

Nuvei Fireside Chat – Wolfe FinTech Forum – March 13, 2024

CORPORATE PARTICIPANTS

Phil Fayer, Chair & Chief Executive Officer, Nuvei

OTHER PARTICIPANTS

Darrin Peller, Wolfe Research, LLC

Darrin Peller, Wolfe Research, LLC

Guys, we're going to kick in now once again. And thank you, everybody, for joining us for the afternoon of the first day of the Wolfe FinTech Forum. Again, I'm Darrin Peller, leading FinTech Equity Research at Wolfe Research. I'm really happy to have Phil Fayer of Nuvei with us. I was saying to Phil a second ago, it's a company we really love following. I think it's still got a lot of room to grow that may not be as appreciated in the market as we believe. And that's part of what we love having you here is to help explain that.

And so with that said, Phil, first of all, thanks again for joining us.

Phil Fayer, Chair & Chief Executive Officer, Nuvei

Pleasure. Thanks for having me.

Darrin Peller, Wolfe Research, LLC

Maybe just take a minute, if you don't mind, I guess, just given that some of the audience may not be as familiar with the story. Maybe 30 seconds on the story on what Nuvei is and what you've built.

Phil Fayer, Chair & Chief Executive Officer, Nuvei

Yes, for sure. We've been on a wonderful journey of transformation. Nuvei is here to help our customers connect with their customers in all parts of the world, enabling them seamlessly going from geography to geography and driving the payment mediums and all the related tools that they need to succeed. And it's been just an incredible journey from when we acquired SafeCharge in 2019, driving a greater footprint and going from end market to end market, starting off as a gaming platform that was servicing some of the most complex requirements for big merchants that had no patience for downtime or latency, to totally transforming the company and onboarding new customers and partners like Microsoft and Adobe and others that we've been doing. It's just been a really fun journey. I think the biggest thing for me is just being in the space now for—I hate to age myself—24, 25 years. I'm still 25, by the way, so just in case there's any questions out there. But it's just been a wonderful journey to see how payments have evolved, how requirements have evolved and how we've transformed the company, and I get to work with some awesome people all around the world and feel like we're still just on the ground floor.

Darrin Peller, Wolfe Research, LLC

The breakdown of the business, Phil. If you want to just talk through the e-commerce, the digital side, then the B2B side, maybe just break it down for the audience again.

Phil Fayer, Chair & Chief Executive Officer, Nuvei

We have two high growth areas of focus. We look at bringing our use cases to markets that have the requirements to operate multi-jurisdiction and have greater requirements than basic payment processing. So we started with our single largest channel, which is one of our fastest growing channels. That is our Global Commerce channel, where we focus on mid-market to enterprise customers, and enabling them with the payment ecosystem that they require in all parts of the world. What's fascinating when looking at the U.S. payments market is that it's pretty standard. Card acquiring through the major card brands and maybe a little bit of ACH. But the minute you start stepping into other markets—be it local debit networks or alternative payment methods or installment funding—every other market is 80% the same, but 20% different/unique, and our customers need this seamless approach to kill off technical debt, simplify their tech stack and allow them to easily go from country to country. And it's just been a wonderful journey of growing with our customers by facilitating this. Last year, we added six new markets in our Global Commerce business. We're trying to do the same this year. We have enabled clearing and settlement, BINs and ICAs on our own platform now in most of the markets that we operate in. So, just a wonderful journey of growth.

Last year, we acquired Paya with a specific focus of bringing our use cases to B2B, Government and ISVs and driving our commercial playbook into that channel. So that channel has gone from 13% YoY growth in Q2 2023, to 16% growth in Q3 2023, to 19% growth in Q4 2023. And we see a lot of opportunities there. What we're doing is on the B2B side with our click-to-pays, we're deeply embedding into the ERP platform and then engaging with the VARs to drive an entire extension of the CFO office to streamline the order to cash workflow on a seamless basis. So, very exciting tentacles to growth there. On Government, we have a citizens portal UX where we digitize the citizens' experience for paying local property taxes, licensing fees, and the like. And on the ISV side, we've just accelerated that strategy with this tuck-in acquisition of Till Payments for seamless customer onboarding immediate and instant adjudication, allowing us to engage with an entire market that's new to us.

