customers, enter the wallet share by targeting a specific use case, strategic growth area for the organization. So in this case, with Microsoft, our Global Commerce channel will be offering a suite of payment solutions to them within their Office in Xbox ecosystems, and that's (again) on the Commerce channel side. And then on the B2B, Government and ISV side, we're partnering with Microsoft Dynamics as a new ERP partner to grow that channel for us globally, both in U.S. and internationally. So a lot of great use cases off the bat and with plenty of room to grow from there globally. So really, really excited about it.

John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

Yes, I think Phil mentioned on the third quarter call, pretty robust demand environment. Several key wins, Caesars, Curve, just to name a couple. But obviously Microsoft just further validates it. But what's really getting you that seat at the table today that you weren't? What's driving the ability to bid on and win these? Is it capabilities that you didn't have three, four years ago? Is it just (name) recognition? Just curious about what's driven that change from three, four years ago, as you've clearly signed up a lot of new clients?

Chris Mammone, Head of Investor Relations, Nuvei

Sure, I think we're on the map now, where we maybe weren't three or four years ago, there wasn't a lot of broad recognition to the platform. But, yes, we have gotten the most robust pipeline I think ever. We've spent more on the brand and on our marketing over the past year, and that certainly has helped. But yes, we've mentioned all those names. I think that across a lot of the end markets that we're targeting, we're seeing larger enterprises recognize Nuvei and again, invite us to participate in those RFPs, and now evidence of winning some of them.

John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

That's great. And then obviously, pretty uncertain macro environment that we're in. You've had competitors call out weakness in Europe. Just curious quarter-to-date, have you seen any meaningful changes in the macro backdrop or just any commentary there?

Chris Mammone, Head of Investor Relations, Nuvei

Nothing from our perspective. The last update we gave when we reported Q3 in early November is that spending trends and volume trends, at least as far as we see them, are pretty consistent. There is no big delta there. So we feel really good about our positioning as far as the end markets that we pursue, many of which are less cyclical in nature, non-discretionary in nature. And we've only added more of those less cyclical end markets with the Paya acquisition and our entrée into B2B, Government and ISV. So we feel like things have been pretty stable.

John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

Okay. And there's been a lot of chatter recently about the competitive environment with Adyen calling out pricing pressure worldwide, or having some issues in Europe. Just broadly, has the competitive environment changed? Maybe talk a little bit about where you play in the market versus maybe an Adyen. Where you see them? Are you seeing the same type of pricing pressure? Any sort of change from let's say a year ago, or two years ago?

Chris Mammone, Head of Investor Relations, Nuvei

Sure. Look, I think the first thing is this has always been a hyper-competitive market. So that's always been the experience. I think pricing is always a factor in winning business. But it's never THE factor as far as we're concerned. I think what you've heard as far as a lot of that chatter was primarily in the U.S. acquiring/processing market for mega-sized enterprises. We don't typically compete for that business. And so our focus is more on the mid-market to sub-mega-enterprise. And the follow-up might be, oh, well, then what about Microsoft? That obviously is a mega-enterprise. But again, we're not competing on price there. We're competing on capabilities, on our suite of services within our (global payments) technology stack that we sell on a modular basis or a la carte.

So the difference between us and say an Adyen or a Stripe—who we do see a lot in the market—is with those platforms, if you sign on with them, you pay for the entire suite, the entire payment stack. With us, you get a single integration like you would with them, and you get access to our entire payment stack, but you only consume what you actually need on an la carte modular basis. And that is a differentiator in how we go to market and it is a factor in how we win new business.

John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

Okay, great. And having gone through COVID and the volatile macro environment, I think a couple quarters ago, Phil reset the midterm (revenue) algos to 15% to 20% growth. Maybe help us understand the drivers and the building blocks to how you get to that 15% to 20%.

Chris Mammone, Head of Investor Relations, Nuvei

Sure, yes, that's a great question. Overall, what we've said in the past is that structurally our growth is driven by both wallet share expansion with existing customers and new in-year business winning new logos. And the rough breakdown there is roughly 80% of the growth comes from expanding wallet share with existing customers. And the other 20% roughly comes from winning new logos in-year. And so that's the structural setup. And then within that, a couple quarters ago, we started talking about the three primary distribution channels of our business and talking about how the weighted average growth rates of those channels factors into our overall (revenue) growth expectation of 15% to 20% (over the medium-term).

