

11-Nov-2020

Nuvei Corp. (NVEI.CA)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Nuvei Corporation's Third Quarter 2020 Earnings Conference Call. As a reminder, this conference call is being recorded.

Before we begin, I'd like to remind you that this call may contain forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including those set forth in our filings with the Canadian Securities Regulatory Authority. Actual results may differ materially from any forward-looking statements we make today. These forward-looking statements speak only as of today and the company does not assume any obligation or intent to update them as except required by law. In addition, today's call may include non-IFRS measures. These measures should be considered as a supplement to and not as a substitute for IFRS financial measures. Reconciliations in the nearest IFRS measure can be found in today's earnings release which is available on the company's website. Also, please note that results reported are in US dollars.

Hosting the call today are Philip Fayer, Chairman and Chief Executive Officer; and David Schwartz, Chief Financial Officer. Following their prepared remarks, we will open the line for your questions.

With that, I'd like to turn the call over to Philip Fayer, Chairman and Chief Executive Officer. Mr. Fayer, you may begin.

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

Thank you, operator, and good morning, everyone. I want to thank you all for joining our third quarter's earning call. We are very pleased with our third quarter results which include total volume processed of 11.5 billion for a growth of 62%, revenue growth of 32%, and adjusted EBITDA growth of 59%. New client wins also accelerated with many significant client onboardings across all of our key verticals. Furthermore, we completed a highly successful IPO and embarked on our journey as a publicly traded company.

I'd like to take a brief moment to thank all of our amazing employees around the world. We would not be here without you. I'm so incredibly proud to welcome all of you as shareholders with \$100,000 per employee option grant at the IPO. And finally, I'd like to thank you, all of our shareholders, for your confidence in our company and our future. We are honored you're joining us on this very exciting journey.

As today's call is our first as a public company, I thought it'd be helpful to provide an overview of Nuvei, talk about our growth strategy, and then turning it over to Dave to review our third quarter results in detail.

Nuvei is a global payment technology partner. Our purpose is to make the world a local marketplace. And we do this by providing not only amazing technologies, but intelligence our merchants need to succeed locally and globally, all through one simple and single integration. I often get asked what Nuvei means. Nuvei mean new way: a new way forward, a new way to drive payment capabilities, a new way for our merchants to connect with their customers regardless of country, currency or payment type. Through Nuvei, our merchants have the capability to accept over 450 different payment methods and nearly 150 different currencies in over 200 markets around the world. And all this made possible through a single integration.

Our technology platform was purpose-built from the ground-up to help our merchants connect with their customers to drive more sales, to simplify their back office, allowing them to focus their time and attention entirely on their business and their customers. Nuvei removes the requirements to have multiple vendors, multiple integrations, and multiple points of failure with respect to every single country in which the merchant may operate.

Take for example a merchant in the United States. They would need a one payment gateway. They would need an acquirer. They would need an ACH provider. They would look to potentially include some local alternate payment methods like a PayPal. They would need fraud solutions. They would need an early warning solution. And the list goes on. And that is just for the United States. Imagine as they operate in other countries. All of this adds tremendous inefficiencies to their operation and provides multiple points of failure.

With Nuvei, merchants only need one single integration to our platform. We collapse all those vendor relationships into that channel integration. Merchants can then use us as needed either as a payment gateway only for their local acquiring, for their local and alternate payment methods, for their currency management, for enhanced authorization approval technology, for their payout, or for a long list of value-added services including our rich fraud and compliance capabilities. And all of this helps our customers connect with their customers while simplifying their day-to-day operations.

We are a true technology partner and we remain agnostic with respect to our technology stack. This allows merchants to pick and choose the best features that are right for them in the markets where they operate and forms the basis of our land and expand strategy. Our technology is modular and comes à la carte, enabling us to land merchant relationships based on whatever their needs may be at the time and then expand our relationship over time as they grow and their requirements grow.

