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Nuvei Corp. (NVEI.CA)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and thank you for standing by. Welcome to Nuvei Corporation's Second Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I will now turn the conference call over to Anthony Gerstein, Vice President and Head of Investor Relations, for Nuvei. Please go ahead, Mr. Gerstein.

Anthony Gerstein
Vice President & Head-Investor Relations, Nuvei Corp.

Thank you, operator. And good morning, everyone, and thank you for joining us. With me 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, and rebroadcast of this information in whole or in part without written consent of Nuvei is prohibited. This morning, Nuvei issued a press release announcing financial results for the three-month and six-month period ended June 30, 2022. The release, as well as an accompanying presentation, is available in the Investor Relations section of the company's website, Nuvei.com under Events & Presentations.

During this call, we may make certain forward-looking statements within the meaning of the applicable securities laws. Such forward-looking statements involve known and unknown 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 adjusted EBITDA, adjusted net income, adjusted net income per share, and free cash flow. 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 measures. Reconciliation of these measures to IFRS measures is available on our earnings release and MD&A. We'll open up the call for your questions after our prepared remarks.

With that, I'd like to now turn the call over to Phil.

Philip Fayer

Chairman, Founder & Chief Executive Officer, Nuvei Corp.

Thanks, Anthony. And thank you all for joining the call this morning as we share results for the quarter and highlight the progress we are making across the company. We had an operationally solid second quarter driven by our disciplined investments, sustainable growth, which continued to enhance our already attractive financial profile, driven by strong revenue growth, exceptional cash generation and unlevered balance sheet, which combined provides us with tremendous optionality. I want to stress that we are one of the few high growth fintechs with such an enviable financial profile, especially when it comes to free cash flow.

Today, I'm going to review four topics. First, our results for the second quarter. Second, recent operational highlights related to our technology and go-to-market strategy. Third, details on the current trends and expectations for the rest of the year. And fourth, our forward-looking view of the business.

Turning now to our financial results. We had a solid second quarter with total volume and adjusted EBITDA exceeding our outlook as we continue to execute on our strategic initiatives. Dave will go through the results in more detail. But at a high level, total volume increased 38% to $30.1 billion as we continue to grow with our customers and scale our platform. More impressively, total volume grew 44% to $31.4 billion on a constant currency basis over the same period last year. Revenue increased 19% or 24% on a constant currency basis and grew 16% organically on a constant currency basis. Adjusted EBITDA increased 17% to $93 million with a margin of 44% and free cash flow was strong at $81 million in the quarter. Adjusted net income increased 16% and adjusted net income per diluted share increased 15% to $0.51.

As mentioned, we exceeded our outlook for both volume and adjusted EBITDA while revenue of $211 million was below our outlook range previously provided of between $217 million and $223 million. This was mainly as a result of changes in foreign currency exchange rates, which negatively impacted revenue by approximately $2 million as the U.S. dollar strengthened more than we anticipated, higher volatility and lower volume than we anticipated in digital assets and cryptocurrencies, which negatively impacted revenue by approximately $4 million, as well as the change in volume mix from alternate payment methods for which revenue is presented on a gross basis to credit which is presented net of interchange and payment network fees which negatively impacted revenue by approximately $6 million. In total, these factors combined contributed approximately to $12 million of revenue headwind in this year's second quarter. Outside of these factors, many of which were largely unforeseen, our revenue would have been $223 million or at the top end of the revenue range of the outlook we provided. Naturally, these headwinds also impact our adjusted EBITDA, free cash flow and earnings per share. It is important to recognize that these headwinds are expected to temporarily impact organic growth in the second half of 2022 as we lap very strong activity in digital assets and cryptocurrencies in the second half of last year.

We continue to support our customers with our trusted and robust on and off ramp infrastructure, and we are very well-positioned for an industry rebound. With respect to alternative payment methods, our strategy has always been to provide our customers with all preferred payment options that are relevant to their customers. In this year's second quarter, we saw an increase in the usage of credit over alternative payment methods, which, as I just explained, has a greater impact on our revenue than it has on adjusted EBITDA.

Turning now to our operational highlights for the quarter, we continue to make meaningful progress executing our strategic growth initiatives, including growing with our customers, expanding our geographies and driving technological innovation. I will highlight what we're seeing in some of our verticals. In travel, revenue increased 139%. And what's even more interesting is that on a same-store sales basis alone, it increased 85%. While travel represents less than 3% our overall revenue, it clearly has a lot of momentum, which will be driven by existing customers as well as new customer wins, including Air Transat and WestJet in the second quarter, along with a deep and advanced pipeline.

Looking at our online retail vertical, we showed amazing progress and it had revenue growth of 112% over last year's second quarter, and which is driven predominantly by new business. With investments in our global omnichannel solution, and expanded go-to-market efforts, we are confident retail will continue to play an even greater role in our revenue mix in that future. Recent success, such as helping YOOX and NET-A-PORTER and SHEIN to grow from region to region, or the recent win of Rappi, which is utilizing our solution across multiple regions, is really just the beginning for Nuvei.

Turning to online gaming, we also had an excellent quarter, especially when you consider this year's schedule versus last year's. As you may recall, the European Football League schedule was pushed into the summer in 2021 due to the pandemic, whereas this year it ended in May. This makes for a more difficult year-over-year comparison. But even with effectively one less month in this year's second quarter, and the headwinds previously highlighted, online gaming same store sales revenue increased 2%. New business in online gaming is also progressing well and helped drive an increase in online gaming revenue by 22% in the second quarter compared to the second quarter of 2021. In terms of our progress in North America, our online gaming revenue run rate is now approximately $25 million, and we're on pace to deliver on our target of $100 million of annual run rate revenue in the medium-term.