So taking those components (in turn), the largest and fastest growing channel that we have is Global Commerce. That's the core Nuvei processing engine. Initially it was the SafeCharge business that we bought in 2019. That's Global Commerce and in Q3 it was 56% of total revenue and was growing 25% year-over-year. Our expectation for Global Commerce is that it grows on a normalized basis within (a range of) 20% to 30%.

The next channel, B2B Government and ISV, this is primarily the old Paya business that we bought earlier this year. In Q3, it was 18% of our total revenue and it was growing 16% year-over-year. We think of the normalized range for that business as within 15% to 20%. So we think we can accelerate from the 16% (reported for Q3) higher within that range and maybe even beyond that 20% clip for that channel.

And then finally, SMB is our third channel. This is really the legacy Nuvei business founded 20 years ago. It's primarily an in-person merchant portfolio in the U.S. and Canada. It's mature, still contributes very positively from a cash flow perspective, good margin business for us. But it is also more prone to same-store sales trends. It's probably the business that's most prone to whatever prevailing factors are happening on the macro front.

And so, for example last year, SMB was growing in the low to mid signal digits for us. This year that's reversed and it's actually been declining low to mid-single digits. Q3 was down 3.8%. We are focused on having that business not be such a drag on the overall growth. And so we're doing what we can to make it more of a flattish experience, and we have some initiatives in place there. But if you think about that business as flattish to at most down 5% on a normalized basis, the weighted average of those three components should get you comfortably within the 15% to 20% overall construct for a three-to-five year outlook.

John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

Okay, great. So let's talk a little bit about the path back there. I think the Q4 guide implies exiting this year about 10% ex-crypto. I know you lost a large customer that you called out a couple quarters ago. So that's part of it. Maybe just talk about, I think Phil said you would be exiting 2024 in that 15% to 20% range. But maybe help us talk about how we get there and any other factors other than that one large customer.

Chris Mammone, Head of Investor Relations, Nuvei

Sure. So maybe the way to answer this is to talk about all the factors that are causing the Q4 exit rate to be below that range, which is incorporated in the outlook that we have already provided. It's a few things. One, we did have the World Cup in Q4 of last year, which was unique timing for that event, and was a pretty significant event for us. So there is a tough compare when it comes to that. I just mentioned SMB, which last year was growing in mid-single digits in Q4 and now it's actually shrinking by low to mid-single digits, so that is a tough comp there. We also talked about the fact that with the new business component of our growth, we had to recalibrate our expectations for the pace with which we were activating a lot of new business that we signed earlier this year. So basically, for example, for Q4, everything that we had had on the books to convert and start activating and generate revenue for, we pushed out that timing into 2024, and so that's having an impact on the expected growth. And then finally, the offboarded customer, there's a full quarter impact there, which is impacting the growth expectation for Q4. So all that combined is really what's driving that delta.

John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

Okay, great. And now that we talked a lot about the top line outlook, maybe shifting down to margins. Despite changing and recalibrating the top line, mid-term algo, you still stuck with the 50%-plus margins (for long-term outlook). I think we're in the high 30s, right around 40% today. Paya was a lower margin business. So maybe just talk about how you get there and the pace at which we should expect normalized margin expansion.

Chris Mammone, Head of Investor Relations, Nuvei

Just to level set for everybody, we have a few longer term targets out there. We have a medium term revenue target, which I just walked through. That's a three to five year target, 15% to 20% normalized top line growth. The margin target is a five to seven year target, so we do expect to get to a 50% plus adjusted EBITDA margin over that five to seven year time frame. As you mentioned, today we're at 36.3%. That was what we reported for adjusted EBITDA for Q3. And I think that's an important baseline level and inflection point for the business, because it absorbs a couple things. It absorbs the lower margin Paya business that we bought earlier this year. That's fully baked into that 36.3% margin number. It also absorbs a lot of the volatility that we saw from the crypto end market, which was a higher margin end market for us, and was one of the reasons why in the past we were already in the low to mid 40s from an adjusted EBITDA margin standpoint. That's now been fully lapped and absorbed in the numbers.