We operate our business on three strategic pillars: global connectivity; innovation and flexibility; and reliability and security. For global activity, we are a payment technology partner to our merchants and we make sure our

technology is connected to everywhere our merchants want to operate and that includes over 200 markets and acquirers around the world.

In parallel, we are continuously working to expand our local acquiring wherever feasible. And finally, we provide the most complete stack of alternative payment methods supporting over 450 different APMs today. We work with our merchants on their strategic roadmaps, where do they want to be in three months or in three years, and we ensure we'll have those capabilities. We're removing the payment barriers for merchants to operate worldwide on a frictionless basis.

Our second strategic pillar, innovation and flexibility, is the heart of what we do. Our amazing engineers and product leaders are dedicated to helping our merchants convert more sales, streamline powers, and ensuring that all the complexities of global commerce are simply and completely reconciled.

With our feature-rich connection options either via our flexible APIs or deeply customized cashier, our technology allows our merchants to connect simply and efficiently with our customers. In addition, our smart technology enhances authorization rates by not only relying on our own acquiring capabilities, but should we receive a decline, we immediately cascade the transaction routed through second, third, and fourth probable acquirers that's seeking approval. And after cascading, should we still receive a decline, we can help with either securing a personal approval or recommending a relevant decliner cycling medium to make sure we help our merchants complete every possible transaction.

Beyond acquiring, we help our merchants with real-time pay outs. We have commissioned payroll, insurance claims, B2B, gaming winnings, et cetera. Some of our merchants only have millions of pay-ins, but also millions of pay-outs, which could be in multiple currencies from multiple geographies and/or multiple payment types. Our reconciliation tools beautifully reconcile complex activity, simplifying global commerce.

Our third strategic pillar is reliability and security. And without that, none of the rest matters. Our scalable infrastructure delivers maximum uptime and high speed processing. Importantly, we have the ability to absorb major events like Cyber Monday or a Super Bowl Sunday, 10-time volume of events. Our infrastructure is monitored and staffed 24 hours a day, 365 days a year, to ensure our customers can connect with their customers anytime.

And in terms of merchant back office tools, our normalized functions allow merchants collect multiple vendors, streamlining tokenization, PII data storage, compliance, transaction fraud management, chargeback management, PACT management, and our AML solutions.

These strategic pillars position us well to execute on multiple growth opportunities, including growing with our existing merchants in high growth verticals, winning new merchants in existing and new geographies, accelerating the pace of our product innovation, and pursuing strategic acquisitions.

We've significant whitespace to grow with our existing merchants. They all operate in high growth and complex verticals, be it regulated online gaming, social games, online retail, marketplaces, digital goods and services, regulated financial services, and travel. Each of these verticals has longevity. Each has a sustainable industry tailwinds. And they all have the propensity to operate around the world.

So we'll grow as our customers grow, as they implement their own growth initiatives, they take on more of our existing solutions, and as we offer them new capabilities, and as we help them expand into new geographies. We win more wallet share as we become true partners to our merchants.

During the quarter, we expanded our footprint geographically, launching our local processing solutions in Russia, Brazil, Colombia, Hong Kong and Singapore. These new markets meaningfully expand our total addressable market, providing extended reach for existing merchants and enabling us to win new merchants in those markets.

On the new merchant front, there's also meaningful whitespace opportunity. We are investing in our direct sales force which will further fuel new merchant growth. Once we onboard new merchants, they grow in the same manner as our existing merchants. We had many big wins in the quarter, including Carousel, our first US gaming merchant. Other notable strategic wins include merchants across the gaming, financial services, marketplace verticals with the addition of Kwiff, Maxbet, Superbet, Wargaming, Oanda, Pepperstone, and Rinascente.

Our third growth strategy is around innovation. We strive to maintain our position as a leading provider of global payment solutions for our innovation and comprehensive technology-driven solutions to our merchants. During the quarter, we received our gaming service provider license from both Indiana, Colorado, and we are currently working on all other states that permit online sports betting and iGaming.