With respect to this year's third quarter, and the remainder of the year, it is important to recognize that the 2022-2023 European Football League season started earlier this week and will finish later than usual due to this year's World Cup, which will run from November 21st through December 18th. Historically, we've seen a 10% to 15% revenue lift in our online gaming vertical related to the World Cup, depending, of course, on country qualification. Overall, we continue to make progress and saw strength in momentum in many of our focused verticals, excluding digital assets and cryptocurrencies.

Turning now to an update on our go-to-market strategy. We continue to invest in our direct commercial sales teams globally and are performing extremely well as reflected in new business growth. Specifically, we had more customer activations in the second quarter than in the first quarter and are on pace to approximately double new business revenue in our global e-commerce direct channel from 2021. This coupled with our deep pipeline is providing us with additional confidence to outgrow both the FX- and crypto-related headwinds.

We have gone from being under-penetrated in our markets to now having a much more meaningful, and visible presence. In this year's second quarter, we also expand our teams of APAC and LATAM and opened our first sales office in China. Our objective remains to be local to our customers around the world and remain focused on continually expanding our sales force in every region to make sure we have global coverage. I'll highlight that our investments in our direct sales channel are yielding exceptional results as reflected in the 36% increase in revenue at constant currency in the second quarter within our global e-commerce direct business, an impressive outcome given that almost all of the headwinds we are experiencing this quarter impacted this channel specifically.

Moving on to other operational highlights, we also had an excellent quarter in terms of product and innovation delivery. We continue to believe that our modern scalable technology stack is unique and offers clear most to our business when compared to our peers. Our ability to constantly innovate is driven by our talented team of more than 500 engineers, relentlessly focused on supporting our customers as they execute on their own business initiatives. We remain at the forefront of innovation, never standing still by expanding our modules and solutions stack quarter after quarter.

With respect to specific advancements in product and capabilities, I'd like to highlight a few. In payouts, we enhanced and expanded our solution offering to now include instant SEPA payouts for all European countries. We also launched Visa Direct in Canada and added local payment options in Brazil, Canada, Chile, Colombia, Malaysia, Mexico, Peru and Romania. Our continuous roadmap offers our customers more choices and more options to drive greater connectivity and efficiency with their customers. And remember, the more payout solutions we offer, the more relevant our paying solutions become.

Next, we launched Nuvei's Simple Connect SDK, which dramatically simplifies integration to our platform. We believe our SDK solution is ahead of our emerging peers, as it's the easiest to integrate, allow for more than just car payment options and offers customers a full array of customized capabilities and flexibility. With a simpler integration, we're expanding our TAM to penetrate Tier 2 and Tier 3 global customers, and we'll focus on developing our technology partnerships globally.

Another product launch that we're excited about and creates meaningful opportunities for us ahead is our omnichannel solution. As recently announced, we started with our first customer supporting their in-store payments across 40 locations in North America and their global e-commerce presence. Via a single integration, our customers can now use Nuvei for multi-channel, multi-geography integrations, supporting single tokens, simplified reporting, and reconciliation to streamline their global operations.

Omnichannel is an important part of our growth platform, an integral part of our growth strategy, is going to allow us to accelerate penetration into new verticals, expand current client relationships, and be far more competitive in RFPs. And it is relevant to all our verticals, and we're just getting started here. We believe omnichannel is a true game-changer and potentially transformational to our business development efforts.

In terms of our geographies, we're actively pushing to expand local acquiring capabilities with over 20 licenses and scheme applications in high priority markets. We have also enabled card brands, including Discover, Diners, UnionPay International, and now actively working towards enabling JCB to round out our vast acquiring capabilities.

In summary, each product solution expands our TAM and offers us a platform to grow with our customers as we remain focused on relentlessly helping them execute on their own initiatives. To put it into perspective, we typically see on average 25% to 30% of wallet share of our customers. So, the more capabilities and solutions we can provide to our customers, the better our position to capture greater wallet share.

Turning now to market trends, we continue to see momentum in the business, excluding the FX- and crypto-related headwinds, which we believe we're going to lap over the next few quarters. As you can see from our constant currency volume growth of 44% in this year's second quarter and the performance of our global e-commerce channel, there has been no visible change in consumer spending. However, considering the macro environment, it is challenging to predict how, when, and if trends will change, and we have decided to err on the side of caution with respect to the second half of 2022. As such, we are amending our outlook for the year to take into consideration our second quarter results, continued headwinds from FX, a prolonged crypto winter, and to be cautious, we have included additional buffer.

I'll emphasize that we're heads down and laser-focused on executing our strategic initiatives, and are very confident about the direction in which we're headed. We're maintaining our medium- and long-term targets, and we aspire to first achieve $1 billion of annual revenue. As you heard today, we continue to invest in a disciplined manner and are making the right investments in people, technology, and geographies, positioning us for the long term.

We have built a resilient and durable business model. Our strong financial profile, including diverse revenue growth, exceptional cash generation, and strong balance sheet with low leverage provides us with a lot of flexibility. We maintain a disciplined approach towards capital allocation for continued growth and have multiple alternatives at our disposal to drive shareholder value. As for M&A, we do see many opportunities with market dislocation, but remain disciplined to maximize shareholder value, which has served us very well in the past.