And so we don't have those issues now. So that 36.3% we think on a sequential basis can stair step, or march higher over time to get closer to that long term range. And we think we'll get there via quite a few buckets that we have at our disposal. One is just the fact that we're a scaled platform and largely all incremental revenue dollars fall to the adjusted EBITDA line. So we have that going for us. We have the fact that there's $21 million of cost synergies related to the Paya acquisition that's mostly still on the come. We talked about realizing those synergies within 24 months post-close of the acquisition. And so most of that's going to be in 2024 and beyond. And then separate from that, we have another initiative underway—both our CFO and COO are leading this across the organization—where we've identified tens of millions of dollars of cost savings, low hanging fruit around the organization that we can drive further cost savings and efficiencies.

So that's underway now and we feel like we have a good line of sight there. And then further to that is incremental projects that we have underway that could drive margin benefits such as insourcing our back end processing in North America. We see margin benefits there. We have some other initiatives underway to improve our authorization rates across the platform. We're seeing some good early results there that could have margin benefits. So I think taking all that into consideration, we feel good about sequential margin improvement over time.

John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

Okay. Yes, but Phil has also talked about really investing for growth and investing in the business. So I appreciate that there's pockets of low hanging fruit for cost cuts, but where are the incremental dollars of organic investment in the business? Like what are the key pockets there?

Chris Mammone, Head of Investor Relations, Nuvei

Yes, so I think just additions to our modular offering. We announced card issuing recently. We can get more into that as a good modular extension of our offering, a lot of good use cases there. Unified commerce, which is our omnichannel offering. Until now, we've only really participated in the online eCommerce processing for all of our end customers in the Global Commerce channel. A lot of those customers have physical presences as well that we don't participate in today. And as we roll out this omnichannel unified commerce offering, we'll get to participate in that volume. So there's good incremental TAM there.

So I would call those out. I would also say are there is further extensions in the B2B offering that we now have. We're primarily on the AR side of the house with B2B. So there could be use cases in AP as we move forward and other things like that. So those would be the major call outs.

John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

Okay, and maybe we'll double click on the card issuing business. I think you are in 30 markets globally. How does that enhance the value prop? What's the impetus to grow that business? And why does it make sense to push that offering?

Chris Mammone, Head of Investor Relations, Nuvei

So to be clear, this is a great modular extension that gives us the right to win further wallet share expansion opportunities, primarily within our existing customer base. And there are three primary use cases that we have identified that will drive a lot of these opportunities. One is a physical card that we can issue for—a couple of examples would be like an online retailer that wants to use it for a loyalty program for their end customers, or for a gig economy customer, like a ridesharing customer that would use it to pay their drivers. That would be another real-world use case for that.

Second (use case) is virtual cards. So issuing virtual cards to, for example, OTAs in the travel end market that we serve to make payments to airlines or rental car companies on behalf of the consumers that are booking their trips through the OTA. That would be an example.

And then still a third primary use case would be as a wallet solution. An example there would be with an online gaming customer that would use that mechanism for their end customers to store their funds, to do the pay-ins, and to fund gambling transactions that way. It cuts down on the need for those gaming customers to redo KYC on every transaction. So it saves them time and efficiencies. And so those are few examples there.

John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

Okay, great. It's been eight or nine months since you closed Paya. Maybe just revisit the strategic rationale. I would love to get an update about where you are more positive or you think there is more opportunity than the initial diligence suggested. Just an update on how that's going. I know Phil called out in the second quarter call a little bit of softness in that business for that quarter. We're just curious where maybe you're more positive on the opportunity and just overall how that's gone so far.

Chris Mammone, Head of Investor Relations, Nuvei

It's been a great fit. The people are amazing there. The integration has gone very well. We feel as bullish as ever about bringing these two businesses together. (As a reminder, a component to) the strategy is bringing Nuvei's payment capabilities, our global technology and payment stack to the foray, and helping existing Paya partners, especially on the ERP side, grow the offering outside the U.S. Paya was only a domestic focused U.S. business, yet they work with many global ERP partners—primarily Sage, Acumatica and ECI were the big ones that they brought to the table—that have global pools of customers that until Nuvei came into the foray weren't able to access that offering outside the U.S. So we're already moving into Canada. We're moving into the UK and some other European markets.