Additionally, we expanded our financial service vertical to include cryptocurrency exchanges and onboarded our first two exchanges in the quarter.

And lastly, we will continue to grow through acquisition. M&A is very much part of our fabric. We have a long history of completing accretive and transformational acquisitions, and we expect to continue with more of the same with our leverage as low as it is today, we're in a very strong position to evaluate future opportunities. When we think about acquisitions, we think about them in three buckets: adding new geographies; adding new capabilities; or adding scale. We have a dedicated M&A focused on opportunities all around the world and our pipeline has never been so robust. With that said, we're incredibly diligent in making sure we are able to execute.

You may have seen that earlier this month we announced the closure of our most recent acquisition, Smart2Pay. This acquisition would fall into the new capability bucket. Smart2Pay expands our geographic reach and strengthens our presence in high growth digital and gaming spaces. Smart2Pay also strengthens our product offering to global marketplaces, extend our reach into social gaming vertical, and expands our local acquiring capabilities in both Brazil and Russia. We are incredibly excited about Smart2Pay and are already well on our way in terms of integration. As you can see, through growth in existing merchants new customers, product innovation, and strategic M&A, we have ample avenue to sustain our robust growth well into the future.

With that, I'll turn it over to Dave to review our third quarter results.

David Schwartz

Chief Financial Officer & Corporate Secretary, Nuvei Corp.

Thanks, Phil. Before I get into our third quarter results, I'd like to provide a brief overview of our business model. Our revenue is primarily sales volume and transaction-based, generated from merchants daily sales and through fees for value added services. We also generate subscription revenue from our business intelligence tools, merchant dashboards, and other technology solutions, for which we typically charge flat subscription fees on a monthly basis. Our revenue is largely recurring due to the mission-critical nature of our product and service offerings, and the deep integration of our payments technology into our merchants' ERPs.

We generate revenue in three ways. The first is through our gateway technology, where merchants [indiscernible] (00:12:51) per transaction fee for gateway services. Our second source of revenue is acquiring; we charge fees

for payment processing services. [indiscernible] (00:13:00) is the core of our business whereby merchants are priced using a percentage of volume, a per transaction fee, as well as other static fees.

Finally, we generate revenue from our value-added services such as analytics and insights monitoring. For value-added services, pricing really depends on the service. It could be percentage-based, fixed periodic, or fixed transaction-based. We believe total volume is a good indicator of the performance of our business. Total volume does not represent revenue earned by us, but rather the total dollar value of transactions processed by merchants under contractual agreement with us.

Total volume encompasses both acquiring volume where we are in the flow of funds in the settlement transaction cycle, and gateway technology volume where we provide our gateway services that are not in the flow of funds. Fluctuations in total volume will generally impact the revenue, although it's not a perfect correlation due to differences in volume mix.

Now, let's turn to our financial results for the third quarter ended September 30, 2020. Total volume processed in the quarter was [indiscernible] (00:14:10) quarter of 2019. Revenue in the quarter was \$93.6 million, an increase of 32% from the prior-year third quarter. Gross profit in the quarter was \$76.6 million, which represents an increase of 31% from the prior year.

Selling, general and administrative expenses decreased by \$1.3 million in the quarter to \$61.4 million or by 2% year-over-year. This decrease was driven primarily by lower acquisition and other transaction-related costs in the third quarter of 2019, including costs related to the SafeCharge acquisition. These decreases were partially offset by increases in share-based compensation, employee compensation, and depreciation and amortization.

Net loss in the quarter was \$77.9 million as compared to a net loss of \$65.7 million in the third quarter of 2019. Net loss in the third quarter included an \$83.4 million non-cash finance costs relating to the IPO and its associated valuation. These costs consisted of \$24.5 million of unamortized transaction costs recognizes interest on loans and borrowings to finance costs. This resulted from the partial repayment on the first lien term loan and full repayment on the second lien term loan, yes, from the proceeds of the IPO. As well, it was a \$58.9 million change in redemption value related to certain common and preferred shares.