I'd like to welcome our two new recently appointed board members, Maren Lau, Regional Vice President, Latin America of Meta; and Tim Dent, former Chief Financial Officer and Chief Compliance Officer of DraftKings. Both Maren and Tim are outstanding additions to our board. They are proven leaders who bring extensive knowledge, skills, and experience which are highly relevant to our fast growing verticals and geographies. They further strengthen our corporate governance by increasing the number of independent directors and advance our diversity targets, where women will represent 30% of the board by the end of 2023. As Chair of Nuvei, I look forward to working with and learning from them.

And finally, to our employees, I want to thank you for your relentless hard work. You guys are amazing. I also want to welcome the more than 100 new team members who joined the company in the second quarter. We're excited to have you.

With that, I want to turn the call over to Dave to discuss the financials and our outlook for 2022.

David S. Schwartz

Chief Financial Officer, Nuvei Corp.

Thanks, Phil, and good morning, everyone. I will start with our Q2 results ,and then turn to the outlook for the third quarter and rest of the year. Overall, we are pleased with our second quarter operational and financial results. We exceeded the top end of our outlook range for both total volume and adjusted EBITDA, while revenue was below our outlook due to headwinds which Phil mentioned and I will elaborate on. In addition, during the quarter, we generated cash from operating activities of $91 million, which represents the highest level in the company's history. Our balance sheet continues to be very strong, which gives us flexibility.

Total volume increased year-over-year by 38% to $30.1 billion. On a constant currency basis, total volume increased by 44% to $31.4 billion, demonstrating that consumer spending remained strong throughout the quarter and that we are successfully scaling and executing on our plan. Revenue increased by 19% to $211 million and, as Phil mentioned, was negatively impacted by three factors. Currency exchange rate fluctuations, cryptocurrency volatility and volume mix, which, on a combined basis, has unfavorable revenue impact of approximately $12 million as compared to our previously provided outlook range for the quarter. Adjusting for the $12 million impact, we would have achieved the top end of our outlook range of $223 million.

As for currency exchange rates, although our diversified business provides advantages in terms of geographic diversity, it does come with increased exposure to currency fluctuations. The current GBP and Euro dollar rates are at levels which we haven't seen in recent years. These valuations and the rapid decline has had a significant unfavorable impact on our revenue this year and has continued to move against us since the last time we spoke during our Q1 earnings call. As a result, and to help understand our performance, excluding this uncontrollable factor, we have added revenue at constant currency to our disclosures. Organic revenue growth at constant currency was 16%. On a year-over-year basis, the unfavorable revenue impact from currency fluctuations was $9 million, which was $2 million greater than what we expected. Without this impact, revenue growth on a constant currency basis was 24%.

In terms of geographic reach, our revenue comes from four regions. In the second quarter, EMEA revenue, which is our largest region at 57% of total revenue, increased 28% to $120 million. In North America, our second largest region representing 39% of revenue, we saw revenue increase 8% to $83 million. However, our global e-commerce direct channel in North America grew by approximately 34% year-over-year. In Latin America, revenue, which represents 3% of total revenue, increased 29%. In this region, we have expanded our local team by more than 30% since December 31st, and now have more than 75 team members. And finally, in Asia-Pacific, which represented less than 1% of total revenue, we've expanded our local team, since December 31st, by more than 75% to a total of 23 team members.

I will now turn to take rate. In the second quarter, our take rate was 70.2 basis points compared to 81.5 basis points in last year's second quarter, primarily due to volume mix. However, this take rate level was consistent with recent quarters. As we have mentioned previously, our approach is to provide our customers with solutions they need, irrespective of the resulting take rate. As we support our customers, and provide them with payment technology solutions, we are able to maximize our gross profit dollars, such as through expanding our wallet share with them.

In terms of gross profit for the quarter, we generated $175 million, which represents more than a $30 million increase or 21% growth as compared to the prior year. Gross margin in the second quarter is 83% compared to 81.4% in the second quarter of last year. This increase in gross margin is the result of a more favorable revenue mix.

Selling, general and administrative expenses increased by approximately $51 million or 53% to $147 million as a result of organic growth, as we continue to grow and invest in the business, as well as a result of acquisitions of Simplex, Paymentez, and Mazooma, which we completed in the latter half of last year. The largest contributor to the increase in SG&A was share-based payments, which increased nearly $28 million to $33 million, primarily due to awards to employees who joined us as part of the acquisitions we completed last year, as well as other grants. Share-based payments were sequentially lower than the first quarter of this year due to downward adjustments pertaining to incentive awards which have non-market performance conditions. Furthermore, of the $33 million of share-based expense, in the quarter, approximately $15 million or 45% related to awards with an exercise price or share price performance condition in excess of $100. As a result of the high exercise price and share price performance threshold, a high proportion of the outstanding units are significantly out-of-the-money. Approximately 5.3 million incentive units, representing 43% of the total units outstanding, have an exercise price or share price performance condition in excess of $100, or relate to a non-market performance condition that were not achieved as of the reporting date. As a result, these 5.3 million units are not considered dilutive in terms of diluted shares outstanding.

Employee compensation other than share-based payments increased by more than $14 Million. This increase year-over-year mainly reflects higher head count both from organic and acquisition growth, including those in direct sales and account management to drive future growth and execute on our strategy across all our regions. The acquisitions completed last year also resulted in an increase in head count and corresponding employee compensation costs.