Darrin Peller, Wolfe Research, LLC

Where are you spending most of your time these days in terms of your priorities, your focus?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

They haven't really changed, except that the business got bigger. We're 2,400 people now in all pockets of the world. There's not a moment of time where there's downtime. You think about the fact that when we go to sleep in North America, Asia is running hard and vice versa. But we stay true to our philosophy, which is focusing on growing with our customers, helping them execute on their own journeys. We're steadfast on innovation. We've launched over 100 platform enhancements over the course of 2023, and we've got some really amazing things cooking in the U.S. and Canada that we think are going to create significant differentiation. We're focused on being frugal and expanding our operating margin and making sure that our investments are wise. And we're focused on developing our people. We have such amazing talent across the organization, which brings such energy and momentum into the business.

Darrin Peller, Wolfe Research, LLC

When we think about the medium-term, or even near-term, what are you most excited about in terms of the opportunity?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

I still think we're so much on the ground floor. When we IPO'd the business in 2020, we were doing \$160M of adjusted EBITDA. We just closed off 2023 at just shy of \$440M of adjusted EBITDA, now knocking on the door of a half a billion dollars as implied by our outlook for FY24. But if you start looking at scale, last year we did \$203B in Total volume. This year we're going to do a quarter trillion dollars of Total volume for our customers. There is still so much white space in new markets that we're expanding into. Everywhere we look, it's just excitement for the opportunity. And what's driving that excitement for us is we spend a lot of time with our customers. We have high net promoter scores. We're having deep engagements with our customers, and they are fueling our product roadmap. And when we start looking at the product roadmap capabilities and wallet share opportunities in front of us, it's so compelling.

Darrin Peller, Wolfe Research, LLC

Let's shift gears and go back to the quarter for a minute. You reported just last Tuesday. It struck us as relatively conservative and I think you even had certain wording that made it clear to us that you were trying to be more thoughtful and cautious, perhaps, than even last year? And so when we think about the assumptions embedded in that guide, if you don't mind actually starting off by reiterating or reminding us what your guide was. And then more importantly what kind of assumptions are in that?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

Yes, first, I want to give credit to Chris Mammone, who leads our IR team. He has been such a wonderful addition to the team, really thoughtful, and has helped guide us in terms of what is the best way to engage with our shareholders. What we ended up coming back to is there are a couple of building blocks. I'll talk about the outlook in a second. But first, it's macro and what's happening in the end markets that we support. It's wallet share opportunities with our existing customers. It's the annualization of new business that landed last year that we see the full contribution this year. And then, naturally, it's new in-year business that we onboard. We got caught last year in terms of timing. So we've been moving from mid-market to enterprise in terms of customer size, as well as entering all kinds of new end markets. And we don't necessarily control when new merchants go live, but this timing of when they go live creates a meaningful difference in year, Darrin.

What I mean by that is that if you sign a customer in January and that customer goes live in March, you end up having nine months of revenue opportunity with that customer. But if that customer instead goes live in October, between all the required testing and such, you end up seeing very little of that revenue. So what we did this year is we made sure that we were super prudent in terms of our assumptions around new customer activations.

We love our commercial team. We have now almost 500 folks in the commercial team. We've built a world-class organization from sales enablement, SDR, hunters and farmers, and relationship managers. And it's been a true pivoting moment to winning the who's who and how we're engaging around the world. And now we've just got to make sure that we drive that forward.

In terms of outlook, there's three blocks. We give outlook on volume, and here we're expecting to grow the business between 20% and 24% in FY24. What's fascinating here is that we do not target new businesses. This is us going head-to-head with the other industry peers and winning wallet share as a challenger in our end markets. We really love where we sit. Our outlook for revenues has us growing from 13% to 16% in FY24, with mix and conservatism built in there.

And then we look at adjusted EBITDA margins. We'll finish off FY24 roughly flat. When we think about our adjusted EBITDA margins, we acquired a small asset called Till Payments, and we expect about 150 to 200 basis points drag from that. And then we're outgrowing a customer that we elected to offboard last year. So overall, really good building blocks. We think what moves us back and forth is timing of new activations. I will say that January and February have been exceptional months for us. We are seeing really good momentum from our existing customer base as well as new pipelines. So it's shaping up to be an exciting year

Darrin Peller, Wolfe Research, LLC

I was just pulling out my comp sheet. Whenever you say your growth rates, you're at 20% to 24% volume growth, and you are well into the mid teens and potentially higher than that in terms of exiting the year in revenue growth. It strikes me as interesting that you are trading at around 11 times adjusted earnings? Maybe just comment on what you think is misunderstood on that?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

Look, I think at the end of the day, we're always building for the long-term, Darrin. The market has moved back and forth, and we totally get it. We're really excited about what we see within the business. We've been battle tested, as you know, for the past two years. And we are trading in the wrong ZIP code for where we should sit as an organization. But we understand that.