Adjusted EBITDA in the quarter was \$41 million, an increase of 59% versus the year-ago period. Adjusted EBITDA margin in the quarter was 43.8% as compared to 33.8% in the prior period. As you know, during the quarter, we completed our IPO with the company receiving gross proceeds of \$758 million. We use the proceeds for the partial repayment of the first lien term loan as well as the full repayment on the second lien term loan. We ended the quarter with \$99.4 million in cash and total loans and borrowings of \$108.4 million, including \$9 million of lease liabilities.

As Phil mentioned, we recently closed on our acquisition of Smart2Pay. In connection with this acquisition, we modified our credit facility, increasing our term loan by \$10 million, and increasing our revolving facility from \$50 million to \$100 million. A low level of leverage and increased revolving facility provides us with flexibility and opportunity to further our growth through both internal investments and strategic acquisitions.

In summary, we are very pleased with our third quarter results and continue to experience positive trends in the current quarter. Total volume in the fourth quarter of 2020 to-date [indiscernible] (00:17:08) with year-over-year growth in line with what we saw in the third quarter of 2020. In addition, our fourth quarter will reflect the inclusion of Smart2Pay in our results as of the date of closing which was November 2, 2020. The fourth quarter of 2020 will

also represent our first full quarter as a publicly traded company. And as a result incremental costs pertain to being a public company will be incurred in the quarter.

Additionally, we continue to invest in our direct sales force which will result in incremental expenses in the quarter, but will ultimately fuel our growth going forward.

To conclude, we're very excited about the opportunity ahead of us as we continue to make our world a local marketplace. We look forward to updating you on our progress in future calls.

With that, we're happy to answer any questions you may have. I'll now pass it back to the operator. Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first question has come from the line of George Mihalos with Cowan. Please proceed with your questions.

George Mihalos

Analyst, Cowen & Co. LLC

Q

Hey, thank you. Good morning, guys, and congrats on the IPO, and obviously the very strong results coming up. Nice to see. I guess, just the first question, can you help us, just on a pro forma basis for third quarter, what exactly did volume grow on a pro forma basis? And then in the commentary about the fourth quarter, it seems to suggest that that momentum will continue third quarter to fourth quarter, I'm assuming just to be clear that growth in volume is on a pro forma basis that you guys are talking about, right?

David Schwartz

Chief Financial Officer & Corporate Secretary, Nuvei Corp.

A

Hey, George. Thank you. It's David. Yeah, so that's a good question. That's a good point to make. So on a pro forma basis, volume growth in the third quarter was about 36% versus the 62% reported, and that's really just because the third quarter last year wasn't a full quarter of SafeCharge, as you know. So on a pro forma basis, 36% which is consistent if you kind of look at what we do out in the perspectives in terms of month-over-month volume growth for some of the months we had in there. You see that's in line. So that's what we're seeing in the fourth quarter, continuing to see that level of growth from a volume perspective. And so, that's how you should think about it.

George Mihalos

Analyst, Cowen & Co. LLC

Q

Okay. That's helpful. And just a quick follow-up. The investments you are making in the business and in the sales force, should we assume that EBITDA margin may be over the near term comes down a little bit from what we saw in the third quarter as you continue to kind of scale up and try to capitalize on this opportunity you guys have on the revenue front?

David Schwartz

Chief Financial Officer & Corporate Secretary, Nuvei Corp.

A

Yeah. So if you look at our last few quarters and specifically the adjusted EBITDA margins, you'll see that like we had in the third quarter, in the prior few quarters, EBIT – adjusted EBITDA margin in the low to mid-40% range.

And so, when you think about kind of the new cost to come in, so for sure the direct sales force is one and same with the public company costs. So, I think that's fair to assume in the same kind of range thinking about the incremental cost in the fourth quarter versus the third. So I think that's right. Consistently we've in the past that low to mid-40% range for the near term.