Adjusted EBITDA increased in the quarter to $93 million, which was above the outlook range we previously provided of between $88 million and $91 million. Adjusted EBITDA margin remained strong at 43.9% in the quarter, compared to 44.5% in the prior-year period. I would also note that the headwinds experienced during the quarter would have also impacted our adjusted EBITDA. Net finance income was approximately $4 million compared to net finance cost of approximately $3 million in last year's second quarter, primarily due to gain this quarter of $8 million relating to a favorable change in fair value of the share repurchase liability pertaining to the automatic share purchase plan established earlier this year. This gain was as a result of shares being subsequently purchased at prices below the market price, on the date of which the automatic share purchase plan was established. This gain was partially offset by increased interest costs from higher debt as well as a higher interest rate environment. Income tax expense in the quarter was approximately $6 million. This represents an effective tax rate of 14.3%, which was below the Canadian statutory tax rate of 26.5%, mainly due to the favorable impact of lower tax rates in certain jurisdictions in which we operate, as well as specific non-taxable items such as the favorable change in fair value of the share repurchase liability.

Net income for the quarter was $35 million or $0.23 per diluted share, compared to $39 million or $0.26 per diluted share in the second quarter of last year. As I mentioned earlier, this year's second quarter included a $28 million increase in share-based payments, which on its own represented approximately $0.19 per diluted share. Adjusted net income of $75 million or $0.51 per diluted share compared to $65 million or $0.44 per diluted share in the second quarter of 2021.

Looking at our balance sheet and liquidity for the quarter, our cash position and cash generation remained strong. Cash flow from operating activities for the three months ended June 30, 2022 was $91 million, compared to $86 million for the comparable prior-year period. This level of cash generated from operating activities represents the highest level in the company's history.

Free cash flow we should define as adjusted EBITDA less capital expenditures was $81 million for the quarter, representing free cash flow conversion of 87%. A unique financial profile resulting from our strong balance sheet and high cash generation gives us flexibility with respect to capital allocation. As such, we continue to invest in the business while remaining strategic and disciplined in our capital allocation approach. With respect to the normal course issuer bid, which we implemented in March, we purchased approximately 560,000 shares for total consideration of $34 million in the second quarter. In total, we have purchased 1.8 million shares for a total consideration of $109 million through June 30, 2022. Also in the second quarter, we purchased a 40% minority interest in a subsidiary for approximately $40 million.

As at the end of the quarter, we had cash of almost $722 million, we also had term debt, of $499 million, resulting in a net cash position of $223 million with access to an additional $385 million available under our revolving credit facility. In addition, our leverage remains low.

I will now turn to our third quarter and full year 2022 outlook. As a result of the unpredictable macro environment and currency fluctuations, certain trends we have observed to-date, volatility in cryptocurrencies and the strong performance of cryptocurrencies in the second half of 2021, we are taking a more conservative view and amending our outlook. Our financial outlook for the third quarter and full year 2022 is as follows, and I'll refer you to our forward-looking information disclosure in our press release and MD&A.

For the third quarter, we expect total volume of between $25 billion and $26 billion, revenue of between $185 million and $195 million, revenue of constant currency of between $195 million and $205 million and adjusted EBITDA of between $70 million and $75 million.

For the full year 2022 we are adjusting our previously-announced outlook to total volume of between $117 billion and $121 billion, revenue of between $820 million and $850 million, revenue at constant currency of between $855 million and $885 million, and adjusted EBITDA of between $335 million and $350 million. The outlook specifically, the adjusted EBITDA reflects our strategy to continue to invest in our business in key areas such as distribution, technology and marketing. Our outlook also takes into consideration the factors I mentioned previously, as well as a cautious position considering the current, unpredictable and uncontrollable, unique macro environment. With our exceptional balance sheet, and high cash generation, we are very well-positioned to not only manage through the current environment, but also take advantage of opportunities, as it relates to organic growth, acquisitions and capital allocation.

With that, we will now open the line to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you very much. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] One moment please, while we poll for questions. We request you to restrict to one question and one follow-up. We have a first question from the line of Sanjay Sakhrani with KBW. Please go ahead.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Thanks. Good morning. So, David, maybe my first question is for David. Obviously, a big swing in the revenues for the second half for a number of variables that you guys outlined. Could you maybe just break down and dimensionalize sort of the severity of each of those points, as Phil did for the second quarter.

David S. Schwartz
Chief Financial Officer, Nuvei Corp.
A

Hey, good morning, Sanjay. Thanks for the question. So, yes, so in terms of the breakdown, those three factors, of course, that have impacted Q2 also impacted the second half of the year. What I'd say in terms of FX, when we did our original outlook earlier this year and then reaffirmed in May, of course, the rates have changed pretty meaningfully since that point in time. What we kind of assume now in terms of FX rates is a flat FX rate based on the last month or so, which is kind of consistent. It's hard to forecast, of course.

If you look at the impact in Q2, we talked about it being a $2 million impact. We did have a bigger drop. It's a much larger impact as we look forward into the second half of the year. We haven't quantified it externally, but I'll kind of leave it at that and you can kind of run some math. But you can see kind of from a constant currency basis, on a reported basis, on a full year – the full year impact you can kind of see the differential we gave is about $35 million between reported and constant currency on the full-year basis.

In terms of crypto and digital assets, we've taken it down pretty materially and significant year over – and that's both from H1 versus H2, and then from a year-over-year perspective also a pretty significant reduction. And then, again, on the APM component, that's also something that we use as a data point from Q2, and have taken a cautious approach.

So, overall, what I'd say, Sanjay, is when you think about the outlook, it kind of falls into three buckets, I'd say, is currency – and the three Cs is kind of how I think about it. Currency, cryptocurrencies, and caution is how I'd describe it for the rest of the outlook.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Great. And I guess follow-up question. I know in your medium-term growth target commentary, you qualified that they don't necessarily apply to 2023 or any other fiscal year for that matter. But maybe you could just help us a little bit as to how 2023 sets up, given some of these assumptions, especially crypto, if we were to assume this crypto winter sort of just sustains itself, like how does that affect the medium-term expectations. Thanks.

