Nuvei Fireside Chat – Goldman Sachs Communacopia & Technology Conference – September 7, 2023

CORPORATE PARTICIPANTS

Philip Fayer, Founder & Chief Executive Officer, Nuvei

OTHER PARTICIPANTS

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs

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Next up, we're excited to have Nuvei CEO, Phil Fayer here. He's been at the head of Nuvei for the last 20 years, started Pivotal Payments in 2003. Phil, it's great to have you here. I appreciate you being at the conference.

Philip Fayer, Founder & Chief Executive Officer, Nuvei

Thank you, guys. Thank you for joining, sold out room.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs

Very much so, standing room only. Look, I mean Nuvei's fundamentals have been very strong. You've posted organic revenue growth, constant currency, ex crypto in the 20% range in most recent quarter. Margins remain strong in the mid-30% range. You're generating a lot of cash. That said, the stock has sold off around 40% since the Q2 earnings release. And largely, I would call out two factors. One is the reset of guidance for the back half of the year, and the second is the reduced medium-term outlook from >20% to the 15% to 20% range. Can you just maybe start off, what were the main factors that led to these changes?

Philip Fayer, Founder & Chief Executive Officer, Nuvei

Yes. First of all, thanks everyone for joining. More importantly, we're celebrating our 20th year on September 13. Time flies. Unbelievable. So talking a little bit about Q2 and the full year, I think there's a few building blocks for us. The first one was timing from new business. And the way we did that is we typically look at what is 60% (likely), what is 80% (likely), and we look at historical trends for when customers activate depending on signing date when they activate.

And this year has been somewhat different. What's really important in terms of new business is that it carries the year. So the more activity you have in the first quarter that activates you see the revenue for the full year, if that makes sense. And if that (new business activity) slips into the second quarter from a signing perspective, if you don't activate by the third, it typically slips to the following year just because no one does activations (during the fourth quarter).

So it's a timing issue. One of the things that, as we start now growing as an enterprise moving from predominantly (online) gaming 3, 4 years ago to really servicing the who's who across all key verticals. We're learning, as we continue growing, about what it takes for these companies, how fast they can move, how fast they integrate and how fast they go live. So that was the biggest driver for us in terms of lowering the outlook for the second half of the year. Within all of that, though, we really do love the momentum in the business. Great growth, both organic and inorganic. We're de-levering very quickly and have an exceptional financial profile that gives us a lot of flexibility.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
Makes a lot of sense. So maybe touching on some of the second half dynamics. I think the updated guidance, we've got a couple of questions around the implied exit rate in the second half of the year. It seems like that's somewhere in the high single digits, constant currency. I guess could you maybe talk about why does the business seems to be decelerating? And what are the factors that get you back to that 15% to 20% range (over the medium-term which for Nuvei is the next 3-5yrs)?

Philip Fayer, Founder & Chief Executive Officer, Nuvei
Yes. I think there's two things to consider. We did a double-click in terms of our 3 channels. So if you look at how our Core channel is growing, how our Emerging channel is growing, and then naturally Legacy, which is predominantly small business, mainly driven through ISO agents. So I think those are the first few parts of the building blocks. In the Core channel last quarter, we had 35% growth excluding crypto, which is still category-leading. We have lots of momentum around our Emerging channel. We talked a little bit about the momentum that we're seeing in B2B with 27% growth of new accounts versus the previous year, as well as a nice step up in ARR on the Government side.

So overall, fundamentally, we really like where we sit. When you look at Q3 and Q4, because we're addressing the outlook, we want to do it only once. So we baked in a lot of conservatism, and that was really important for us. The other thing when you start thinking about year-over-year comparisons, sometimes there are some global events which are different. And in our case, World Cup.

So World Cup last year, there was no season for that within gaming. Whereas NFL season starts today in the United States (the same timing as last year), when the World Cup happened, the (professional soccer) leagues played all through Q3 and then you have this exceptional Q4. So when you think about the exit rate for Q4, I think it's important to understand the building blocks of the business, what happened last year when you compare year-over-year and then adding some conservatism into it.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
Got it. That makes sense. You mentioned the double click into the various sleeves of the business. I thought it was pretty helpful to see the way that you guys break it down—Core, Emerging, and Legacy. How are you thinking about the growth dynamics across each of these 3 sleeves? And what's the outlook?