George Mihalos

Analyst, Cowen & Co. LLC

Q

Okay. Thanks. Thanks for the color and congrats again.

David Schwartz

Chief Financial Officer & Corporate Secretary, Nuvei Corp.

A

Thanks, George.

Operator: Thank you. Our next question comes from the line of Sanjay Sakhrani of KBW. Please proceed with your question.

Sanjay Sakhrani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks. Good morning, and my congratulations as well. First question is on the acceleration in wins and implications to 2021. Maybe Phil, can you give us a sense of the materiality of these wins to 2021 and are these are land and then the expansion will happen thereafter or some of them significant at the outset?

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

A

A little bit of both. I think most of our integrations are typically long and complex and it depends on how many countries they come back and how many countries they want to launch with. So from our perspective we typically see about 20% of the opportunity in the first year growing into the second and third year, very much kind of the land and expand. So it goes in already in our 2021 and I don't think it'll be a material change to what was provided for 2021.

Sanjay Sakhrani

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay, great. And then, just to follow up on George's questions related to some of the guidance points. David, can you maybe just talk about the mix of the volumes that you're seeing? Because the take rates were just a tad bit lower than what we thought they would be. But should we assume similar take rates? And then, just specifically on the expenses, can you maybe just give us some sense of sort of what the total expenses might look like relative to third quarter given these investments? Thanks.

David Schwartz

Chief Financial Officer & Corporate Secretary, Nuvei Corp.

A

Yeah, sure. Thanks, Sanjay. So look, we're really focused on driving volume and revenue and EBITDA, that's – take rate is an output but really the focus on – are on the inputs which is volume revenue and EBITDA. Every day we're out there trying to win new merchants and we mentioned a few of them in this quarter and we really want to win every opportunity and we've been successful in that regard.

And then, at the same time, we're trying to really increase wallet share with our existing merchants, both through offering new solutions but also kind of winning from existing solutions that they may be using. So, ultimately, that formula of focusing on volume and revenue that drives EBITDA and EBITDA margin. We're really focused on those incremental dollars, volume and revenue, that kind of side, a very positive and incremental rate down to our EBITDA margin. So that's kind of the way to think about it.

I think what you saw in the third quarter is, you should expect similar, I guess, in the fourth in that regard. And then, on the expense side, look, it's – the direct sales force is something that continues to ramp. We've added resources along the way. Public company costs, they're meaningful when you think of it. But I guess what I'd point back just kind of on George's question, just EBITDA range in the low- to mid-40%, I guess, is the way to think about it. So hopefully that gives you a sense of what those – magnitude of those expenses could be in the fourth quarter on a full quarter basis.

Sanjay Sakhrani

Analyst, Keefe, Bruyette & Woods, Inc.



Great. Thank you.

Operator: Thank you. Our next question's come from the line of Bob Napoli with William Blair. Please proceed with your question.

Robert Napoli

Analyst, William Blair & Co. LLC



Hi. Good morning. Thank you and add my congratulations on a great IPO. First question, I guess, just on gaming, the US gaming business. You got added your first clients in US gaming, you got approval in a couple markets. What is the game plan and what do you think, Phil, that that business could be over the next five years? How long does it take? How difficult is it to get a material position as you're a new entrant essentially in that market?

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.



Great question. Thanks, Bob. So we have been very, very adamant of crawling, walking and running for US gaming. We do believe that what the dawn of a new era for the iGaming and sports betting as a whole industry, as a whole with multiple states coming online. And when you end up looking at the difference between sports betting and iGaming, there is a path for north of 75% of the states to be online within the next few years, and iGaming to be in the 25% to 30%. So a very significant market that comes up.

In terms of TAMs, from our estimates, it's going to be between \$15 billion and \$20 billion TAM opportunity for Nuvei. And in terms of how difficult it is, it is quite difficult just because it's not pure acquiring, meaning merchants require technology, they require a cashier, they require integrations into a myriad of market-specific vendors that are not necessarily the same that you have in other regions.