David S. Schwartz
Chief Financial Officer, Nuvei Corp.

A

Yeah. No, it's a good question. And so, look, 2023 we haven't given our outlook obviously. You'll have to wait on that until we got later in the year, we'll obviously provide 2023 at a future quarter. But those – the crypto specifically, it's a hard one, right? There's some volatility. We've tried to take a cautious approach. And from an investment perspective, this business is certainly more than that. And you saw the disclosures we gave at our Capital Markets Day. And certainly, we're investing in the other verticals. And so, we do see good growth and good momentum, in fact new business in those other verticals. So I think that's kind of the way to think about us. I'd say, go forward, not specifically necessarily 2023, but that's kind of what I'd say.

I don't know if, Phil, there's anything you wanted to add on, on that point.

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Yeah, sure. I'm happy to. First of all, hi, Sanjay. I think the interesting thing is last year's activity, when you look at the second half of 2021 was the majority of crypto activity that we saw. So we are going to be unlapping it over the next few quarters. I think that's the first point, and we've taken that into consideration.

And second, which I find really interesting is our momentum in new business and our momentum with our current customers continues. And in fact, our new business has really been performing well. And we're making continuous investments as we expand both in North America, as well as in LATAM and APAC. So, we're quite bullish on the business, I think something to highlight, right? Great businesses are not built overnight. These are long-term investment and investments that we are making. Certainly, we are going to unlap this unprecedented meltdown of the digital asset vertical. We think we have excellent technology to help as the market recovers. But we don't expect it to recover over the next 12 to 18 months.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you.

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Thanks, Sanjay.

Operator: Thank you. We have next question from the line of Bob Napoli with William Blair. Please go ahead.

Robert Napoli
Analyst, William Blair & Co. LLC

Q

Yeah, thank you. Good morning, Phil, David, Anthony. Just maybe a follow-up on Sanjay's question on the three Cs, and the caution part of the Cs. I mean, what – can you give any color on how the month of July performed relative to your guidance for the third quarter? And if the economy were to essentially be steady from where it is today, and you don't get a meltdown in the macro economy, I mean, how much caution have you built into the numbers?

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Bob, I think the biggest thing that I can leave you with, it's not the time with the macro environment to be a hero. We like to be cautious. We want to obviously be heads down executing. We really like what we see throughout the business. But it's very difficult to predict really if, when, and how consumer spending will change, and how that's going to impact our verticals. From a discretionary spending perspective, we have not seen a change in our own business. But that doesn't mean it won't come.

We have seen an uptick in travel, as I mentioned, in my prepared remarks, and obviously we are expanding our travel footprint. But it is extremely difficult to predict what the next few quarters will be, what will happen in Europe and other regions. So, we have taken a cautionary tale. From July perspective, we're well within line. Naturally, in our business, gaming was not very active in July. We have seen the activity resume earlier this week. So, from our perspective, the business is performing as we expected.

Robert Napoli
Analyst, William Blair & Co. LLC

Q

Okay. And then, you made some comments on omni and importance of omni in store. Can you give any more color on what your goals are there? How your – what is – if you would break out the omni mix of your business today and what you think the opportunity is over the long term.

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Yeah. We think omni is going to be quite substantial and we think omni is going to be substantial across the board. And to unpack that a little bit, omni naturally are unique offerings on a per country basis. So, we are focused on US, Canada, and UK initially, and then we're going to be looking at mainland Europe and other markets that we operate in. So, a very nice journey there. But predominantly, Bob, in most RFPs that we see coming through really across most of the verticals, omni is a requirement and something that we're pretty excited to drive through because it will help us, we think, win far more business than we see today. So, that's the first point.

I think the second thing is to appreciate that omni is part of verticals that we have of an appetite to expand into. Online retail and retail are merging well together. But not just in those. If you think about gaming, for example, right, in the UK, the vast majority of gaming is still on site. So, it has a relevance in all aspects of our portfolio.

And I think the third thing that I would leave you, and then we'll get to materiality is, because when we look at our own customers, when we look at our own modules and our own journey, a lot of our growth comes from helping our customers execute on their own strategies and their own initiatives. And it's a fascinating topic of what modules – how do we help them; how do we help them grow from country to country and simplify their operations. And omni is certainly a big part of that as they too look at their multi-channel strategy. So, we're pretty excited about not only looking at our vast set of capabilities, but what we can do within our own customer base. And the upside opportunity is pretty meaningful. So when you end up thinking about us seeing 25% or 30% of our customers' wallet share driving omni will allow us, we think combined with all of our other modules, an opportunity to meaningfully expand that wallet share, and that's pretty impressive.

Robert Napoli
Analyst, William Blair & Co. LLC

Q

Thank you.

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Thanks, Bob.

Operator: Thank you. We have next question from the line of Tim Chiodo with Credit Suisse. Please go ahead.

Timothy Chiodo
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thanks a lot. I want to double down on the in-store omnichannel point a little bit, particularly around the comments that you made so around RFP processes. Maybe you could just dig into a little bit. What's changed with the Nuvei capability that will basically allow you to be more competitive in certain of these RFPs? It seems like you were doing quite well in them even without whatever has changed on the in-store omni side, maybe you could just expand upon that a little bit?