I think if you ask most public companies, they will all say the same thing when it comes to valuation. But we're head down executing. Our objective is approximately \$500 million of adjusted EBITDA this year, and we have the view that we could get to \$1 billion of adjusted EBITDA. We think that our direct peers are not the typical payment companies that we're mostly compared to. Instead they're the high growth players. It's up to us to execute. And that's exactly what we're doing. We're going heads down executing. We love the assets that we have. I think we have the right butts in the right seats with the right incentives package around it, and there's a lot for us to do.

Darrin Peller, Wolfe Research, LLC

Okay. I went off track a little bit. So back to the guidance. When you say that there is conservatism, where would you say that exists? What didn't you include in the outlook?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

It's not what we did or didn't include. We looked at new business and we took a really conservative view on when they activate, Darrin. So if you looked at last year, it was heavily back-end weighted. If you looked at first half vs second half, the second half was more pronounced because of the expected timing for how new business activates. In this particular case, we took a very conservative view of when things activate to give us room. And as far as what are the opportunities to outperform, it is us getting new business live quicker. Those are all opportunities, but those are also things that are not necessarily within our control. It really just depends on when new clients run through their implementation.

Darrin Peller, Wolfe Research, LLC

And the acceleration in revenue growth throughout FY24, please just remind people you're supposed to exit the year in line with what?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

The lower end of our medium-term growth range of around 15-20%.

Darrin Peller, Wolfe Research, LLC

Right. So when you think about exiting at 15% growth, up from the mid- to high-single digits starting point in the first half of the year, what's the driving force of that acceleration?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

I think the first one is we outgrow the offboarded customer. The second is new business annualizing from last year. And the third ultimately is just the wallet share opportunities that we see within our current base. But another aspect for you to think about is that Global Commerce volume growth was well over 30% in the fourth quarter. Revenue in that channel was 12%. So it just shows you that we're going up market from a mix perspective. The makeup and the characteristics of our business is changing. And I think that's boding really well as we lap that coming into the end of 2024.

Darrin Peller, Wolfe Research, LLC

Right. And I actually want to correct myself. I think you're starting off the year around 10% pro forma. Right, 10% or 11%, and then ramping to the mid-teens? All right. So, some of it is just timing dynamics, but nonetheless, it's good to hear the conviction is still there. And then from a three channel standpoint if you could just give us a sense of the kind of growth rates you'd expect in each?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

In our Global Commerce channel, we are expecting to grow between 20% and 30%; In our B2B, Government and ISV channel, obviously, Paya was a high single digit to low double digit growth business. We've accelerated that in Q4. That became 19% growth. We think we're touching upon our 20% growth target for that channel. And our perspective for SMB is that it will remain flat.

What's interesting for us in terms of the revenue composition is as we continue growing our B2B, Government, and ISV and Global Commerce channels, they will become larger and larger percentages of our revenue. So our focus on SMB will continue to become smaller and smaller. Something that's a fun fact: when we bought SafeCharge in 2019, we were 30% eCommerce, 70% SMB. It just shows you how fast—over the last four or five years—these things can change. And that's exactly what we're expecting within the business now.

Darrin Peller, Wolfe Research, LLC

What is it about your Global Commerce business that's actually winning? I mean, you are obviously growing at a faster rate, when you look at the volume growth, notably faster than the market. What is it that's attracting you to customers?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

There is no right or wrong for every customer, because everyone has their own particular needs. But I think it's the flexibility of our platform, Darrin. We come in with exceptional reporting, exceptional connectivity. Today, we've matched the industry best in terms of authorization, and we are continuously making enhancements. And we give the opportunity to our customers to choose the right solution that's most relevant for them.

Remember that we don't target new businesses. We're going after mid market and large enterprises that have a particular need. When they talk to us, they may need a country, or they may need a specific solution, or they may need an alternative payment method. That's the ethos of our business, because we are able to integrate once, meaning that we connect into them and then we are able to use that as a wallet share opportunity to continue expanding those relationships. And I think that's part of the magic.