And we had spent an enormous amount of time integrating cashier into all the vendors, providing all the reconciliation tools that they need both for the pay-ins and pay-outs. And we launched with Carousel in Colorado, and quite interesting launch for us. It is our first what we think of many, and it's something that we're putting a lot of focus on.

So, overall, I would tell you that, it's not pure acquiring, Bob. And just to remember, they need many forms of alternative that are not necessarily part and parcel of just the general gaming market and the other markets, again

like a Sitaline or PayWithMyBank or Mazzuma or Global VIPs, all within that single integration. And then, merchants are seeking multi acquirer solutions and seeking payout solution.

So our solution is in our stack and our capability is very, very uniquely fitted for the market. And more importantly to highlight is, many of the clients that are operating or looking to operate in the United States are already our clients in other parts of the world. So we think we're uniquely positioned. We're certainly still walking. I'd say, we're about walking today. And as we see more progress, we're going to start running for US gaining.

Robert Napoli

Analyst, William Blair & Co. LLC

Q

Thank you. And then, I mean, you added a number of new countries with local acquiring, what are the strategies as you enter those markets and building a business from de novo, if you would, and what is the marketing strategy or partnership strategy, and how do you think about strategically the opportunities in those markets and how that fits into a Nuvei's?

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

A

Yeah, great question. So, I think the first element for everyone to appreciate is, we don't enter a new market de novo, really. We enter a new market in consultancy with our merchants and they tell us where they want to be in three, six, nine months, as I mentioned earlier. And we use that as our local requiring expansion strategy.

And so, we start with connectivity to make sure that if the merchant says I want to operate, for example, in Colombia, and I'll use that one as our first example. We will then start working with a merchant to launch in Colombia and we will dissect the market of what's required. So it's not just acquiring, it's all the alternate payment methods, all the elements for pay-outs, how do we normalize our solutions stack for that market for that particular client as well as how relevant is that solution going to be to our other clients.

So for Colombia, we launched with Wplay, which, front inception to today is growing quite meaningfully. They are our launch customer in Colombia. And what we found in Colombia naturally is, obviously, life on APMs acquiring right after that, and then just the relevancy of having a single solution for that merchant as they operate in other areas.

When you end up coming back something very important to remember for us, Bob, is a merchant maybe born with us in the United States, but they may use us in other markets. So it's not just a de novo infrastructure that we set up in Russia. It could be an immersion from Seattle that says I'd like to expand my services into Russia, how do we go about doing that. So that is the biggest driver for us. And we always use our current clients. We always make sure that there's a business case. But ultimately, for us, it's about connecting our merchants with their customers and making that a seamless as possible, and it is our objective to, every year, add more and more local market capabilities.

Robert Napoli

Analyst, William Blair & Co. LLC

Q

Great. Thank you. Appreciate it.

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

A

Welcome.

Operator: Thank you. Our next question has come from the line of John Davis with Raymond James. Please proceed with your questions.

John Davis

Analyst, Raymond James & Associates, Inc.

Q

Hey, good morning, guys. And I'll add my congratulations on the IPO. So maybe both Dave and Phil, just talk about the pro forma volume growth of 36% in the quarter continuing at that pace in the 4Q, and that's well above kind of the longer-term range you talked about through the IPO roadshow. So just wondering about sustainability into 2021 and what's driving that kind of above normal growth rate in 3Q?

David Schwartz

Chief Financial Officer & Corporate Secretary, Nuvei Corp.

A

Sure. Sure.

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

A

I'll take the first part. Dave, you want me take the first part and you do the second part?

David Schwartz

Chief Financial Officer & Corporate Secretary, Nuvei Corp.

A

Right.

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

A

So I think what we're seeing today is, one, an acceleration from a wallet from our merchants which we're very pleased with; coupled with acceleration in net new client boards. So when we look at this year versus last year, we're seeing greater performance from net new which is obviously part and parcel of our expanded focus on distribution. So I think that's the first part.