We've also had good success in adding new, large ERP partnerships to the mix. Since closing Paya, we've added SAP, Infor, and I mentioned Microsoft Dynamics. So, we've more than doubled the ecosystem of opportunities around the world with that platform. It's all playing out very, very well. But we still feel like we're just getting started.

John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

Yes, well obviously the growth in margins, you generate a fair amount of free cash flow. Understanding you are kind of de-levering post Paya currently, but historically been a relatively acquisitive company. Maybe talk a little bit about leverage, the comfort range of where you want to be there. How you think about higher rates and how that changes the return profile needed for the hurdle for a potential acquisition and also maybe touch on the decisions to implement a dividend a couple of quarters back?

Chris Mammone, Head of Investor Relations, Nuvei

I think for starters we're very proud of our financial profile and our strong cash flow generation. I saw a chart recently that of the 14 Canadian tech IPOs that happened since 2020 that are still public, we generate more free cash flow than all of the others combined. So we're really highly cash generative and we're proud of it. We're also very good stewards of that capital, and very disciplined in our approach. And so that's how we philosophically view it.

In the near term, the top priority for excess cash is to continue to pay down debt. You've seen us pay down about $90 million or so over the past six months. When we closed Paya in February of this year, we were just a shade under three times from a combined leverage ratio. We have now reduced that to 2.6 times as of September 30. And all things being equal, you'll see that continuing to come down by about 0.2 turns per quarter. And by this time next year, we should be around two times, maybe slightly below.

We introduced a dividend, as you mentioned, and we would expect to continue paying that dividend as an efficient way to return excess cash to shareholders as well. We are still a young public company, but since early 2022 we've returned over $250 million of excess cash to shareholders via buybacks and dividends. So we have a good track record there too. So that's what I'd say.

John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

Yes, when you think about M&A, I guess, first, we started to see the private market valuations start to rationalize a little bit, and then as you think about your M&A strategy specifically, are there certain geographies or capabilities that stand out as top priorities?

Chris Mammone, Head of Investor Relations, Nuvei

First, we do have a dedicated team that looks at M&A opportunities. They are very disciplined. Just to give you a sense, before Paya, I think it had been 15 months or so since we announced the previous acquisition. And we looked at a lot of potential opportunities over that 15 months and passed on all of them. So it really has to strike the right balance for us and really fall into that sweet spot.

For us, we have a couple emerging geographies, namely LatAm and APAC both small portions of our business today, growing nicely. And if there is something out there that could really help us grow in those markets, for example, that would be one call out perhaps for M&A. But again, probably only looking at small tuck-in deals in the near term.

John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

Okay. And then as you mentioned, you have bought back some stock and now pay a dividend, but how do you weigh liquidity? Is that maybe one of the driving decisions of why to decide to do a dividend? Just thinking about it, how do you guys think about the dividend vs. buyback dynamic if you're assuming M&A is probably not going to be at the forefront, but as we think about dividend versus buyback, how do you guys think about that?

Chris Mammone, Head of Investor Relations, Nuvei

Yes, again, we've done a lot of buyback. Almost all of that $250 million-plus that I mentioned came in the form of buybacks. And as we sit here today, the valuation is still kind of where it is. I think today our multiple is below a lot of the legacy processors.

Dividends are viewed as really a good, efficient way to return excess cash to shareholders. We're seeing incremental interest from dividend growth investors. That was one of our thoughts, that introducing a dividend would open up a new pool of capital, perhaps, in the public markets. And based on my inbound requests and things like that, that is starting to play out, so we are happy about that. And so we'll see. We just started, we paid it for two quarters now, so we're just starting on that journey.

John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

Yes, and just maybe to put the cart before the horse, but if we think about some companies in the space that have a dividend just because it opens up new pools of investors. Others have certain payout ratios, so they anticipate to grow that dividend. How does the board or Phil think about whether you expect to grow that dividend over time, or it's just something that you want to have, because it opens you up to new classes of investors?