This is a business where you don't just sign a contract and wave it in front of a customer. You've really got to execute, you've got to work your butt off. You have to drive value for the customer. And that is exactly what we are delivering in that Global Commerce channel. I think every one of these wins, thinking about Microsoft or what we are doing around other marquee names that we've onboarded, or even some of the end markets that we are bringing to new markets, it's that wallet share opportunity aspect that's so compelling in Global Commerce.

Darrin Peller, Wolfe Research, LLC

And what are you seeing in the market in terms of demand? Putting aside just the fact that Nuvei is doing well, but maybe high level, broadly speaking for a minute, what kind of environment are you looking at right now in terms of demand and spending trends?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

We have never seen the doomsday that everyone else has talked about. What's interesting is last year we did see same-store sales declines from where they were. We saw this peak in January and February, and then we saw it in March, April, May of 2023. This year, we are seeing strong momentum across the board. So far, we are starting off the year really strongly.

Darrin Peller, Wolfe Research, LLC

Right. I mean that was also very tough comps, right, from still kind of post-COVID comps.

Phil Fayer, Chair & Chief Executive Officer, Nuvei

I don't know, 2023 wasn't really COVID. 2022 I think was, but in 2023 we were beyond COVID.

Darrin Peller, Wolfe Research, LLC

All right. So it was just a little bit of a more questionable macro. But at the end of the day, now it looks strong again?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

Very much.

Darrin Peller, Wolfe Research, LLC

Okay. Paya, maybe just talk a little bit about how that's gone for you. I mean, it's been how long now, about a year?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

Yes, a year and a month.

Darrin Peller, Wolfe Research, LLC

Year and a month. So when we talk about that if you could just touch on the integration, the tech stack, what is it really bringing to you guys that is so exciting?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

For Paya, the more we dug, the more we liked. So we love the B2B opportunity for us. It's a new TAM, new opportunity, but requiring our use cases both for pay ins and payouts. If you think about Paya, they had effectively three small subsegments. B2B, Government, and ISV. In B2B, they have a product called Click2Pay that is deeply embedded to the ERPs, and it's an extension of the office of the CFO where they're able to pull the data out, cleanse it, and drive the timing between order to cash.

We've expanded that and gone from two major ERPs to five, and we have effectively now a pool of around 3 million merchants that we're able to address with all of our payment solutions and all the markets that we operate in. And we've identified between \$50 and \$100 million of revenue synergies, which you can appreciate the recent acceleration as a start for us to execute on that.

And on the cost basis, Paya had three payment gateways. It was using TSYS with Click2Pay on top. We're on our journey of eliminating those three payment gateways and TSYS as well. We're on our journey of implementing debit routing and all our value-added service throughout that and driving much greater stickiness within our ERP platforms.

What we heard about them when we were interviewing customers prior to acquiring Paya is that it was great that you could service the four corners of the United States, but what about the rest of the world? And I think that's really what drove us saying, wow, this is a wonderful opportunity to monetize our use cases.

In Government we have a product called Citizen Portal where we digitize the citizens' experience. So if you think about how you pay your water bill, city taxes or other. And this happened before we acquired Paya, but one of the things that they've done is that they pivoted from calling on municipalities directly, which as you may know, hell freezes over before they answer you. Just takes an incredible amount of time. But they pivoted that model to going after that business by partnering with ISVs, and that's been extremely successful.

Darrin Peller, Wolfe Research, LLC

ISVs that already have an integration into municipalities.

Phil Fayer, Chair & Chief Executive Officer, Nuvei

So it's not a new onboard. They're going to the ISVs and cross-selling Citizen Portal, and that's been extremely successful for us. And then in the ISV area, which is a smaller part of that channel, we've just strengthened that with Till Payments. A wonderful business that has presence in U.S. and Australia.

Darrin Peller, Wolfe Research, LLC

It's a small business, right?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

Yes a small business, but tons of capability there.

Darrin Peller, Wolfe Research, LLC

Right. That channel grew 19% last quarter (4Q23), right? I mean, and when I think about that relative to, what was it 16% growth the quarter before (3Q23), 13% the quarter before that (2Q23). So obviously it's accelerating. I mean, what is the right growth profile for that channel? Because I didn't think it was actually going to be that high.

Phil Fayer, Chair & Chief Executive Officer, Nuvei

We think it's a 20% plus grower, and Till Payments will be accretive to our growth there. But ultimately, Paya did the best they could with the resources they had. Paya was a 24% or 25% EBITDA margin business. Cash flow wasn't super strong. I think the team did an excellent job with what they had. But we brought our commercial playbook to the table, from sales enablement, SDR, driving focus, adding resources to it, and ultimately what you're seeing now is the fruits of that investment.

