Nuvei Fourth Quarter 2022 Earnings Transcript

CORPORATE PARTICIPANTS
Phil Fayer, Chairman & Chief Executive Officer, Nuvei
David Schwartz, Chief Financial Officer, Nuvei
Chris Mammone, Head of Investor Relations, Nuvei

CONFERENCE CALL PARTICIPANTS
Darrin Peller, Wolfe Research, LLC
Joseph Vafi, Canaccord Genuity Corp.
Paul Treiber, RBC Capital Markets
Robert Napoli, William Blair & Company, LLC
Sanjay Sakhrani, Keefe Bruyette & Woods, Inc.
Timothy Chiodo, Credit Suisse AG
Todd Coupland, CIBC Capital Markets
William Nance, Goldman Sachs Group, Inc.

Chris Mammone, Head of Investor Relations, Nuvei

Thank you, operator, and thanks to everyone for joining us this morning. With us today are Philip Fayer, Chair and CEO; and David Schwartz, CFO. As a reminder, this conference call is being recorded and webcast and is copyrighted property of Nuvei. Rebroadcast of this information in whole or in part without written consent of Nuvei is prohibited. Earlier this morning, Nuvei issued a press release announcing financial results for the three-months and full year period ended December 31, 2022. The release as well as an accompanying supplemental slide deck is available in the Events section of our Investor Relations website, investors.nuvei.com.

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

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

Phil Fayer, Chief Executive Officer, Nuvei
Thank you Chris, and a warm welcome to you as a new member of the Nuvei team.

I'd like to start by thanking our more than 2,000 colleagues around the world for their relentless effort and commitment to supporting our customers and driving the success of our business. 2022 was an exceptional year for Nuvei and I am so incredibly proud of everything we accomplished together. It's still early days and we are still very much on the ground floor.

We remain heads down focused executing on our strategic initiatives, investing in the business and expanding our use cases, all the while maintaining both our adjusted EBITDA margin and enviable free cash flow profile throughout the year, which in our opinion is class-leading within the broader high-growth FinTech landscape. I'll share some insight here later in my prepared remarks to help you frame our fourth quarter and full year performance.

Today, Nuvei enables leading discretionary and non-discretionary use cases supporting online retail, e-commerce, marketplaces, online gaming, video and social games, financial services, travel, B2B goods & services, healthcare, faith-based and non-profit, education, government, and utilities. And naturally, we fully intend on continuing to scale and expect to add more use cases as we continue growing both organically and inorganically.

We've totally transformed the business from both a vertical and a distribution perspective, substantially expanding our TAM to now include Global e-commerce, integrated payments and B2B — with a lot of white space for continued growth globally.

With all of this, we've maintained our differentiating and compelling financial profile which features a unique combination of growth, profitability, low capex and high free cash flow generation.

In February, we completed the acquisition of Paya. As a reminder of the strategic rationale for the transaction:

First, it enhances our ability to grow our footprint in the integrated payments market, which is one of the largest and most attractive opportunities in payments.

Second, it diversifies Nuvei's business geographically, giving us a much bigger scale in North America, with entry into new, large, underpenetrated noncyclical vertical markets, and significantly augments our existing distribution.

Third, it significantly expands Nuvei's presence into the large and underpenetrated B2B payments market.

Fourth, it accelerates our existing growth strategy, which is driven by product innovation, geographic expansion, growth within our existing customers as well as the acquisition of new customers. In addition, the transaction expands our M&A scope to include ISVs, B2B and proprietary software opportunities; and,

Fifth and finally, the combination reinforces our differentiated and compelling financial profile.

The integration with Paya is going to plan and while early, we have identified several incremental use cases with the potential to drive some very compelling revenue synergies. We're off to an excellent start and the acquisition is accretive in the first year, so we're really excited about what Paya delivers to Nuvei in 2023 and beyond.

As we think about the year ahead, it's really a continuation of all the things that got us here – staying focused on our strategy, transforming the business, and pursuing the opportunities we have in front of us to further grow the platform.

We will continue our disciplined approach to hiring and investing in the business as appropriate. As stated, we've never pursued "growth at all costs".

We'll also continue to allocate excess capital to shareholders in efficient ways, similarly to how we prioritized share buybacks last year repurchasing approximately 5% of our public float.

Turning now to our financial results:

Total volume for the fourth quarter was the highest it has ever been in any previous quarter driven by broad-based strength across our platform and exceeded $40 billion, increasing 28% on a reported basis and 33% at constant currency basis over the prior year's fourth quarter.

Revenue for the fourth quarter was $220 million. Revenue at constant currency of $233 million, grew by 10% and was towards the high end of our outlook range. Most importantly, fourth quarter revenue on a constant currency basis excluding digital assets and cryptocurrencies grew 26%. It is our hope that this additional disclosure helps you appreciate and frame the momentum of the business.

Taking it one step further, that 26% growth rate means that we faced approximately $35 million of revenue headwinds in the quarter, which is comprised of $12 million from changes in foreign exchange rates and $23 million from digital assets and cryptocurrencies on a constant currency basis. And remember that because we are an at-scale platform, the majority of those dollars flow to the bottom line. So, the fact that we generated Adjusted EBITDA of $86 million with a 39% margin in the quarter reflects our outstanding performance.