Chris Mammone, Head of Investor Relations, Nuvei

Yes, those are Board decisions, as you mentioned, so I can't add much. But I think there is certainly a realization that once you implement a dividend, it would be certainly tough to pull it back. And in a perfect world, once you implement a dividend, then you would love to hopefully grow it over time. But we haven't made those types of announcements yet.

John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

Okay. And then I just wanted to talk a little bit about the SMB business in the U.S., because if you think about the other two segments that you broke down for us a bit ago, very healthy growth, largely eCommerce, card not present. I know the cash flow from the domestic U.S. SMB businesses is very healthy, good margin, but obviously a pretty big drag on growth. Has there been thoughts to potentially divesting that business, or is there a way to potentially re-accelerate that business, if it was something you're investing heavily in, or is it just like, hey, the margin and cash flow are good, but we're going to invest in our higher growth businesses. Just curious how that dynamic is playing out.

Chris Mammone, Head of Investor Relations, Nuvei

SMB is a fully integrated business into the overall platform, and this is really the roots of Nuvei. It's a business that Phil founded about 20 years ago, and so fully integrated. It does generate positive economics for the rest of the business. We're not going to stand idly by and allow it just to melt away, but again – nor are we going to invest aggressively into it. It will be about striking the right balance there. And for us, that is looking at things like, could there be pricing levers there? We haven't really experimented with that much in the past, but we may have opportunities there.

Going forward, there are other company-wide initiatives that are underway that will benefit SMB. I talked about the move to in-source backend processing in North America. That portfolio is a North American portfolio that is currently on our legacy processor. So that will move in-house, and that will have margin benefits for that (SMB) business.

I talked earlier about unified commerce. If you reverse-engineer it—primarily we're rolling that out for our eCommerce merchants that have physical presences and participating in that incremental volume. But on the SMB side, there are SMBs within that portfolio that either have or want online presences, and we can (start to) participate in that volume.

So through things like that, we're pretty confident we can get it back to more of a flattish experience for the overall mix.

John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

Okay. And we talked on the pricing and competitive landscape earlier. You mentioned that you win on capabilities, not price. Obviously, CFO David Schwartz's favorite question about greater yields, and you guys were looking (primarily) at incremental gross profit dollars growth.

Chris Mammone, Head of Investor Relations, Nuvei

Right.

John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

But just generally on an apples-to-apples basis, I think David and Phil have said that pricing has been remarkably stable on a mixed-adjusted basis. But are there opportunities potentially to take price where you have a leading capability, how do you guys think about that? I mean, I don't think Phil has talked in the past about that opportunity to potentially take price in some areas. I am just curious if that's something that gets talked about internally or is that just you kind of feel like you are pricing for value. You have seen a lot of other acquirers in the space raise price recently and to drive growth. And Phil has been adamant that that's not been a growth driver. We're just curious, is there an opportunity to maybe take some price?

Chris Mammone, Head of Investor Relations, Nuvei

No, I think it's consistent with that positioning that you laid out. I think just to lay out why we win, I talked about that modular approach to selling. That really is something that is differentiated. And our customers appreciate that, the ability just to consume whatever aspect of our platform they want and then grow from there. We get a lot of high marks for our responsiveness, the kind of human element that we add to our customers. Even for our mid-market and sub-mega, large enterprise customers, they always have somebody to get on the phone if they have an issue they need to troubleshoot, and that's something that comes back as a differentiating factor with our platform that our customers appreciate.

We have an industry-leading portfolio of APMs, 669 was the latest update of APMs around the world. We would hold that up against anybody as far as having a very local market, local solutions focus for global businesses to target individual growth markets. And based on third-party studies and results, our technology stack always shows up in the top quadrants of these independent studies. So those would be some of the factors why we win.

John Davis, Equity Research Analyst, Payments & Financial Technology, Raymond James

Okay, great. So I think we're going to wrap it there. Thanks, Chris.

Chris Mammone, Head of Investor Relations, Nuvei

Thanks, J.D.