Darrin Peller, Wolfe Research, LLC

Okay. So from a sustainability standpoint, are you pretty convicted around the recent trends?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

Yes.

Darrin Peller, Wolfe Research, LLC

Okay. That's great to hear. I mean, it's obviously shown up to be something that was, I think people were a little bit uneasy about it when you first acquired it honestly. But it's proving out well. The SMB side, while I'm at it, it was declining a little bit. Now it's up a little bit, right? And so your conviction that that's going to be stable.

Phil Fayer, Chair & Chief Executive Officer, Nuvei

We're modeling that assumption

Darrin Peller, Wolfe Research, LLC

What percentage of your business now? 20%?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

It's around 26% of total revenue. So it'll step down sequentially every year. We should probably see 200 to 300 basis points drop each year as the mix of our portfolio changes. But the reality of that business is we had some one time items in 2022 that created grow overs. And that is why it looked worse than it actually was. But absent those grow overs, it'll always be a flattish business for us. We're loyal to our ISO partners. We're using that infrastructure for our omnichannel capabilities. So as we look at the areas of Global Commerce that has terminal-based requirements for card present transactions, we're using that infrastructure for that. And it's just a matter that we're being loyal to it, but we don't expect any growth from it.

Darrin Peller, Wolfe Research, LLC

Okay. Let's shift to one of the verticals, which is gaming, obviously, you're really well known to be involved there for some time now. And you're obviously a big player in it. If you could just touch on a combination of some of the more recent developments, maybe anything on the regulation front, and obviously the legalization in different areas that could allow you a big growth opportunity.

Phil Fayer, Chair & Chief Executive Officer, Nuvei

Gaming has been on a wonderful trajectory. Every time you see regulatory aspects coming up, it's a TAM increase for gaming. So if you think about it, and then these customers are looking at growing from market-to-market. They have a B2B platform that is scalable and operational in different markets. And they're monetizing it.

So what we've seen around gaming, just the history here is that it started in UK, went to mainland Europe, Western Europe and has now expanded to Eastern Europe, and now you're seeing regulated markets come into North America, South America, and potentially UAE. So we're seeing a massive increase in TAM. What's fun for us here is the exact same concept of expanding wallet share. We're servicing our customers. We're deeply integrated. We're enabling different countries and opportunities for them.

And now with what's happening around Brazil specifically, where there's a lot of pent-up demand; and what is happening in Canada with Ontario and potentially Alberta, and then every quarter, some new states in the U.S. that are going live. We're still at the infancy of what gaming can and will be over time.

Darrin Peller, Wolfe Research, LLC

How big is that for you guys now? And what kind of TAM is it?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

It's been going down as a percentage of revenue. So if you followed our history, gaming was almost 100% of our revenue when we bought SafeCharge in 2019. At the time of our Capital Markets Day in 2022, it was around 25% of total revenue. Certainly since then we've acquired Paya which had no gaming revenue. We're at a comfortable spot from a concentration perspective. But the important takeaway about us is that overall, we have no concentration per merchant, no customer is larger than 5%, and no more concentration on verticals that have volatility, like digital assets.

Darrin Peller, Wolfe Research, LLC

And the differentiation there, I mean, it's always been something you've done well, but what exactly is it? Is it your understanding of the regulatory and framework? Is it risk?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

What's interesting is that gaming is the lowest risk vertical that we operate in.

Darrin Peller, Wolfe Research, LLC

It's not perceived as such. That's not the perception.

Phil Fayer, Chair & Chief Executive Officer, Nuvei

No, it isn't. And it's the wrong perception. If you think about gaming, we have the lowest chargebacks ever. If you think about these regulated entities, they must abide by regulation, because otherwise the repercussions for them individually and for the company are pretty significant.

So as an example, we see higher chargeback ratios in online retail than we do in gaming. But for gaming you need to have a team that is well versed, a regulatory team that is able to operate within the framework that companies need to operate. And that is something that we've created expertise in. In terms of gaming, transactions come in multiple ways, in different spots and different times. So you end up seeing multiple pay-in formats, in multiple currencies, reconciled to multiple payouts, because people take their winnings often in real time, for a net settlement to the merchant.

And that is what we excel at. Multiple pay-ins fully reconciled in multiple countries, managing instant payouts, depending on whichever feature functionality they need for that and then net settle to the merchant. And we have built a leadership position of trust and engagement. We support some of the greatest brands and we're taking that leadership position and challenging new end markets.