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Yeah. Good morning, Tim, great question. What we found is most RFPs, specifically at retail, and even hotel and others, had a requirement for omni capabilities. And if you look at – we just won, for example, Radisson in Europe on their online, but that could have been a much bigger win for us with respect to enabling omni. So as we started looking at opportunities both on a win rate and a wallet expansion opportunity, and emerging experience, omni certainly was always part of our roadmap. In terms of what has changed, it's really just the building blocks, right. So Tim, we haven't changed really. We've just executed really well on the roadmap, and we're now at the point for omni, which we think is really important, and it's just scaling and diversifying our platform. If you guys remember, right we support some of the most demanding clients in the world. And utilizing that technology knowhow has been our mission to expand into other verticals, and we're executing on that right now. So with the expansion of marketplaces, with the expansion of our modules, and now accelerating retail, and really accelerating global retail and global operators with additional channel capabilities is exciting for us.

Timothy Chiodo
Analyst, Credit Suisse Securities (USA) LLC

Q

Excellent. Thank you, Phil. My brief follow-up is on the marketing campaign. So, at the Investor Day, you guys talked about somewhere in the May to July timeframe launching a marketing or brand campaign. Could you talk about the progress on that, and if that's still on plan, or if anything's changed, given the outlook?

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

No from the Q2 perspective, we have launched it. We have seen some meaningful uptake both in brand awareness and sales. We've also attended roughly 25 conferences from a partnership and development perspective. So we're well on pace. Naturally, the great thing about marketing is that we're able to throttle it, based on what we see as a backdrop. So, we have not made any changes in the first few quarters. We leave it as optional with respect to what we do in Q3, Q4. And the whole point here is we want to make sure we're delivering the message at a time when businesses are interested in receiving them, Tim. That's the biggest thing with the backdrop that we're seeing now, how do we make sure that our customers are open and willing to absorb messaging? And those are the discussions that we're having around our table.

Timothy Chiodo
Analyst, Credit Suisse Securities (USA) LLC

Q

Excellent. Appreciate both of those on the in-store and the marketing. Thanks a lot.

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Thanks, Tim.

Operator: Thank you. We have next question from the line of Tien-tsin Huang with JPMorgan. Please go ahead.

Tien-tsin Huang
Analyst, JPMorgan Securities LLC

Q

Hi, thank you. Good morning. I was curious on the switch from APM to credit. Is that a cyclical issue? What's your interpretation there, if any? And I'm curious if you're seeing anything like higher chargebacks, that kind of thing in your flow?

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Hi. Good morning. No, great question. No, we have not seen any change to chargeback ratios or dispute ratios or even refund ratios. We've really not seen any insight, as we kind of mentioned, like from a spending perspective and a consumer engagement perspective. If you recall, for us, we help our customers connect with their customers, and our vast payment capabilities allow those customers to choose which payment medium is most appropriate for them, as they want to engage with our customers. So, that flexibility is not necessarily driven by Nuvei. It's driven by the customer choice. And that customer choice that we've seen from an overall total perspective has been more leaning towards credit than it is APM.

Tien-tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yes. No, thanks for that. And Phil, I've had to ask, if you don't mind. I know you've seen a lot of cycles before, and you've seen consolidation in the sector before at different points in the cycle. So, given the comments on caution, and it all makes a lot of sense, does that change your appetite here to do M&A now relative to when we talked, I guess, 90 days ago. Just love your thoughts there. Thanks.

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

I think, there is a dislocation in the market. And obviously, we are open for discussions. I think the good news from a Nuvei perspective versus other high growth peers is really just the strength to stress our balance sheet and cash flow. And I think it's really important to highlight that, guys, as you know, things may change or may not, things may accelerate or things may stay as is. The reality is, we're building an amazing business that's a locomotive in terms of enabling our customers as they drive their own business strategies around the world. And because of our financial profile, I think it just gives us enormous optionality.

There's no rush. We're not financial engineering. We'd rather be cautious than to fix a quarter. And I think that discipline will pay itself off. And I think, utilizing opportunities that help transform the narrative with our customers and help transform the opportunity that we're able to help our customers as they execute on their journey remains strong for us. So, we will absolutely consider the right opportunity. But it's not a must-do for us. You won't see us announce three transactions in one and all the other goodies that we've seen over the past few weeks. You'll see us be disciplined. And I think that's the message to the shareholders – to our shareholders is we have lots of options. Our capital allocation strategy is certainly a top of concern, and we're going to have a lot of discipline.

Tien-tsin Huang
Analyst, JPMorgan Securities LLC

Q

Appreciate the thoughts.

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Thank you.

Operator: Thank you. We have next question from the line of Will Nance with Goldman Sachs. Please go ahead.

Will Nance
Analyst, Goldman Sachs & Co. LLC

Q

Hey, guys. Good morning. I appreciate you taking the question. Phil or David, I guess, I feel like one of the key questions coming out of this quarter is going to be whether the revised guidance is conservative enough to take into account some of the headwinds that we're seeing kind of broadly from the macro environment and maybe specific to some of the verticals you guys are in. Just wondering if you could drill down on specifically, I guess, the two of the three Cs, crypto and caution, around the different parts of your business. How much are you baking in, in terms of softness, in the back half of the year, in order to absorb the potential – sorry – absorb the potential for further weakness that hasn't yet materialized. And I guess, investors are looking for kind of an all-clear sign that we've kind of absorbed some of these headwinds. So any color you could share there would be helpful.

Philip Fayer

Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

And I think, Will, first of all, it's a great question, and I think that's what we wanted to do here, right? So we want to bake in enough caution that we're not back at this, in three months, in six months. There is no point in being a hero out there when there's so much unknown. So, certainly when you think about cryptocurrencies, we've brought it down to its lowest point. I think if you end up looking at what's happened across the market, right, the decline, you have $3 trillion that has shrunk just about to $1 trillion from the market from a digital asset perspective. And that's just in currencies. You think about what's happening around NFTs and other. We've taken the lowest point and we believe that's going to remain fairly steady for the foreseeable future.