We looked at the pace on a month-over-month. We're continuously seeing the same results from Q3 as we're seeing in October. And from a sustainability perspective, it's all about innovation and product and geographic expansion. We feel that based on the feedback from our current clients, based on new markets that they intend on expanding into, we feel very confident about the sustainability in 2021.

Turning it to you, Dave.

David Schwartz

Chief Financial Officer & Corporate Secretary, Nuvei Corp.

A

[Technical Difficulty] (00:31:21-00:31:36) as an example, our cashier in the US launching that. So there's other – there's a lot of levers we can pull and that's what we're seeing in the results in the current period.

John Davis

Analyst, Raymond James & Associates, Inc.

Q

Okay. Thanks. And then I want to follow up on Bob's question on US gaming. Just the competitive environment, obviously, it's very complex which usually means by bearish entry a little bit higher. So who else is doing this in the US, who are you competing with, and what do you think is this ultimately you probably have a handful of players, not the many that we have kind of in regular brick and mortar and e-commerce acquiring? But just kind of just curious on what that competitive landscape looks like today how you see that transforming over the next couple of years?

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

A

I think what's interesting – great question – what I think was interesting is acquirers are coming in with just acquiring only product kind of the white vanilla, hey, I can acquire for you. And from our sense, merchants need regulatory, merchants need more capabilities and just the generic acquiring. So I think we're very uniquely positioned who we run in mostly in what we're seen mostly so far in the US is Vantiv and Worldpay have a pretty dominant footprint. I think they were the first launch.

It seems like First Data has a gaming group for acquiring only. But from a product mix perspective, yes they have debit routing for reduced costs but they don't offer cashier, they don't have the same integration point, they don't have all the back office tools, they don't have a clean integration for pay-out. So I think from a from a product perspective, we're very, very competitive. But who we see mostly are predominantly First Data and with their partnership with Meadowbank and Worldpay.

John Davis

Analyst, Raymond James & Associates, Inc.

Q

Okay. All right. Thanks, guys.

Operator: Thank you. Our next question's come from the line of [ph] Tim Chiodo (00:33:26) of Credit Suisse. Please proceed with your questions.

Q

Thanks a lot. Thanks for taking the question. You touched on this just a little bit ago in terms of the growth algorithm. Phil, a little bit you mentioned the existing merchant versus the new merchant. Maybe you could expand upon that a little bit in terms of – this is a topic that comes up often with investors around that algorithm going forward in terms of the mix of growth that will come from existing; and then within that, there's sort of a same-store sales, there's a wallet share and then some underlying churn and then also the numerous.

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

A

Yeah, I think to sum up – great question, [ph] Tim (00:34:00). Thank you. Historically, we're in kind of the mid-70s of same-store wallet share expansion and with the balance in terms of being net new, with the acceleration net new we're in about today about 65% roughly from the same-store. So you see a pretty meaningful pickup in net new and we think that's going to continue accelerating as we expand our footprint.

Q

Okay very nice. So shifting more to 65% to 35%, if I heard that correctly from what used to be sort of 75%-25%?

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

Roughly, yes.

A

Q

Okay great. And safe to assume that it's sort of on the larger merchant size given the investment behind the direct sales force?

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

Correct.

A

Q

Okay. Thank you so much for taking the questions.

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

Thanks, [ph] Tim (00:34:50).

A

Operator: Thank you. Our next question has come from the line of Ashwin Shirvaikar of Citi. Please proceed with your question.

Ashwin Vassant Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Thank you and congratulations from me as well also on a pretty solid first set of results here. I want to follow up on the revenue yield answer. So mix, I understand, but I wanted to get into it a little bit, try to figure out, when you say mix, did you mean card present versus card not present, did you mean by vertical, by geography, what's the detail behind saying that yielded changes due to mix, and then are there – which are the more important factors to consider going forward?