Philip Fayer, Founder & Chief Executive Officer, Nuvei

Yes. We're excited about what we've done and how we've continued transforming the business. If you think about over the last 3 years, we've added more use cases and more end markets and more opportunities to monetize our technology. So looking at our Core business, we've been adding more regions, more geographies, more licensing. And then we're extending our reach within our product mix, which I'm sure we'll talk more about. We believe that's a 20% to 30% grower. And that is based on all of our capabilities because we go far beyond acquiring. Merchants come to us because they have a particular problem at the time of onboarding. And that allows us to grow with them as they too grow on their journey globally.

From an Emerging channel standpoint, largely driven with what we bought from Paya are some very unique use cases for us. So on the B2B side, on the Government side and on Integrated Payments. Coming back to B2B, we're first taking our playbook on commercialization, and we're starting to see some early wins based on that, 27% growth of new accounts (year-over-year in Q2). But more importantly, we're also cross-selling within our B2B partners.

So if you think about Paya's historical focus on ECI and Sage predominantly, we have now gone to all ERP providers. We are cross-selling those ERP providers into new geographies (beyond the US). And we are also bringing our tool set from alternative payments to open banking payments to card issuing to other solutions within that ecosystem. So we're really excited about what B2B does for us. In addition to that, B2B has factoring opportunities from a receivable perspective, which we think is really interesting in terms of growing out our position in B2B.

And on the Government side, what's interesting about Paya is that historically, they went predominantly direct to the municipalities. And for anyone that's dealt in government, hell freezes over before decisions are made, both good and bad. So to actually win the government business (is one thing), but also for them to change (is another).

So what we have done with our Government products, which is Citizens Portal and Utility Connect, now we are also bringing our solutions to government-based ISVs. And that is meaningfully expanding our distribution capabilities because instead of just going direct we're now able to cross-sell in terms of current installations, and we're quite excited about that. In the quarter, we had a 10% growth in ARR for Q2. And ultimately, that bodes well for future growth vectors. We saw 13% growth in Emerging channel for Q2. Our target is to bring that growth rate up to 20%.

And then we come back to Legacy. On the Legacy side, we've seen same-store sales tailwinds (in 2022) turn into headwinds (in 2023). And I think that's what the industry has seen as a whole. We saw significant tailwinds all of last year. We saw some marginal tailwinds to flattish in Q1, and then we saw a 5% headwind for Q2. What that means is that you had 4% or 5% tailwinds from previous years turn into a headwind. Ultimately, almost like a 6% delta.

But from a Legacy channel standpoint, our perspective is we want to be really loyal to our partners. We're not out hunting for new partners. It's not a core (growth pursuit), but we want to support them because they've been so loyal to us.

When you think about the mix (of revenues for Q2), global Core commerce for us is 56%. Our Emerging channel is 18% and Legacy channel is 26%. But going back to when we bought SafeCharge (in 2019), Legacy was almost 70% of the business. So it shows you how fast the others are growing, and as they keep it up, there'll be less of an impact on our overall growth profile.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
That makes sense. One of the things that hasn't changed over the years that you've been public has been the long-term target on EBITDA margins, with a 50%-plus over the next 5 to 7 years pretty consistently the target on EBITDA margins. Why do you remain confident in these targets despite some of the changes that we've talked about on the revenue side? And then can you help lay the pathway to getting there over time?

Philip Fayer, Founder & Chief Executive Officer, Nuvei
If you go back and double click into the last year, we were running in the mid-40s from an EBITDA margin perspective. And then naturally, we had the shift from digital assets, which would turn into a significant (margin) headwind. And then we dropped down to the mid- to high-30 percentile. And ultimately, we've replaced all those dollars from digital asset revenue to where we sit today. So it shows how scalable our business is from an operating margin perspective. In addition to that, we brought on Paya, which was a mid-20s (adjusted EBITDA) margin business, and we'll be increasing that over time, by executing on the ($21 million of identified cost) synergies.