I think the second thing to highlight is we are going to be unlapping. So, the bulk of our digital asset growth came in Q3, Q4 last year. So we are going to be unlapping that. And that gives us really good comfort in terms of flexibility when we look at 2023. But the most important part for us is we went by merchant, we went by vertical, we looked at historical trends, we looked at current trends, we even looked at public disclosures from our current customers, and we tried to really add a cautionary view of what can happen, what is the outlook, and what do we want to drive from a buffer perspective. And I think that is high discipline. We want to be extremely cautious. Obviously, nobody can predict what happens tomorrow, but we are pretty good with what we've put out there so far.

Will Nance

Analyst, Goldman Sachs & Co. LLC

Q

Got it. Okay. I appreciate that. And then a second question on EBITDA margins. I think on our math, it seemed like they implied in the back half of the year was somewhere in the high 30s. And obviously, I'm guessing from your – from the response you just gave that probably some elements of conservatism there. But I just wanted to understand obviously timing between the brand investments and the go-to-market investments versus the macro headwinds are probably driving a little bit of that. But I guess, how are you thinking about kind of the run rate for EBITDA margins going forward? And, I guess, how low would you be willing to see that go before starting to pull back on some of the spending?

David S. Schwartz

Chief Financial Officer, Nuvei Corp.

A

Good morning, Will, it's Dave. So that's right. The second half, the margins are implied to be a little bit lower than we've seen in the first half. We're, like Phil mentioned it before, we have a really strong balance sheet, and amazing cash generation, and so – and potential – and so much potential from a growth perspective. If you think about the regions we're in and all the whitespace and then think about omnichannel, and combine all that, we really want to invest, in the business. And it comes back to capital allocation too. Our number one priority is reinvesting back in the business. And so, yes, so margins are, in the outlook, expected to come down.

But we'll be disciplined and we'll kind of find that right balance between margin, cash generation and driving growth. And Phil touched upon it earlier, too, when you think about marketing, where it's something that, we can measure to some degree, and we will measure, and make sure that we're getting the return on that investment. And same thing with distribution where, we're being selective in who we hire. They have to have vertical expertise, regional expertise. And we just want to be disciplined and do it right. But we do think that there's a lot of growth potential, and reinvesting back in the business makes a lot of sense, and that could impact margins.

And again, you touched upon it, in your question, Will. Those headwinds certainly do have an impact on margins. And you think about, if you kind of look at the $9 million year-over-year impact we had in Q2 from FX, certainly that portion of that fell down to EBITDA. If you look at our disclosures from our year-end financials, roughly 54% of revenue is US. dollar and about 35% on the expense side. If you do the math with that ratio, you can kind of see that that impact in the quarter was probably $4 million or so on EBITDA. And so, it's impactful. And yet despite the headwinds, we're still – margins are still in the high 30%, low 40%. So, we're really pleased. And like I said, we'll continue to be disciplined and kind of find the right balance.

Will Nance
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Understood. Appreciate you taking all the questions.

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Thank you.

Operator: Thank you. We have next question from the line of Todd Coupland with CIBC. Please go ahead.

Todd Coupland
Analyst, CIBC World Markets, Inc.

Q

Hi. Good morning, everyone. I just wanted to drill into the crypto customer base if I could. Phil, maybe give us some comments on any financial risk to Nuvei from any of the trading that's been going on. And obviously, there has been some high-profile fails in the market. Can you just talk to the nature of your customer base in this space?

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Yeah, great question, Todd. So, we have – obviously, we are fairly resilient on the fiat side. So, we do not have exposure with respect to lending schemes or, fancy tokens that come through there. From our customer base, we have the largest exchanges that are well-capitalized. We're very conservative with respect to underwriting and evaluating financial risk. So, we feel actually fairly strong. Our customers are well-capitalized. And it's not an enormous group of customers. So because it's really the Tier 1, we feel that we're fairly insulated at this time with respect to the overall backdrop in the industry.

Todd Coupland
Analyst, CIBC World Markets, Inc.

Q

Okay. And when you think about it from a risk management point of view, do you review whether or not you should keep all your customers? Is that something you think about, given this volatility in the market?

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Certainly, and we have done that. So, we have looked at all of them, not only of what they are, but also what they are selling and what we want to support for them to sell. So, we have – our team is very hands-on. So, we have clearly evaluated really the business and we do that anyways, not just from a regulatory framework because many of them are licensed and we have to make sure that they adhere to their own licensing. But we feel pretty good with the customers that we have right now.

Todd Coupland
Analyst, CIBC World Markets, Inc.

Q

Last question for me on gaming. You talked about the reasons for the slowdown. What's your opinion on inflation and the impact on the online gaming market so far? Thanks a lot.

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Yeah, it's been a debate there, Todd. When we look at historical, we have not really seen changes from what we've seen in our own portfolio from a historical basis, like I think there's two things to keep in mind, right? We have grown gaming 22% predominantly in new business. We have an entirely new TAM that's coming on in gaming in North America, and we're still early, although we're really, really pleased with what's happening. And we also see a lot of activity with respect to what can be in Brazil and other markets that are opening up. So, I think there is a potential for a slowdown from inflation, but I think that's dramatically offset with new markets coming on board with pent-up demand.

Todd Coupland
Analyst, CIBC World Markets, Inc.

Q

Thank you.

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Thanks, Todd.

Operator: Thank you. We have next question from the line of Jason Kupferberg with Bank of America. Please go ahead.