Darrin Peller, Wolfe Research, LLC

Cool. All right. Maybe we touch on local acquiring, which is another area that you launched recently. I mean, local direct acquiring in Colombia. I think you now have acquiring capabilities in 50 markets just reading from my notes, 680 local APMs. Maybe just touch on how the company develops these capabilities, why it's such a priority for you guys.

Phil Fayer, Chair & Chief Executive Officer, Nuvei

Yeah, I mean, half of our priorities, if you look at our technology roadmap, is that we have two big rocks. The first rock for us is customer projects. Where are our customers wanting to go? And through QBRs and engagement with our customers, we follow them around the world. That's a big part of our wallet expansion strategy. And I'll touch more upon that.

And then the second rock is obviously clearing and settlement to drive value to our end customers. What we end up striving for is to have the greatest authorization rate, greatest connectivity, greatest local payment optionality, and greatest cross border optionality, so that we can address the needs of our customers as they grow from market to market. Because that's our ethos.

We don't want to be confined to local processing. We want to do large complex merchant implementations that have multi-markets, multi-currency on a standard reporting package where they're able to reconcile their daily volume on a per transaction basis and understand what is in their bank account globally. So this is where we excel at. This is the expertise that we're bringing to the table. We're following our customers around the world. In thinking about it, 50 markets, 20-plus that are at scale. And the others are growth initiatives that we're working our way towards. There's 197 countries, not all of them that you can go into today. So there's a lot more room for us to go.

But when you unpack these local markets, and I think this is something that's unique about us, is we're members of the card brands, we're fully regulated payment institution and EMI. We are providing our end-to-end processing from authorization, clearing and settlement with all our value added services. So our technology is scaling in so many different markets. Just a fascinating place that we're sitting at right now.

Darrin Peller, Wolfe Research, LLC

That's great. What about some of your recent partnerships? I mean, you had successfully won key partnerships with Microsoft, payments across Office and Xbox products in Middle East and Africa. Maybe just touch on that as an example, maybe just underscoring other partnerships.

Phil Fayer, Chair & Chief Executive Officer, Nuvei

We have been investing and I think if those of you that have followed our story from the IPO, we've always said we have some of the best technical capabilities and we're now going to take those capabilities and bring them to new end markets. So we've created a challenger position in online retail, where Shein and Temu and many others that have onboarded with us. We've created a challenger position in travel.

We think about local interchange and domestic interchange for global airlines all around the world. We've been enabling more BINs and ICAs than ever before on our platform. And we're creating challenger positions now with respect to large digital good companies like Ticketmaster and Microsoft and what we're doing with Adobe, and we're really just starting to monetize them.

So it's a great inflection point for us. Certainly, we have an appetite for platforms and marketplaces next. And we think at that point we've touched all high growth end markets to continue scaling our business. And yes, Microsoft was a wonderful sales process that took about three years. But the fun thing is, they went to our office in Israel. They went to our office in London. They analyzed our network operations center and how we monitor transactions. They spent the time, and to win that partnership is just a stamp of credibility and approval of all the things that we've been working with as an organization.

Darrin Peller, Wolfe Research, LLC

And so that land and expand opportunity is something you're excited about with all these customers like this.

Phil Fayer, Chair & Chief Executive Officer, Nuvei

For sure. When you think about Microsoft in particular, they need interconnectivity in Africa, which we can do. But the minute you're integrated, Darrin, this is a story of where we excel at. We service, and we drive optionality and enablement for them. A little birdie told me Adyen may be using AWS and that bothers them for payments. So the opportunity for Microsoft is not just what we're doing now, but what it can be in Europe or in the United States or other markets. And that is true for all of our customers, because when they onboard, they onboard for a particular need. And then you have these incredible growth tentacles as we start servicing them.

Darrin Peller, Wolfe Research, LLC

You talked about how insourcing back-end could provide an uplift to margins. You've always been actually one of the more profitable companies we cover on the growth side of our coverage. But I mean, your targets are 50% plus long-term EBITDA margins. Maybe just help us understand beyond just insourcing back end, just broadly speaking, the pathway to get there.