But most importantly for us is, as a business we've never been growth at all costs. It's always been about profitable growth, generating gross profit dollars. For the next foreseeable 6 quarters, we are focused on expanding our operating margin by executing both on monetizing and scaling the products that we have, and monetizing new geographies, which are all net new and which are pure cost bases today. So it’s that plus we will continue expanding and executing on the synergies that we found with Paya.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
I think with earnings, you also disclosed roughly $100 million in annualized revenue in the pipeline tied to new business. Could you maybe put that into context a little bit around your growth expectations for next year into 2024. Is the $100 million all tied to new logos that you've won this year? Is it a mix of new customers and new capabilities? Is there any detail you'd like to share on that?

Philip Fayer, Founder & Chief Executive Officer, Nuvei
Yes. We look at all opportunities in the pipeline, and we're very much focused on delivering our full solution stack, both geography-based and product-based following the opportunities that present themselves, both from new customers and from existing customers. So (for example) we look at monetizing our issuing opportunities, monetizing our account-to-account opportunities, etc. We've done some phenomenal work on authorization (optimization) for our merchants and further opportunities to expand wallet share. So we look at all of the above.

And internally, we break down the business in terms of customer management, both from what are the opportunities that we see from existing customers, and what do we see in new customer opportunities. And it's something that we find fascinating because as our capabilities deepen, the opportunities that we have to enter the wallet share with new customers is incredibly vast. And that allows us to enter, integrate, and then monetize as they continue growing over time.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
So maybe diving a little deeper into the global Commerce platform. That growth has remained very strong. As you mentioned, mid-30s, ex crypto in the most recent quarter. you've always talked about a land-and-expand approach driving the growth. What products or capabilities or end markets are driving the growth right now?

Philip Fayer, Founder & Chief Executive Officer, Nuvei
There's no silver linings or particular products to call out here. I think the biggest thing that we can leave for you is that we're not just an acquirer. We provide 13 core modules, and that allows us to enter as is appropriate for the customer. It could be a geographic capability. It could be specific market capability. It could be our payout capability, our APM capability. We always ask, what is it that we can help with?

I think the biggest factor that's slightly different for us is that we don't expect to have a 100% wallet share with our customers. And I think that's fascinating because customers in the eCommerce side will always have 2 or 3 vendors. Our view is that there's so much more upside by providing flexibility—entering the wallet share and growing with them over time. So from a regional perspective and from a product perspective, what is the need of the customer at that given time.

That's the beauty of our technology stack. And that allows us ultimately to cultivate relationships and grow with them as their business expands. The other thing I would tell you is no businesses just stands still. If you think about it, you have great brands that are doing something today, but they're going to be doing something else tomorrow. And so the platform evolves and opportunities evolve as the customer's business grows and diversifies itself.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
Got it. Maybe talk a little bit about the geographical footprint. I think when you bought SafeCharge in 2019, the footprint was mostly EMEA focused, and there's been a plan for a long time to bring those capabilities to North America. What's the status of that expansion into the North American geography?

Philip Fayer, Founder & Chief Executive Officer, Nuvei
It's going well. It's not just North America. It's looking at what's happening in LatAm, what's happening in APAC. We have plans for MENA and Africa as well. Specifically for North America, we are now in beta on end-to-end processing in Canada. And we've also secured our own card brand licensing in Canada. We are starting beta for end-to-end processing in the US in the first quarter (of 2024).

And this is really exciting because now we are driving interchange predictability on every transaction. This is a big deal because we're able to price transactions and able to provide more value to our customers from a unified experience in every single country that they work with us, versus the legacy folks that operate via batch. So what the team has done from a clearing and settlement and from a product offering perspective and bringing our standard tool set from ACH to Open Banking, and acquiring payouts all unified within a single experience is exciting.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
Maybe we can double click on gaming a little bit. Historically, this is a large business for SafeCharge. I think it was, at the time, roughly 65% of that business growing high-teens. You've done a lot of work, accelerating the growth profile there, but also diversifying the business into other high-growth verticals. You do have this long established leadership position in gaming, and it remains a pretty important part of the investment thesis for a lot of investors. How should we think about the outlook for gaming compared to some of your other targeted eCommerce areas?