Looking at full year results:

Total volume of $128 billion increased 34% on a reported basis and 39% on a constant currency basis reflecting our rapidly growing market share.

Revenue increased 16%, to $843 million, or 22% growth on a constant currency basis.

Adjusted EBITDA increased 11%, to $351 million; and,

Free cash flow increased to $303 million.

We are really pleased with our results and are motivated and encouraged as we execute forward with strong momentum exiting Q4 and entering 2023.

Taking a closer look at our results by region:

In North America, revenue grew 17% and 12%, respectively in the fourth quarter and the full year. It's worth highlighting that for the first time, our e-commerce direct channel in North America represented our largest distribution channel in the region and grew 65% compared to last year's fourth quarter and increased 54% for the year. We've made great progress here and continue to invest in both senior talent and distribution as we focus on establishing a leadership position in this region.

In EMEA, revenue declined by 9% for the quarter but increased 18% for the year. Results in Q4 were mainly due to the negative impact of fluctuations in foreign currency as well as the volatility in digital assets and cryptocurrencies. Remember that the majority of that exposure originates from European operators.

In LATAM, we continue to see our business accelerating rapidly driven by our investments in the region, with significant new business and wallet share expansion from current customers expanding into those countries. As a result, revenue increased 90% and 45%, respectively in the fourth quarter and the year.

In APAC, revenue grew by 107% for the quarter and 36% for the year as we're scaling our acquiring capabilities in Singapore and Hong Kong and starting to see real momentum. More recently we launched in Australia, which is an exciting new market for Nuvei and one in which we've already attracted significant customer interest for our solutions.

So, our momentum in both LATAM and APAC is strong and it is our objective is to accelerate by expanding our geographies in those regions.

Turning now to operating trends for the fourth quarter:

Notably, we saw some of the largest volume days in our Company's history, including intervals of processing more than 500 Transactions per Second ("TPS") as we supported our customers during peak periods in the quarter such as Black Friday and Cyber Monday. These were record activity levels for Nuvei and represent approximately 2X times previous TPS peaks.

What's exciting about these record activity levels is that we are seeing real momentum from our accelerated position in new verticals as we scale, and this additional exposure creates a steadier baseline that helps to offset historical seasonality.

Double clicking for the quarter, we saw:

Online retail grow by 253%

Travel by 81%

Online gaming by 39%, and

Video and social games by 38%

Beyond these verticals, our growth was widespread except for digital assets and cryptocurrencies, which for the fourth quarter was down approximately 58% compared to last year's same quarter, with indications that it has bottomed and stabilized.

Whether or not that turns out to be the case, it's important to reiterate that this vertical is no longer material to Nuvei given all the great work we've done further diversifying the business and growing organically and inorganically. Based on the fourth quarter revenue from digital assets and cryptocurrencies, we expect this vertical's contribution to revenue will continue to decline and only represent approximately 5% going forward.

Moving on now to an update on our go-to-market efforts.

We've made amazing progress over the past two years investing in our brand, growing our global direct sales team, and increasing our distribution across all regions, ensuring that both "we" and our technology are local and accessible in-language and in-time zone to our customers, with presence around the world.

We've enhanced our commercial organizational structure, established our sales enablement team and created a dedicated strategic account group focused on target accounts across all verticals of focus. And combined, these initiatives are helping us to drive greater productivity. I'm really pleased with the progress we've made and naturally our plan is to push further and harder to demonstrate our capabilities around the world.

Our capabilities give us the "right-to-win" our fair share of new business and we're winning as you've no doubt seen. To help frame the momentum in the business and our advancements in our go-to-market, new business revenue excluding digital assets and cryptocurrencies increased 23% in this year's fourth quarter. And we're really winning "the who's who" in our verticals including enterprise level customers last year like:

FanDuel, SHEIN, Epic games, OnBuy, Lottomatica, Le Panier Bleu, Air Transat, Unibet Italy, Turkish Airlines, Virgin Atlantic, Radisson Hotel Group, DraftKings (Ontario), WestJet, Rappi, and more recently VTEX, amongst many others.

These new customer wins along with a deep and growing pipeline are a great indication that our investments are yielding excellent results.

Paya as well has reported continued success across their partner ecosystem, including more than a dozen new signings in the fourth quarter. New product launches and activations have driven strength within its focus verticals, with particular momentum in government. And our early engagement with Paya partners has been excellent in terms of a keen understanding about the global go-to-market opportunities in front of us.

Moving on now to product and technology.

We are a global technology company with more than 550 engineers. We're passionate about innovation - never standing still - and as a result continuously investing in product in order to drive more feature functionality within our platform.

Our "right to win" is powered by our technology stack that goes far beyond acquiring, helping our customers connect with their customers in any currency, country or payment methodology all via a single integration. This flexibility allows our customers to on-board with us, select the appropriate module a-la-carte that best fulfills the need at the time of onboarding, and grow with us by expanding solutions, geographic reach and payment mediums as their own business evolves.

Our platform operates freely as a gateway, a payment orchestration layer or full processor depending on region of operation and customer requirements. This flexibility allows us to prioritize global expansion by entering markets as either a payment facilitator, via BIN sponsorship or full licensing and self-sponsorship all in a seamless experience for our customers.