Phil Fayer, Chair & Chief Executive Officer, Nuvei

Yeah, I mean, if you take a look at our business, we were at 37%, 38% adjusted EBITDA margins pre-Paya. Paya was 24%, 25% EBITDA margin, and so we came down to the low 30s when we combined the businesses. But you've seen a sequential improvement in adjusted EBITDA margin every quarter to finish 2023 at 37%. So you end up having a business that can improve margins between 200 and 300 basis points a year. This year (FY24) is flat because we bought Till and we offboarded a customer. Those were our decisions and offset by scale.

Certainly, as we overachieve in new business, we can do better. But ultimately, we're always investing for that future, being thoughtful. But as an organization, from a margin perspective, our CFO and our enterprise planning office is steadily focused on costs and cost initiatives. We have tens of millions of dollars of opportunity within the business, and one of them naturally, is clearing and settlement. And then Paya gateway, retirement.

Clearing and settlement is not just about expanding EBITDA margin. In our business, we manage our BINs all around the world—except for in the U.S. and Canada—although we're members now in Canada for our direct BINs and ICAs. But in the U.S. we use a third-party processor, so we have the workflow that's twice. And then on top of that, we use tables on TSYS and Paya used another system that they had for billing. So you end up having the workflow twice where you still log into green screens with inefficient data and the merchant experience is just lackluster.

The reality is the clearing and settlement data that we get back from TSYS is hard to drive a direct interchange cost on a per transaction basis, because they don't link the authorization, settlement and ACH funding. And so we're going to look at efficiencies internally, we're going to look at efficiencies for our customers, and we'll get a net benefit that I think will drive an unbelievable product offering for our Global Commerce customers.

Darrin Peller, Wolfe Research, LLC

So just being more in house, full stack, not relying on a back-end processor, allows for a lot more offering and flexibility, obviously, and efficiencies than just cost saves and margin, obviously. That's great. And what is the timing on that again?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

We're live in Canada, so we're probably going to start working on that migration. Canada's a little bit different because we operate our own authorization switch, so that we can move merchant by merchant. In the U.S. it's all or nothing, because we're using a third party authorization for a lot of those terminals. So for the U.S. we'll probably start the migration in Q3. But if we miss Q3, it will move over to Q1. And that is why when you look at the outlook for the year we provided in the Shareholder Letter, there was a box of margin enhancement initiatives where we did not include clearing and settlement.

Darrin Peller, Wolfe Research, LLC

What about on capital allocation, Phil? I mean, you continue to execute on, obviously, profitability, and you're showing, you just discussed how much room there could be. So how do you think about capital allocation when you think of your balance sheet and debt repayment? I know reducing leverage to 2.0x remains a big focus, but what's the framework around M&A?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

It's an interesting topic. So in general, we got this amazing cash flowing business. Low CapEx, tremendous scalability and naturally flexibility with where we deploy capital. I think our base case is going to continue to be debt repayment. We are going to be opportunistic around M&A like we did with Till Payments. But I think this is a market where shareholders don't necessarily appreciate M&A. And we're seeing mixed feedback from our shareholders in terms of whether do they want us to do M&A or not?

We're comfortable with the tools that we have this year. And so I think our base case for everyone to expect is we're going to remain focused on debt repayment and strengthening our business on an organic basis. That being said, if something compelling presents itself, certainly we are opportunistic. We can do it and we will do it. But the base case is purely to be heads-down executing.

Darrin Peller, Wolfe Research, LLC

So, guys, I'm going to turn it to the audience for questions in just a minute. But before that, I've asked this to a lot of my fellow fireside chats. Just looking at a year from now, what would you say is mission accomplished? You've really done what you wanted to do?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

I'm always looking at five or 10 years ahead, if that makes sense. So from our end, internally we're steadfast and focusing on our customers. So success for us is executing on customer projects and driving that revenue opportunity for them. That's our ethos – that's what makes us successful. I think if you start breaking it down by department, we're really excited about AI efficiencies. That would be exciting for us. I think we're really excited about the commercial success and I think this is a year for resetting credibility with our shareholders. Executing every quarter will provide value for our shareholders. We remain in some kind of no man's land today, and I think that type of consistent execution would be successful for us.

Darrin Peller, Wolfe Research, LLC

Okay. That's great. Guys, any questions from the audience for Phil? Yeah, go ahead, Scott.