Philip Fayer, Founder & Chief Executive Officer, Nuvei
So I think there's 2 things. First of all, we're really excited about what's happening in gaming as a whole. If you look at when we bought SafeCharge, America has come online. Mexico has come online, Colombia has come online, Brazil, which is going to be a significant market is (eventually) coming online as well. So you've had a massive TAM expansion in gaming, and that puts us in a really good footprint in terms of continued growth with our existing customers. You've had more states that have activated over the past 3 years than ever before. And ultimately, if you look at it, this has proven revenue for states.

In addition to that, we've had Canada gaming expansion with Ontario. Alberta is not far behind. We think Quebec is going to come online as well. So countries are starting to realize that gaming is happening, and it's an incredibly lucrative opportunity for them to continue driving that forward, and we want to be the category leader with our capabilities and be ready for it. So we've been making investments to be licensed and ready as these markets come online. These are all based on long-term planning, and we're very, very excited about the continued momentum around gaming.

One of the things that we've realized is that gaming is some of the hardest stuff that you can do well (from a processor perspective). Gaming operators spend tens of millions of dollars of marketing, and depending on the size, sometimes that’s a week’s worth of spend. And so the customer demands are no downtime, no latency, high approval ratios, and great engagement all-around. These are all things that are table stakes for gaming operators. But it turns out that it's now becoming table stakes for a lot of other global brands (outside of gaming). And we're using that same skill set (to expand beyond gaming), and that's what you can see from our myriad of press releases. We're engaging and winning the who's who in travel and in marketplaces, in retail, in hotels and a lot of other (end markets) that we're starting to step into. So we're taking our use cases in Core as well as in Emerging to monetize with the capabilities that we have.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
Makes a lot of sense. I want to hit on some of the competitive dynamics. This has probably been the biggest topic du jour in payments at the conference so far. We've heard it from Adyen. PayPal is presenting today. I think competitive dynamics in eCommerce are front and center in the market. You guys are a major player (in eCommerce). I think the focus has been on merchants that are large enterprises running in multiprocessor environments and particularly in North America. Can you maybe just talk what are you seeing out there in the market? And how does it affect Nuvei?

Philip Fayer, Founder & Chief Executive Officer, Nuvei
Totally. I mean, listen, obviously, Adyen's comments a few weeks ago didn't help, right, when they were talking about wallet share and pricing, and we totally get that's a topic. From our standpoint, the incumbents have a lot to lose, and I think the new challengers have a lot to gain. And Nuvei is in the challenger bucket. So we think that gives us in a very nice opportunity because merchants are starting to explore that. It's not necessarily just Adyen, not necessarily just PayPal. And we believe that this is going to be a tailwind for Nuvei versus a headwind for others.

The biggest thing that I could leave for you is that global eCommerce merchants will never have a single processor strategy. They're going to look at multiprocessor, to have multi-threads, and so our capabilities bode well to stepping into that realm. Now Adyen enjoyed—to a certain extent—100% wallet share for some of their merchants. And I think that is going to change, but it's not necessarily a headwind as we see it. In addition to that, PayPal's pricing strategies have been front and center for the past 3 years. We see that with all of our gaming customers. And I think that's why it's important to come (to market) with multi products.

So if we look at our gaming success in North America, it's not about acquiring. It's about all of our other stuff. And that's OK. And I think that's what people are missing and saying like we've seen them do that, and you have to fit where there's opportunities.

And we do believe, though, beyond very low pricing, that there's opportunities (to differentiate) around authorizations and driving a greater conversion ratio. But we're (also) focused on payouts, open banking, account-to-account where relevant and trying to drive the product suite that we have that are relevant for our customers. And that is going to continue being a winning scenario for us. But there's so much more for us to gain in all markets, including North America.