In North America, we have historically used 3rd party processors to clear and settle transactions on our behalf – which is known as "backend processing" -- but in the fourth quarter, our journey to enable our platform accelerated with the successful pilot to authorize and clear transactions as we do in all other regions. Some of the immediate benefits upon project completion will include driving significant efficiencies in enhancing transaction approval rates, simplifying global reporting, enhancing transaction interchange qualifications, streamline customer experience, facilitate reconciliation and drive an overall reduction in cost, thereby enhancing our margins.

As for the longer-term structural benefits, we will control the entire global roadmap with the ability to accelerate the pace of new product innovation and further distance ourselves from peers as one of the few truly global payment enablers. As you can appreciate, this is another major milestone which we expect to complete over the next 18 months.

In addition, we launched more than 150 platform and product releases in 2022. Selected launches in the fourth quarter included:

Expanding our support to now offer 603 alternative payment methods available to our clients.

End-to-end local card acceptance, clearing and settlement for Visa and MasterCard in Australia via our own licensing and processing;

In-country direct acquiring in Belgium for local card network Bancontact;

Acquiring services for American Express cardholders in the Canadian gaming market

And these are just a few examples of our recent product launches.

So a lot of great momentum which continues to set us apart from our competitors.

And remember that each new product solution expands our TAM and offers us an incremental platform to grow with our customers as we remain focused on relentlessly helping them execute on their own growth initiatives. Just as importantly, with each new product launch we increase the gap relative to both new and sub-scale entrants into our ecosystem.

As we look to the year ahead, we think it's helpful to revisit the main building blocks to our growth algorithm:

The first building block is that we grow with existing customers and now B2B and integrated payment partners, by adding new geographies and new capabilities along with leveraging our customers' own growth vectors.

The second building block is the compounding effect of the previous year's new business cohort, which drives to greater contribution the following year. To better illustrate this dynamic, for each of our past three new business cohorts, revenues more than doubled from those vintages in year two.

The third building block is new "in-year" business, which as I just highlighted has been accelerating.

And the fourth building block is inorganic strategic M&A

With that framework in mind, we're already off to an excellent start to the year with a strong January and February. It's noteworthy that February average daily volumes were above January and results for the first week of March are encouraging.

In addition to this early momentum, we're not seeing a slowdown and remain on schedule with our pipeline conversions and new merchant implementations.

With respect to the integration with Paya, I'm very pleased with what I've seen so far. While its early, we are motivated by the revenue synergies and have found incremental use cases for our technology beyond our original expectations.

As I mentioned previously, we continue to invest in the business and our priorities for 2023 are:

Investing in our commercial, technology and product teams as appropriate.

Launching in 5 new geographies; and

Scaling our open banking, our embedded finance, and unified commerce offerings.

Finally, turning to Capital allocation for 2023, aside from debt repayment and continuing to be opportunistic with strategic M&A, we'll prioritize our excess cash towards share buybacks.

Turning to our outlook for the year, we expect:

Revenue of between $1.22 billion and $1.26 billion; for reported growth of between 45% and 50%.

Unpacking this further, we expect Nuvei's organic growth rate excluding digital assets and cryptocurrencies to be between 23% and 28%.

Thinking about our growth cadence, remember that we are lapping a strong crypto comparable in the first half of the year, so we anticipate that our growth will accelerate in the second half of the year.

Before handing it over to Dave to cover more details about our financials and our outlook, I'd like to formally welcome our new colleagues from Paya and once again thank and congratulate all our Nuvei colleagues for another exceptional year.

I'll now turn the call over to Dave.

David Schwartz, Chief Financial Officer, Nuvei
Thanks, Phil, and good morning, everyone.

My comments will cover 3 main topics. I'll start by reviewing our financial performance for the fourth quarter and fiscal year 2022. I'll then discuss our outlook for the first quarter and fiscal year 2023. Finally, I'll address the updates to our medium- term targets.

Looking first at our reported results. Total volume for the fourth quarter increased by 28% to $40 billion and was 15% above the high end of our outlook range. The stronger than expected results were driven by our focused execution. On a constant currency basis, Total volume increased by 33% to $42 billion with e-commerce representing 91% of Total volume. For the full year, Total volume increased 34% to $128 billion. On a constant currency basis Total volume for the full year increased by 39%.

Revenue for the quarter was $220 million. Due to the global nature of our business, and as we have seen in prior quarters, revenue in the fourth quarter was negatively impacted by $12 million due to foreign currency volatility. On a constant currency basis, revenue grew 10% to $233 million and was aligned with the high end of our outlook range. Excluding the impact from digital assets, revenue at constant currency grew 26% during the quarter. We believe this figure best captures the performance of the business. For the full year, revenue increased 16% to $843 million, but considering the $41 million headwind from currency volatility, revenue at constant currency grew 22%.

Due to the scalable nature of our business model, we focus on driving incremental gross profit dollars by expanding our solution set to gain wallet share from both existing and new customers. Gross profit increased to $170 million in the fourth quarter and $672 million for the full year. Gross margins were stable with the prior year periods at 77% for the quarter and 80% for the full year.

Moving now to expenses. Selling, General & Administrative costs in the fourth quarter increased by 5% year-over-year to $148 million. SG&A expenses for the full year increased by $160 million. More than half of this increase relates to non-cash share-based payments, which were higher primarily due to new grants to employees who joined as part of past acquisitions, as well as the annual grants for our entire employee base which occurs every fourth quarter.