Scott Wurtzel, Wolfe Research, LLC

When we think about the Global Commerce platform and think about all the different verticals you operate in there. We'd love to just hear where you're seeing the most success and why? I know travel has been a vertical that has done pretty well, but we'd love to hear where the solution resonates the most in market?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

What we've been spending time on is building equal amount of effort across all of our end markets. If you look at our organizational design, we have a segregated sales function with country managers and folks focused on in-country. So we look at successes that are opportunistic in those countries. And for that, we're creating equal investment across all seven or eight relevant verticals that have merchants that are mid-market to national and that operate multi-country. We are seeing a pipeline of very compelling opportunities in Asia. We think about a lot of the Asian brands that are either in retail or digital. In Europe, we're seeing a lot of compelling opportunities within omnichannel as we start thinking about how that's presenting itself as well. So those are all things that we're excited about.

And in the U.S., when we think about what we're doing around least cost and debit routing and for clearing and settlement. From the pain points that we're hearing from companies like Airbnb and Uber and some of the others, I think we're resonating. It's obviously early, but I think it's really exciting. LatAm is still something that we've done really well around Mexico and Colombia, and now very excited about what's happening in Brazil where many of our customers are looking. We're in process on obtaining our licensing there. So the answer to your question is, from an overall perspective in Global Commerce, it depends on what the journey is of that customer that's resonating for them.

Unidentified Speaker

Do you have any competitive disadvantages relative to some of the other, more well-known names in the space?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

It's interesting. We were with the card brands a few weeks ago, and it's fascinating because payments is a really broad ecosystem and a lot of us have our own expertises. But if you look at folks that have our reach and our licensing footprint, there's really two—Adyen and Worldpay. Certainly you have Checkout.com that's a private company and Stripe that's more pocket-driven. And in terms of that, we have pluses and minuses. I think right now a minus for us is our U.S. capabilities around TSYS. So I would say that is less interesting from an overall merchant perspective. And that is one that we're addressing.

But the biggest point that I'll tell you is we're always listening to customers and we're driving those as net improvements into our platform. We've closed the gap. One of the pieces of feedback we got last year was Adyen's authorization rate was better than ours. We've created specific teams comprised by our data scientists and the card brands to build and improve authorizations, from cascading to reapplying to providing open network tokens to accept tokenization from other processors. And the result is we have now matched one of the best partners out there. We've also created teams that call card issuers on false declines and we've been improving that as well. So I think it's always a learning event. They have been at it for longer than we have. But if you start looking at financial results and how we've been closing the gap, we're one of the companies that's closing the gap the fastest.

Unidentified Speaker

Can you talk about the launches of card issuing and unified commerce, maybe any early learnings or client feedback and where you see growth opportunities?

Phil Fayer, Chair & Chief Executive Officer, Nuvei

Yeah, they're both really fun journeys. To level-set, these two are not included in the outlook for 2024, just to give ourselves some room on them. First of all, we'll talk about unified commerce. We have now deployed our devices in three markets via single API. The UK, Canada and U.S. are fully deployed. We have a multi-hundred terminal opportunity that we're working through right now. Just starting the process.

We looked at RFPs. One of the big things that we found in both retail and gaming and actually three out of our seven core verticals is that we're missing the omnichannel solution. We've now ticked that box. Inside that, we've also perfected our reporting. So you have it by device, by location, by country and by payment medium. And we've created reporting to show the delta from it. So it's early, but I think early signs are excellent. We've elected to build that on a Verifone platform versus an Android platform. And then we think now is the time to expand different devices and even support a bring your own device environment.

On card issuing, we are through our second large implementation. It's Pan-European today, and we're working on launching in the UK and Canada. Next on the same platform and thereafter will be the U.S. So it's still early. We're seeing excellent use cases in B2B, and we're seeing excellent use cases in travel. And we believe there's going to be quite significant use cases in gaming as well. The biggest thing for us is to offer this as a module, and if you think about it, the more cards that you issue, the more on/offers that you process, the more transparency you offer to our customers is an opportunity for us to gain more wallet share, because they're going to end up pivoting more wallet share for us.

As we tokenize these customers, we'll be able to prioritize the prepaid or card issued by our merchants to drive better economics and offer them a platform that's not driven by breakage. And what we mean by that is that if there's \$32.77 on that card, we'll allow them to take that in the delta on the secondary card. So we've been integrating the acquiring/issuing experience so that our customers can derive value from it. I'm quite excited about how that's progressing, but it's still upside to us.

Darrin Peller, Wolfe Research, LLC

Great. I think we're going to wrap it up there, guys. Thank you very much, Phil.

Phil Fayer, Chair & Chief Executive Officer, Nuvei

Thank you. Appreciate it.