I think the other thing is when we look at take rate, it's important to us to look at a global take rate, not just (take rate in) the United States. Braintree is obviously in the United States, and I think that strategy is going to be short-lived—just my humble opinion—but obviously others certainly can weigh in on that. But from our perspective, you look at a merchant, it may be 3 basis points in the United States, it could be 10 basis points in Mexico, and it could be 20 (basis points in another geography altogether).

I think you have to look at it holistically, both just pure-play acquiring and then all the value-added services that you're able to provide into that merchant to drive a competitive take rate that simplifies the merchant's operating platform in a multi-country, multiproduct environment.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
And I guess just to follow up on this because I also think of Nuvei as being very heavy on the alternative payment methods (APM) side, all the capabilities and modules that you guys offer. And I think as you're alluding to, a lot of the pricing compression in North America has been more on the (basic merchant) acquiring side. So I guess it doesn't sound like that specifically has had a large impact to some of the revisions that you've had recently?

Philip Fayer, Founder & Chief Executive Officer, Nuvei
No. Look, merchants are expecting three things. They want great capabilities. They want great support. And they want to pay a great price. And that never has gone away. So I think what we find interesting is that we focus mostly on mid-market and sub-enterprise, but not the mega-enterprise merchant space. And what we found is that where Stripe and Adyen are fully focused on their mega-sized customers, they're not as able to service the mid-market to sub-enterprise opportunities where we think we can do better. So I think Nuvei can tick all those boxes, and that's kind of what you're seeing. Look at the momentum of volume growth and revenue growth that is driven by all those factors: great product, great back office and competitive pricing.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
Makes a lot of sense. Lastly, just on the implementation times. I think this is probably the relevant segment for some of the comments you made there. As you've expanded geographically into newer end markets, what have been the learnings around implementation times and maybe expand a bit on what drives some of those longer implementation times in the newer footprint?

Philip Fayer, Founder & Chief Executive Officer, Nuvei
Yes. I think there's a couple of learnings that we've come back to. The first is that year-over-year is not necessarily the best metric because it's always based on when you actually sign that customer. And I kind of alluded to that when we started (today's discussion) is that if you signed them in January, there is a high probability that they go live by June. But if you sign them in March, it's not going to be by June. So it's all about the signing date versus the activation date.

And then you have summer today, which is back to being a big deal (post-pandemic). But you remember 2 years ago, summer was non-existent. You plugged in your computer and then you were working. So you end up having more delays (nowadays) than you expected. And when the merchant doesn't go live by the end of Q3, there is high probability that it will slip into the following year.

So I think those are all part of one learning event. The second thing for us is that our mix and reach has gotten so much more broad. So what we need to onboard from a regulatory perspective in Mexico is different than Canada, is different than the U.S., and is different (in other countries). So sometimes what you need from a customer because they're going live in 10 markets is deeper than what you needed in one market. For example I need one license versus I need 7. I need to look at your flow of funds, how are you repatriating your funds? These are all the things that we're learning on the implementation side.

But to counter that, we've been focused, in terms of the organization, in terms of how we manage pipeline, how we convert with the help of (our COO) Vicki Bindra and our President (Yuval Ziv). We have really good visibility now. We're hands-on with respect to driving the customers through all appropriate adjudication, onboarding, and integration. And with those resources, we're prioritizing them top-down. And I think we're making really good progress on accelerating the implementation times that will lead us into next year.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
Makes sense. Maybe we can talk a little bit about Paya, which comprises the bulk of the Emerging B2B, Government, and Integrated Payments channel. Could you remind us about the rationale for that acquisition earlier this year, maybe how Paya fits into the business strategically?

Philip Fayer, Founder & Chief Executive Officer, Nuvei
Yes. We think that we have great use cases. We have technology that's able to drive payments in multi end markets. We're very comfortable with what we're doing on Global Commerce, but we found a wonderful opportunity in B2B. Specifically when we looked at ERPs and how those customers may be in one country, but dealing with customers in other countries. So we found a significant opportunity there. We're executing well on that. We're very excited about the Government business, specifically as now we can sell into more municipalities and monetize the indirect channel into more parts of the world. We've gone outside the United States, and we're starting to drive more opportunities across the board.