It's important to note that as a result of high exercise prices and share price performance thresholds, a large proportion of the outstanding share-based awards are either significantly out of the money or failed to meet their performance condition at the end of the fourth quarter. As a result, approximately 5 million units are not considered dilutive in terms of diluted shares outstanding. In addition, we expect that share buybacks will exceed dilution resulting from the exercise of share-based awards in 2023.

Employee compensation other than share-based payments for the year increased by almost $46 million. The increase year-over-year reflects investments, such as in our product, technology and commercial teams to drive our growth as well as an increase in headcount from the three acquisitions completed in 2021.

Adjusted EBITDA for the quarter was $86 million which was above the top end of our outlook range.

Adjusted EBITDA margin was 39% in the quarter which was also above our outlook range. For the full year, Adjusted EBITDA increased to $351 million, representing an adjusted EBITDA margin of 42%.

Looking at other line items on the income statement, net finance cost was $2 million compared to $4.5 million in last year's fourth quarter. We earned higher finance income of $7 million primarily due to a higher interest rate environment, partially offset by an increase in finance costs of $4 million to service our debt. For the full year, net finance cost was $9 million compared to $14 million in fiscal year 2021, with the change being driven by similar factors as well as a remeasurement gain of $6 million associated with share repurchases earlier this year.

Income tax expense in the quarter was $6 million, representing an effective tax rate of 38%. Income tax expense for the fiscal year 2022 was $26 million, which translates to an effective tax rate of 29%. Both the quarterly and yearly tax rates were above the Canadian statutory rate of 26.5%, mainly due to share-based payments that are nondeductible in most jurisdictions.
Net income for the quarter was $9 million or $0.06 per diluted share, and Net income for the year was $62 million or $0.39 per diluted share. As I mentioned earlier, the full year results included an increase in non-cash share based payments, which on its own represented approximately $0.59 per share.

Adjusted net income was $68 million or $0.47 per diluted share for the fourth quarter, and adjusted net income for the full year was $274 million or $1.86 per diluted share.
Turning to the balance sheet, at the end of the year we had cash and cash equivalents of $752 million. We also had term debt of $498 million, resulting in a net cash position of $253 million. During 2022, as part of our capital allocation strategy, we deployed $167 million of excess cash towards repurchasing approximately 5% of our public float including the repurchase of 1.9 million shares in the 4th quarter.

With the closing of the Paya acquisition on February 22nd, we used approximately $616 million of cash on hand, and entered into a new $800 million credit facility. This resulted in a net leverage ratio at closing of less than 3 times. We intend to use excess cash to further reduce our leverage from these levels, while still maintaining the flexibility to invest in our business, including future strategic acquisitions. We also intend to pursue a renewal of our normal course issuer bid so we can continue prioritizing our excess cash for share repurchases.

I will now turn to our outlook and would refer you to our forward-looking information disclosure in our press release and MD&A.

Our first quarter and full year 2023 outlook includes contribution from Paya as of the February 22nd closing date.

For the first quarter we expect Total volume of between $39.5 and $41 billion, revenue of between $248 and $256 million, revenue at constant currency of between $252 and $260 million, and adjusted EBITDA of between $92.5 million and $96 million.

For the full year 2023, we expect Total volume of between $194 and $200 billion, revenue of between $1.22 and $1.26 billion which is expected to be approximately $2 million higher on a constant currency basis; and adjusted EBITDA of between $455 and $477 million. As stated previously, we expect the contribution of Paya to be accretive to earnings in the current year.

Our outlook at the mid-point reflects revenue growth of approximately 47% and organic growth of approximately 15% for the full year. It is also important to understand that our revenue growth profile this year will be a tale of two halves. During the first half of the year, we expect our growth to be impacted by challenging comparables in digital assets. Then in the second half we expect our growth rates to accelerate as we lap those headwinds. Excluding digital assets and cryptocurrencies we expect our organic growth rate to be between 23% and 28%, which is comparable to the fourth quarter of 26% on the same basis.

In order to be consistent with Nuvei's revenue recognition policy, our outlook also takes into consideration the downward adjustment of approximately $10 million in Paya revenue to present revenue net of interchange. Prior to the acquisition by Nuvei, Paya recorded a portion of revenue on a gross basis, including interchange. Nuvei records revenue on a net basis, with interchange fees recorded as a reduction of revenue.

Further harmonizing some reporting nuances between the two companies, I'll note that Paya presented revenue share amounts paid to reseller and referral partners within cost of services. In order to be consistent with Nuvei's income statement presentation, we will present these revenue share amounts within commissions in SG&A expenses.

Coming back to our outlook, we believe our outlook is appropriately balanced between the strong business momentum YTD and the global macro environment. We have also considered the potential for further fluctuations in foreign currency, which at some point could turn into a tailwind—although we have not anticipated this in our outlook.

In terms of our adjusted EBITDA outlook, we expect adjusted EBITDA margins impacted by the lower margin profile of Paya. However , we expect this impact to be mitigated by synergy realization as the year progresses, which represents a portion of the $21 million in cost synergies we expect to achieve within the 24-months from the closing of the acquisition. As a result, our outlook is for adjusted EBITDA margin of approximately 37% to 38% for the full year.