Jason Kupferberg
Analyst, BofA Securities, Inc.

Q

Thanks, guys. Good morning. I know it's obviously too soon to talk in detail about next year. It does seem like the second half of this year is largely de-risked. But how would you encourage investors to directionally start thinking about next year versus the mid-teens revenue growth that's now being forecasted for this year? Just trying to manage expectations because it seems like perhaps some of the second half 2022 headwinds could bleed into 2023, so just wanted to get your take on that. Thank you.

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Thank you, Jason. No, great question. We actually don't think so. What we have looking at it from a year-over-year perspective, certainly the biggest headwind is digital assets. And that is something that over the next few quarters will be outgrown. The second part is ultimately the performance in both new business and what we are doing with our current customers. So, the building blocks, as we presented at capital markets, they are very much there. The delta really is FX, certainly, has an impact on the business and digital assets. Those would be the biggest ones. And we think over the next few quarters, those will be outgrown. Obviously, FX has some unknowns, but most certainly digital assets will be outgrown over the next few quarters.

Jason Kupferberg
Analyst, BofA Securities, Inc.

Q

Okay. Got it. And I know you had been assuming flat crypto/digital asset revenue for this year. What's that assumption look like now?

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Yeah. I mean, in transparency, it all went out the window when the market fell apart. I don't – we had no way to appreciate the rapid decline in digital assets activity, volume, trading. It has all slowed down meaningfully and it's been well-publicized, Jason. So, we see that within the own portfolio. And I think what's really amazing for you guys to unpack is even with that volatility, volume and growth is still really strong. So, we're really pleased, certainly we'll have to outgrow it. It's something that is unprecedented. And the unlapping part will be somewhat painful. But we think coming into 2023, we'll be back in line. And that's why we haven't changed our mid-term and long-term targets.

Jason Kupferberg
Analyst, BofA Securities, Inc.

Q

Okay. Understood. Thanks.

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Thank you.

Operator: Thank you. We have next question from the line of Paul Treiber with RBC Capital Markets. Please go ahead.

Paul Treiber
Analyst, RBC Capital Markets

Q

Thanks very much. Good morning. Just in regards to your outlook, it seems a lot of the change in your outlook is effectively related to your customers' end volumes or transactions. And so just first, is that a fair characterization? And then, related to that, could you speak to your expectations for expansion within existing customers and new customers wins, and if your outlook for either of those has changed just in light of the macro environment?

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Paul, great questions. Our business, if you remember at Capital Markets Day, there's two big growth vectors for the company as we continue driving our innovation and geographic reach forward. The first is growing with our existing customers, which last year represented about 80% of the growth, and then new customer wins. And so, those two remain highly relevant for the business as we continue expanding with our current customers, and that is why our innovation, which is driven by customer input, is so important as we continue adding new feature functionality and capabilities across the board to expand wallet share.

So, I have highlighted some on the call, but we've also launched risk-as-a-service in Mexico. We were one of the first processors to launch 3DS secure verification for Apple Pay transactions. And so, our continuous involvement and development allows us to be front and center with our customers, and that is really important for us to continue growing wallet share with them. And we think we're well-aligned for that.

When it comes back to new customers is where we've been making our investments. And I mentioned a little bit of this in our prepared remarks, but we are on pace roughly to double the performance in our global e-commerce business from last year, from a new customer perspective. And so we're executing. Obviously, we're building our teams out. It takes between a year to two years for these teams to become really active. But we have dramatically expanded the team. The conversations are very interesting of the who's who out there of the verticals, and we feel really confident in our abilities to execute on that. So, those two building blocks remain 100% the same.

Are we reliant, obviously, on our current customers? Absolutely. Are we satisfied with what we're seeing from the current customer base? Certainly. Have we seen changes from some of our customers in terms of their own expansion and their own performance? Yes. But we think combined from new and existing, we're well-positioned.

Paul Treiber
Analyst, RBC Capital Markets

Q

Thanks. That's really helpful. Just double-clicking on new customer wins in the activity there, digital transformation has been a theme for the last two years or so. Has there been any change in the inclination for customers to roll out digital transformation initiatives just in light of the macro seen any movement in terms of sales cycles or conversions? Yes, if you could comment on that please?

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Yes. And I mentioned a little bit in the first quarter. So, we have accelerated our integrations. And as I also mentioned in my prepared remarks, we've worked hard on our integration capabilities, right, with our Simple Connect offering now one line of code to drive really all customization capabilities. So, in the first quarter, we saw a slowness in terms of client activations from a new client perspective. We have seen ourselves unlap that and accelerate that. There's a big pipeline of integration that's still happening. From a timing perspective, we still feel very comfortable for this year, especially as the momentum that we saw in the second quarter. But yes, from a client standpoint, all of – most of our verticals are still digital-first. Omni is obviously coming into play now and will be more relevant in 2023. So because of that, it's, our verticals are still fairly insulated on digital and digital-first and still making the investments as they continue to grow out.

Paul Treiber
Analyst, RBC Capital Markets

Q

Thank you. I'll pass on.

Philip Fayer
Chairman, Founder & Chief Executive Officer, Nuvei Corp.

A

Thank you.

Operator: Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session. And I'd like to turn the call back over to Anthony Gerstein for closing remarks. Over to you, sir.

Anthony Gerstein
Vice President & Head-Investor Relations, Nuvei Corp.

Thanks very much, operator. And thanks, everyone for joining. As you know, we're always available. Please feel free to reach out to me. And obviously, we'll schedule a follow-up. Enjoy the rest of your day. And thanks again, for your time.

Operator: Thank you very much. Ladies and gentlemen, this concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.