And then comes software. If you think about ISVs, if you're an independent software provider, payments is part of your revenue profile. No matter which way you come back to it, payments is a must do. And most of them are limited in terms of their options. So they can either go to a Worldpay or other where you get a solution that's nice and for one country, but how are you going to get multi-country multi-capabilities, both from a card present and card not present perspective.

And that is playing out to be quite true, where they want one partner to provide unified pricing, unified experience into multi jurisdiction. This is what we're executing on. It’s been live only for one quarter, so we're still early. But on the ISV side, we signed 2 multibillion dollar opportunities amongst many others.

We've had more ISV onboardings this past quarter (in Q2) than we've had all year (2022). So it's just starting. And we think that's very attractive to us. In particular, (two recent wins with) over $1 billion of gross processing volume. One has 22,000 locations that we're working through right now in the education space. So it's something that's a lot of fun. It's starting. It's incredibly well positioned for our technology stack.

And I think the biggest thing that I would come back to when you think about Paya is that with our financial profile, we're de-levering very quickly. If you look at last quarter, it was 0.2 of a turn. We'll be most probably 2x or less within 12 months of the Paya acquisition. And it just shows how scalable the platform is both organically and inorganically as we add more use cases around it.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
Makes sense. You mentioned earlier one of the goals with Paya is to accelerate that rate of growth to, I think you said 20%. You've also laid out a target of $50 million to $100 million of incremental revenue synergies by 2027. And I think a big part of that is the international footprint that you can bring to their ISVs. Could you talk about that opportunity and how you think about attaining that source of growth?

Philip Fayer, Founder & Chief Executive Officer, Nuvei
Yes. The opportunity on that revenue is not just ISVs. I would say B2B is also a big factor into that. If you break down (the revenue synergy opportunities into 3 buckets), there's do nothing, do a little, and do a lot. We worked with Bain on this one. So if you think about B2B side, we've gone from 2 ERPs now to 5. And so we now have end market access to 3 million merchants, versus a fraction of that before. We are now adding more payment options into the scope of B2B capabilities, which creates uniqueness in our offering versus some of the incumbents that have a more limited product set. And then we're offering our ability, which we view on factoring and payout capabilities and other, all through our enhanced and enriched ERP connection. So we really like what's going on in B2B. Some of the partners are net new and some of them are just monetizing what we have. We are in the midst now of bringing 1 of 5 large partners to Canada with 5 other markets lined up behind that. So really ticking the box there (in B2B).

And the same is true on the ISV (Integrated Payments) side. ISV is a little bit newer, but something that we think can have that 20% growth absolutely. We think B2B is something that is very exciting for us. And then Government is kind of that steady eddy great performing business. If you looked at Q1 it was about 15% (growth) for that vertical. We did not talk about (growth for Government) specifically for Q2, but it's in that range as well.

So these are really well-producing opportunities around our technology stack. I think Paya executed really well with the (limited) resources they had. As an example, they had a sales team of just 1 in one of those verticals. That just doesn't work. So we're bringing our playbook in terms of SDR management, solutions engineering, how we manage the performance of the sales or all the things that are kind of blocking and tackling on the commercial side, and we're starting to see early results on that.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
Makes sense. I wanted to touch on the B2B exposure there. I think a lot of investors' minds go to Bill.com, AvidExchange, Coupa. It would be really helpful to hear how you would characterize your B2B assets relative to some of the better known players in the industry.

Philip Fayer, Founder & Chief Executive Officer, Nuvei
Yes. B2B is vast. It means lots of different things to a lot of folks. Where we sit specifically is that we have a middleware that sits between the payment engine and the ERP. We enrich the time (a transaction goes) from order to cash. We extract the data from the ERP. We drive the invoicing for the end market, and then we post it back up. We're sitting predominantly on the AR (accounts receivable) side. We do believe there are tentacles for (extending into) AP (accounts payable). But before we go further, we want to monetize AR across all the ERP platforms that we're executing on right now. So we're focused on the AR side.