In addition, our outlook reflects our strategy to reinvest back in our business in key areas such as distribution, technology and product. Our financial strength coupled with our long runway for growth affords us the ability to continue adding talent at a time when many other technology companies have been reducing the size of their teams.

I will now discuss our medium and long term targets which are intended to provide insight into the execution of our strategy as it relates to growth, profitability and cash generation. With the acquisition of Paya which has a lower growth profile, we are updating our revenue growth target to be greater than 20% annually in the medium term. In addition, we are simplifying our outlook by removing Total volume as a medium-term target and introducing a medium-term target pertaining to capital expenditures. We expect capital expenditures, defined as the acquisition of property, equipment and intangible assets, to approximate 4% to 6% of revenue annually. We believe the addition of a capital expenditures target coupled with an adjusted EBITDA target provides better insight into the sustainable cash generation of our business. Furthermore, we are maintaining and reiterating our long term target of adjusted EBITDA margins of greater than 50%.

We're very pleased with the team's execution during the fourth quarter and full year 2022, we are excited about the momentum of the business thus far into 2023, and incremental opportunities resulting from the Paya acquisition.

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

Phil Fayer, Chief Executive Officer, Nuvei
Thanks Dave. Before opening it up to questions, I would like to come back and leave you with 5 key takeaways from today's call:

First, we grew revenue in constant currency excluding digital assets and cryptocurrencies by 26% in the fourth quarter. This serves as a proxy for how we see the core business performing.

Second, digital assets and cryptocurrencies is no longer material to Nuvei.

Third, we've diversified the business across high growth discretionary and non-discretionary verticals.

Fourth, we're off to a great start to the year with strong momentum; and,

Fifth, we expect to prioritize share buybacks with our excess free cash flow – especially at our current valuation.

With that operator, we're ready to take questions

QUESTIONS AND ANSWERS

Operator
We take our first question from the line of Will Nance with Goldman Sachs.

Will Nance, Goldman Sachs

Look, just one housekeeping item on the 2021 numbers. I really appreciate the guidance on growth rates over the course of the year, excluding crypto. I was wondering if you could help us out with what the numbers were in 2022, just so we can kind of calibrate the modeling for kind of like first half versus second half comps.

David Schwartz, Chief Financial Officer, Nuvei
Will, it's Dave. If you take a look at the disclosures at the back of the press release, we break out what was the constant currency impact, what was the impact from crypto in the fourth quarter? I think that will give you a sense for kind of the split, at least for the quarter.

Will Nance, Goldman Sachs
Got it. But nothing unlike the first half of last year?

David Schwartz, Chief Financial Officer, Nuvei
There's full disclosure on the full year on constant currency. But really, the fourth quarter is kind of where you should look in terms of -- on the digital asset that's more indicative of kind of what we'll see on a go-forward basis.

Will Nance, Goldman Sachs
Got it. Okay. That makes sense. And then just -- on the Paya revenue synergies, you guys sound like you're kind of incrementally more excited about some of the opportunities that you guys are finding post close. I'm wondering if you could just kind of expand on that. What are the kind of 2 or 3 things that you guys have found that you're kind of most excited about when you think about revenue synergies on this deal?

Phil Fayer, Chairman & CEO, Nuvei
Great question. I mean first of all, we're excited about Paya as a whole. Great team working with them has been an absolute pleasure. I think it's exactly as we've described in terms of expanding our role with Paya on the ISV side expanding B2B relationships, our engagement with both customers on the B2B side and ISV side have been incremental.

And then there's been use cases in terms of ACH versus open banking and opportunities around accounts payable that we're unpacking. So in general, extremely pleased with Paya, excellent team. We think this is truly a transformative opportunity for both companies, and we're excited on the execution.

Operator
We'll take next question from the line of Timothy Chiodo with Credit Suisse.

Tim Chiodo, Credit Suisse
I just want to see if you could recap the sort of the weighted average math, if you will, to get to the 20%. So the underlying core Nuvei plus the assumed growth rate for the Paya that came to the roughly 20% medium-term revenue growth target.

David Schwartz, Chief Financial Officer, Nuvei
Tim, it's David. Yes, I wouldn't necessarily look at it that way. I mean, our medium-term target certainly takes into account the Paya acquisition. Their growth profile was lower. But what -- the question I was just asked before, I think, is an important one, too, around revenue synergies.

And so you think about our growth rate on a go-forward basis, it's going to be certainly a combination of the Nuvei pre Paya. And Paya then think about this the revenue synergies as well that we're bringing to the table at. The exit rate out of Q4, if you exclude crypto and digital assets and constant currency was 26%. We provided for the full year of '23 on a similar basis, a range of 23% to 28%. So that kind of gives you a sense and comfort level for kind of what that medium-term guidance of 20% growth annually.

Tim Chiodo, **Credit Suisse**
Okay. Great. You also mentioned some helpful comments around stock-based comp. If you could talk a little bit about how I'm not asking you to give a 2025 stock-based comp guide by any means. But in terms of just directionally, after the expiration of some of the stock-based comp that came on with some of the acquisitions and some of the other grants. Just directionally, how should we think about stock-based comp potentially coming off as a percentage of revenue in 2025 and beyond?