In addition to that, we think there is factoring on the AR side that's quite significant. You're talking about $15 billion to $20 billion of (incremental) B2B volume opportunity, which we think is quite exciting and that's going to help us enter into new spheres and new wallet share opportunities within our B2B partners.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
Makes a lot of sense. And just I want to hit briefly on the SMB (Legacy) part of the business. It's a lower growth profile. I think similar to what we've seen from other players with that exposure, it's been relatively flat to down more recently. What's the outlook longer term for that business? And then I would just tack on that portfolio management has been a hallmark of payments companies in the past. So how do you think about the value of this part of the business strategically? And are there opportunities to redeploy some of that capital into other growthier areas of the business?

Philip Fayer, Founder & Chief Executive Officer, Nuvei
We have already done most of the redeployment of capital (away from Legacy). We're not actively soliciting, or going off and trying to win new sales reps or a small business distribution channel. We've been maintaining it. From our standpoint, it's using a lot of the same infrastructure, specifically as we start getting to self-processing, there's going to be opportunities there to drive greater value. So there is no value in terms of spinning it off and selling or divesting it. I think that's where you're alluding to.

We are turning our attention to portfolio management because we think that is going to be important. And we think that's a nice offset with respect to the growth of the other (two) channels. So as we continue looking at 20% to 30% (growth range) in our Core; 15% to 25% (growth) in our Emerging; and where it sits now around minus 5% in (Legacy) SMB, it's going to become a smaller and smaller part of the business and a lower end drag.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
Got it. On the product front, you've had a handful of initiatives over the past couple of years, card issuing, fraud prevention, platform offerings, more APMs. What are some of the product initiatives right now that you're most excited about? What's your favorite child?

Philip Fayer, Founder & Chief Executive Officer, Nuvei
It depends on the day. The reality is we try to be really specific with products, and we look at what we need to win new customers and what we need to execute on with the existing customers, and that ends up building the priority list for us. We're really excited about our unified commerce offering in omnichannel. We have 3 markets that are coming out (shortly). You think about this as an example, online gaming represents 20% of U.K. volume, where the other 80% is from (things like) the Ladbrokes stores that sit (in physical locations) across the board. And the same is true for other end markets. So we're going to be able to expand our positioning in RFPs significantly with that (unified commerce offering). It's table stakes for us to provide that unified experience.
We're also quite excited about issuing. We're quite excited about factoring. But in addition to that, this year, we've quietly built out what we think is an authorization powerhouse to drive greater authorization conversion ratios, as this has become table stakes for our customers. And we're always going to be flexible in terms of redeploying resources that are most meaningful from a product and execution perspective for our customers.

The thing that I can leave you with here is that everything is proprietary. If we find a really good opportunity, we'll execute on that to create value for our customers because we're a service organization. Our success (derives from) the success of our customers selling more, converting more, and growing more.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
Makes sense. I wanted to turn to capital allocation. You completed the Paya acquisition earlier this year. You've historically been very acquisitive. What's the appetite for M&A in the current environment? And then how do you weigh those opportunities versus other avenues for excess cash? I know you recently announced the dividend.

Philip Fayer, Founder & Chief Executive Officer, Nuvei
From our perspective, the great news is that we have the most amount of flexibility, but the base case (for our use of excess cash) is we're paying down debt. That's just the base case for us. We were focused on that last quarter. We did $55 million of debt repayment, out of which $45 million was voluntary. That was 0.2 turns. And that is the cadence that we should expect for the foreseeable future. That being said, we are entrepreneurial and certainly there are M&A opportunities that present themselves. The load of (sales memorandums) being circulated this year has been elevated, but it's a high bar (they'd have to clear for us to be interested).

It's got to be something that adds value to our customers, something that we think can continue to help us from a growth perspective, or from a geographic perspective, and we haven't seen that many of that (caliber). So base case (for excess cash) is debt repayment. If it's something that's very compelling, we can certainly explore it. But I think the base case is just where we're going to have discipline in paying back debt.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
Got it. Makes sense. Lastly, we got a couple of minutes left. I wanted to finish up with a more philosophical question. I understand it's been a wild ride for you in the public markets, a lot of ups and downs in the 3 years since the IPO. You're the founder of this business. How has this experience been for you overall? And I don't want to ask about valuation. I'm sure I know your view on that. But what in your mind is the best path forward to getting the valuation that you feel the company deserves?