David Schwartz, **Chief Financial Officer**
Yes, there are certainly puts and takes. I think the key part here is to think about the investments we've made in the past from a people perspective and so bringing out some really strong people across the board. And those people will obviously drive revenue growth.

And so those initial grants, they cost you more in the early years plus the way that IFRS accounts for grants it's a graded basis, you have kind of higher expense in early years. But over time, we would expect that as a percentage of revenue come down. I guess the other thing to keep in mind, Paya also, of course, had share-based compensation.

It was about $7 million last year in 2022 for Paya. They report on a U.S. GAAP basis, we report IFRS. We're still kind of working through that, but you can certainly expect that they'll be above just as a result of the acquisition.

Operator
We take the next question from the line of Sanjay Sakhrani with KBW.

Sanjay Sakhrani, **Keefe, Bruyette & Woods**
I know you're not managing this business to optimize the take rate, but rather revenues. But I'm just curious of that migration of the take rate going forward. Obviously, the mix is evolving. So perhaps some comments there. I know we've seen roughly like a 10- or 11-basis-point compression each year, and there's been a lot that's happened in between. So maybe you could just give us some direction there.

Phil Fayer, Chairman & CEO, Nuvei
Sanjay, it's Phil. Happy to. I think we're going to always reiterate what we've always said, right? Our platform is scalable and we want to help our customers connect with their customers and take rate will never drive our decision in terms of onboarding a customer. The other element to keep in mind, and you really see that as in my prepared remarks, I mentioned the contribution from digital assets, how we've grown approximately $35 million, which predominantly fell to the bottom line. So if you want to unpack it, we're always here to help our customers grow with our platform. At scale, every effective gross profit dollar falls to the bottom line. But I would also take into consideration that crypto had higher take rate and those are certainly moving their way out of the system. And then last comment is fourth quarter has more seasonality towards fixed transaction pricing. So that will affect fourth quarter take rate. But in general, we are not managing the business to a take rate. We're here to win. We are winning. We are taking market share, and we are going to be competitive in every market that we operate in.

Sanjay Sakhrani, Keefe, Bruyette, & Woods
I appreciate that. I guess a follow-up question on gaming revenue run rate. I know you had called out something like $25 million a little while ago with a target of $100 million annualized. Could you update us, Phil, maybe on sort of what the run rate is now as you're looking towards 2023? And then I'm just curious, that number that you put out there, the digital currencies being less than 5% of revenues, that's on the number you gave us for total revenues for 2023, just making sure I got that right?

Phil Fayer, Chairman & CEO, Nuvei
Certainly, you're cheating in another question there, Sanjay. But talking about gaming for a second. We're really pleased with our progress in the U.S. We firmly believe in the crawl, walk, run. We're executing extremely well. We have now signed up with all operators, all the top 10 operators in some form a fashion. We're assisting them in terms

of their own revenue growth with our multiple products for the vertical. And we're well on the path in terms of hitting our target. We haven't disclosed the actual number, but we have done a nice point of inflection. I am very pleased with our engagement around Super Bowl as well as the opportunities that we see in the pipeline. So U.S. gaming is going very well. But I would just flag for you, right? Gaming is a global market, and there's really interesting things happening in gaming around the world, right? It's not just what's happening in the United States, which is very compelling, but you also have Brazil. There are some comments around UAE as well. So we see this as a wonderful platform with lots of tailwinds for continued execution, and we're pretty excited about that.

Your following question is -- I'll just add to the last question. And yes, it was 5% roughly of go forward. We did have a onetime disclosure. If you guys take a look at it in the press release in terms of crypto revenue from fourth quarter year-over-year, and I'm so proud of this team of what we've done in terms of growth, not just from a revenue replacement perspective, but because we're at scale, those dollars predominantly falls to the bottom line. So our performance in maintaining our EBITDA margin, actually growing our EBITDA is exceptional. So very, very pleased with what we've done and the momentum of the business and obviously, the growth vectors that we see going forward.

Operator
We'll take the next question from the line of Joseph Vafi with Canaccord.

Joe Vafi, Canaccord Genuity
Nice outlook for the year. I thought we'd maybe talk about sales and marketing spend. A lot of fintechs are cost rationalizing a little bit, I think, with your margin profile, you're in a different position you look at that, especially relative to integrating Paya and some of the other moving parts? And then I'll have a follow-up.

Phil Fayer, Chairman & CEO, Nuvei
Thanks, Joe. I think here is where the strength of our platform really shines. We've never been a growth-at-all-cost organization, Joe. So we've always been thoughtful, investing in the different regions based on very significant targets, and we are executing on those targets, and we will continue investing in the business. We have built out an extremely successful direct sales team. We have more to do, and we're excited about monetizing the new markets that we launched. As I've mentioned, we have about 5 markets that we plan on launching this year. And in addition, we intend on expanding Paya sales team. I think the job Paya has done with the resources they had was exceptional, but we believe we could turbocharge Paya, and that is exactly what we will do in terms of building out our B2B and integrated payments business on a global basis. But all of that, we're not blind to the macro. So we are very prudent with how we invest. We do it step-by-step with good methodology, and we'll certainly do that while we maintain our EBITDA margins like we always have.

Joe Vafi, **Canaccord Genuity**
Great. And then maybe, I guess, maybe my follow-up will be just are -- is there any of those that you'd call out, Phil, right now as being our -- where we should look for more progress on SG&A or sales spend or growth relative to those investments in 2023?