Philip Fayer, Founder & Chief Executive Officer, Nuvei
I think when you first get through the bullets that we've taken, you first take it extremely personally because I have 3 beating hearts, I have my own, I have those in my family, and then I have Nuvei. And that's the same for every founder. And it's always very personal when things happen. And it's hard to disconnect that from the performance of the business and performance of the workforce where we have just an incredible culture.

(In terms of the stock price), I think it's just the maturity level that you keep coming back to. You understand that (the market price) is just a moment in time. We're heads down executing. I think—and probably every CEO says this—but I think there's a lot of opportunity on the come for Nuvei. I think it's a show-me world right now with the backdrop, and there’s been a dislocation (with the stock). And our perspective is we're going to be heads-down show me. We think this business is potentially $1 billion of (annual) EBITDA, and a lot left to do.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
Makes sense. Got a couple of minutes left. I want to see if there's any questions in the audience here. In the last couple of minutes, is there any words you'd like to leave the audience with? And just in terms of how you look at the opportunity of the business and your view on what the story for Nuvei is going to be over the next couple of years?

Philip Fayer, Founder & Chief Executive Officer, Nuvei
I think the biggest thing for us is the message that we're just going to be heads down executing. Like the backdrop in Fintech, if you think about the pendulum swung so far one way. And now it swung so far the other way. I think it's a matter of coming back to the center of where things should be. This is unfortunately a painful period, but ultimately, great businesses not only survive but they thrive, and we think we're part of that.

So the biggest thing for us is we're heads down. We're executing. We got this incredible (financial) profile that we're investing wisely. We're very mindful on operating margin, and we're going to continue focusing on how we step that up. And it's just a different market, and we have to adjust to it. And I think the biggest adjustment, versus 2 years ago, is that we used to be on calls where people said, why don't you spend more to grow more? If you think about how that has evolved. Today, it's more like what's your operating margin? So it's a matter of just adjusting to what's important for the time, but not losing focus of where the business should be over the next 5 years.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
Makes sense. We do have one question in the back.

Unidentified Audience Member:
Phil just asking on that operating margin. Have you stopped hiring? Or what do you have control over in terms of OpEx?

Philip Fayer, Founder & Chief Executive Officer, Nuvei
Great question. So the answer is that we've always been very thoughtful on hiring. So we've never been at hiring at all costs. Just to understand internally is that you may have 100 roles open. Roles have to be justified, and it comes up to a call with me, my CFO and others to be able to sign off on them. So we create a lot of rigor and discipline around hiring. So while we're not on a perceived hiring freeze, we make sure that there's value in the hiring that we're doing.

The second thing, when you think about as we get scale, we've identified 8 figures in terms of cost-saving opportunities in the business. And it is one of our MBOs, both for our operating COO and our CFO. And that is a matter of self-licensing, self-processing and other opportunities that we've identified and we have them well scheduled now from an execution perspective over the next 4 quarters. So it's (controls over) suppliers, vendors and making sure naturally that we are thoughtful in terms of how we hire.

The thing that I will leave for you, when you think about new markets—be it a license in UAE, or license in Singapore, or license in Australia, or what we're doing in Colombia, these all require infrastructure. So you need a compliance head, you need an AML head, you need an independent director. And that is just table stakes to get the license and thereafter, you've got to grow that revenue.

In our case, we've gotten the license. So now we're at the point of scaling it. And that's why we feel confident that over time, that we'll be able to start knocking on the door at 40% (adjusted EBITDA) operating margin within a not-too-distant future, and then grow our way forward from there as we continue scaling the business.

Will Nance, Equity Research Analyst, Payments Technology & Digital Assets, Goldman Sachs
Okay. We have no other questions, we'll leave it there. But thank you so much.

Philip Fayer, Founder & Chief Executive Officer, Nuvei
Thank you everybody. Appreciate it.