Phil Fayer, Chairman *& CEO*
Yes. Joe, I would refer you back to building blocks, right? Because in our business, you invest to build customer relationships. They materialize throughout the year. And then, at the end of that year, you've built a cohort and that cohort pivots for the following year. Those investments are really compelling from an allocated dollar to revenue that it drives forward as we continue scaling our platform. And we're going to continue on that exact methodology. We're building our brand awareness. We're being included in more our fees. Our pipeline has several transformational opportunities. So we really like where we sit. And ultimately, that's reflected in 2 things. One is our volume growth. The second right behind that is our market share win, and I think all that is powered by our right to win, which we're executing on.

Operator

We'll take the next question from the line of Bob Napoli with William Blair.

Bob Napoli, William Blair & Company
Chris, welcome to the team there. Good to talk to you again. Just on -- congratulations on the solid numbers. One thing that really jumped out in the fall was the e-com direct growth, 65%, super strong. Just any color you can give on I mean, I guess, as your largest -- one of your largest channels, why do you -- what is driving that growth? And what is your outlook for that part of your business?

Phil Fayer, Chairman & CEO
Yes. I mean if you go back to Capital Markets Day, you realize that our entire business has been focused on growing our direct sales force on our e-commerce business because our products are complex, and they're better suited to a salaried sales force versus indirect and channels.

So we will -- we have been making investments globally. The call out on -- in my prepared remarks was about the momentum in the U.S. as we plugged in, first execution naturally was normalizing our technology for U.S. experience, and we've been winning quite across all of our verticals in North America, and that is driving, first of all, the growth in the channel in North America, but more importantly, that the channel being our largest channel now in North America with a lot more momentum.

Certainly, that will pivot as we continue making investments in Paya as well. And we absolutely think the differentiation factor here is going to continue with us enabling our global platform worldwide. So I highlighted clearing and settlement and back-end processing.

But that's a really big deal, Bob, and we think that is going to transform how we consume data to our customers, how we authorize transactions, how we can step up into debit networks, how we can get better interchange and how we can really normalize our experience is, we're really, really excited about what that does for the channel and for the U.S.

Bob Napoli, William Blair & Company
I mean it's hard to keep to 2 questions here because you have so much going on. But in staying with that, just taking the processing in-house, what is the timing of that? And what is I guess, the cost saves? And what does that do to your go-to-market, I guess, or your pace of innovation?

Phil Fayer, Chairman & CEO, **Nuvei**
Yes. We believe the project will be done in 18 months. It's not -- there are absolutely cost saves, but that's not the driver for us, Bob. For us, it's more of the experience of normalizing our global operations in every market in terms of how we reconcile, how we service our customers, how we qualify and our change, how we consume data we report back data we think those are much more interesting.

And most certainly, you remove third-party costs. And then the flip side to processing in-house is our own road map, where we're able to do things on our own basis. Keep in mind, right, we authorized clear settle, reconcile, manage payouts and net settle customers worldwide in all forms of payment in all different currencies whereas using legacy processors in the U.S., that becomes very difficult. So we actually think this project is monumental for Nuvei.

We'll be one of the few, and I'm assuming that's a few that are able to do this on a global basis, and we're pretty excited about what that does for the customer experience.

Operator
We take the next question from the line of Darrin Peller with Wolfe Research.

Darrin Peller, **Wolfe Research**
When we look at the volume trends, just starting with last quarter, they came in better than guidance on anything we

expected. And maybe just if you can go a little bit more into detail on what was the driving forces of outperformance on the quarter on volume specifically putting aside the yields and revenue? And then maybe just further thoughts on what's embedded in the outlook for the organic growth rate at, let's call it, mid-20% in terms of either macro assumptions or maybe vertical-specific color on a forward go-forward basis would be great.

Phil Fayer, **Chairman & CEO**, **Nuvei**
Yes. Thank you, Darrin. I mean, honestly, from us, the volume is a direct reflection of us in terms of our win rate and market share expansion. And this is also a direct reflection of us winning in new verticals that we're accelerating it. So we're taking a really good position online retail. We're absolutely taking a great position in travel amongst many of the other verticals. So those were typically trended to higher wallet share expansion that we've seen in Q4. It's also exposing us interestingly to different seasonality segment. So we're pretty excited about that.

And then I think, finally, it's just a testament to wallet-share expansion opportunities that we have with our customers all around. We've been seeing consistent trends at peaks of over 500 transactions per second. Our architecture allows us to absorb that and grow from there, and that's a multiple of last year. And we've also seen a transaction count almost double ultimately from -- during peak periods as well. So very good trend really across the board.

It allows us to accept and support our customers. And I think what's really interesting here is the way we do it. And that is probably the underlying factor here is that we are prepared. So we'd be prepared for Cyber Monday or Black Friday or Super Bowl or other. We create teams that are available and drive the response times that our customers need to make sure that they engage with customers, and the output here is wallet share expansion.

In terms of thoughts on what we've driven and how we build next year. I think we've done quite a bit of double clicking, but ultimately, the performance of the business this year on the exit rate of Q4, 26% constant currency organic growth, really good building blocks in new business.

So what you end up having is you have only a portion of that new business this year, that's going to annualize next year. Quite excited about that, really good new business in the pipeline as well, which we think will again take a step up and then actually being conservative in terms of the macro and that's always very hard to predict, Darrin, right?

So we've tried to take a constant macro. Looking at verticals of volatility like crypto and keeping that flat. We've seen that in bottom. But ultimately, if that does change or not, it's no longer material to us. So we feel pretty confident of what we put out there.

Darrin Peller, **Wolfe Research**
Okay. And Just a follow-up is on the crypto side for a moment. I mean, it was great to hear the disclosure on the 5% expectation. But when we think about what that means from an investment prioritization standpoint going forward for you, obviously, it's an area that you've you have differentiated in the past. And so does that open up investment capital? And where -- maybe just prioritize where you're putting your incremental dollars of investment this year and next now relative to what you would have put towards crypto.

Phil Fayer, Chairman & CEO, Nuvei
Yes. And that's a very good question, and that's actually what we have done. We have realigned our teams internally. As supporting industries and supporting customers is our #1 focus, right, helping our customers relentlessly connect with theirs is our mantra.

And we did have a lot of resources helping our customers, specifically in digital assets, which we were big believers in reporters and certainly something that we're disappointed to see the outcome, and we're truly disappointed about the events of the last 6 months. That being said, it's too volatile for us to continue investing into. So we have reprioritized into other verticals that we think have better longevity and better opportunity for us to build stability and grow the business.

Operator
We'll take the next question from the line of Todd Coupland with CIBC.

Todd Coupland, CIBC Capital Markets
I was wondering if you could give us a comment on the European region, obviously impacted the business last year from an FX perspective. What are you seeing in that market? And what are your assumptions for 2023?

Phil Fayer, Chairman & CEO
I will -- just one thing to flag for us is, keep in mind, merchants can be born in Europe, and that is predominantly where we may have a lot of our gaming operators but they may also operate in many other regions. So where we build them is where we group the region, but these merchants may be the conduit for many other regions.

So in general, from our customers that are based in Europe, we've seen some very interesting trajectories. But ultimately, naturally, the bulk of our FX exposure was out of Europe, so roughly $12 million for the quarter. And predominantly, all of our crypto exposure was out of Europe. Excluding those 2 factors, very good momentum in the region across all of our verticals, both in region for in-region processing as well as in other regions and globally.

Todd Coupland, CIBC Capital Markets
Okay. And then you commented that your 15% guide -- organic guide implies a conservative macro. What would need to happen to draw you off that conservative, maybe on the positive and negative from a macro perspective? Any color along those lines would be appreciated.

David Schwartz, Chief Financial Officer, Nuvei
Todd, it's David. As you know, we've always taken an approach of being cautious in how we think about our outlook. What we're seeing, it was mentioned in the prepared remarks. What we're seeing is really good momentum in January, February and obviously, early March. So we feel good about our guide for this year.

And overall, that outlook, we try to give both for the quarter and for the full year is balanced. It's balanced with what we're seeing now, but also balance with the overarching macro environments and the sensitivity around that. The 23% to 28% growth, excluding digital assets. That's really kind of how we see the business on a normalized basis, and you see that same kind of similar number as we exited in the fourth quarter 26%.

So we're seeing very good momentum. The investments we've made from a distribution perspective, from a brand awareness perspective are starting to really take hold. And we're seeing the benefits of it. So look, it's a balance overall. Our outlook. It's a balance between overarching environment and the positive signs we're seeing internally at this point.

Operator
We take the next question from the line of Paul Treiber with RBC Capital Markets.

Paul Treiber, RBC Capital Markets
Just a couple of questions on free cash flow. So first on uses of cash. The -- one of the -- your last 5 key takeaways was just on the prioritization of share buybacks. Is that -- it sounds like it's a higher priority than delevering in acquisitions. Is that -- at least in the near term, is that a fair statement?

Phil Fayer, Chairman & CEO, Nuvei
I would say that -- Paul, this is Phil. I would tell you that the beauty of our profile gives us the utmost flexibility, right? Our cash generation is extremely strong. We will certainly look at delevering as a priority, but we are delivering very quickly, and that gives us flexibility for additional M&A and/or continuing stock buybacks, just predominantly because of the dislocation in the market.

Paul Michael Treiber, RBC Capital Markets
Okay. That's helpful. And then just in terms of free cash flow conversion in '23, working capital was a bit of a headwind in '22. Do you see that reversing in '23? And how do we think about free cash flow conversion in '23 in general?

David Schwartz, **Chief Financial Officer, Nuvei**
It's David. I think you could look certainly quarter-to-quarter, there's fluctuations. I think if you look at our free cash flow conversion historically. I think that kind of gives you a good indication of what it could be on a go-forward basis. I don't think there's anything structural that would change.

And when you think about -- and that's mid- to high 80% kind of free cash flow conversion. That's kind of what we've had historically. So I think that's constant. And looking at Paya's business and bringing that into the full deal, they also have a pretty, they have very low CapEx as well and a nice conversion as well. So I think on a combined basis, we still expect to see some pretty strong conversion from EBITDA to cash perspective.

Operator
Thank you. Ladies and gentlemen, that's all the time we have for your questions this morning. This brings us to the conclusion of the teleconference. You may disconnect your lines at this time. Thank you for your participation.