Q

David Schwartz

Chief Financial Officer & Corporate Secretary, Nuvei Corp.

Yeah. Hey. It's David. So, good question, Ashwin. Thank you. What I would say is, consistently is that what we focus on internally is not so much the take rate, but really how we drive volume and how we drive revenue. And you know that we're focused on e-commerce, so that's really where the focus is. And at the same time, you can see from some of these merchant wins, there are some larger merchants that we want and will continue to win. So that's a mixed dynamic, I think those are the things to think about, it's really – it's e-commerce and it's those merchants that are in for the overall portfolio.

A

And the focus for us is really that's on the new merchant side. And the focus there is just you know that there's a lot of opportunity from a product perspective and from a whitespace perspective geographically we see a lot of opportunity to win more and so we're doing that. So that's one component.

And then the other component is really just that bringing on more volume from existing merchants. And whatever that solution said is a need we're going to give it to them. And so, really the focus for us is take rates and hopefully it's not something we talked about in our day to day lexicon, our account management team is really focused on [Technical Difficulty] (00:37:05-00:37:10) managing what we have with our existing merchants. And that's really how they look at it as well.

So like I said, it's – the take rate is about that, our focus is how do we drive that volume, how we drive that revenue quite nicely down to EBITDA and help our EBITDA margins and expand EBITDA. So that's definitely how we think about it and how I'd recommend you to think about as well.

Ashwin Vassant Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Q

Okay. No, understood, understood on that. And then, I know you guys are less than 30% card present. But could you provide some sort of breakout on where that card present comes from? We do get open questions with regards to the impact of new lockdowns in Europe and increased controls here in North America as well. So just want to be careful about that.

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

A

Sure, happy to take that. So maybe you want to go, or I'm happy to take it?

David Schwartz

Chief Financial Officer & Corporate Secretary, Nuvei Corp.

A

Go ahead. Go ahead, Phil.

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

A

So I think what's interesting is, the percentage of e-commerce volume in the quarter has accelerated for us about 75%. And then when you break down and look at card present, the majority is US, I would say, just off the top of our head because I don't have the breakdown, but off the top of our heads it's about 70% US-30% Canada.

Ashwin Vassant Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Q

Okay. So Europe really is e-commerce and should in fact benefit?

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

A

Correct/

Ashwin Vassant Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you. Thank you for that.

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

A

And just Ashwin, I'd like – when we talk about potential lockdowns, yes, it should benefit certain verticals, maybe not, right. I mean, there's a potential for sports betting, those sports initiatives to be cancelled or deferred again. So it's still a TBD if you think about, what are the long-term impacts or even short term impacts of COVID.

Ashwin Vassant Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Q

Yeah. Yeah. Understood, understood. Thank you.

Operator: Thank you. Our next question's come from the line of Paul Treiber with RBC Capital Markets. Please proceed with your question.

Paul Treiber

Analyst, RBC Capital Markets

Q

Thanks very much and good morning. I was just hoping that you could break down at a high level the e-commerce growth by vertical And is it still skewed to some of the faster vertical – the faster growing verticals – and do you see that being sustained into October?

David Schwartz

Chief Financial Officer & Corporate Secretary, Nuvei Corp.

A

So in terms of overall growth, I mean, if you look at our growth – our overall kind of sequential quarter-over-quarter growth, we had 29% from Q2 to Q3. So that kind of gives you the overall portfolio. Of course, e-commerce, both card present and e-commerce performed well in the quarter. And that's somewhat as – on the card present side is some recovery that we've seen in North America.

In terms of the verticals, for the most part – and this is consistent with the past is that – there is no one vertical that represents more than, let's say, mid-to-high teens and, of course, there is online gaming and financial services of the two larger ones. And – like Phil just said, on the online any side, specifically, the sports betting, we've got to be cautious on how things play out in Europe [Technical Difficulty] (00:40:25-00:40:46).

Paul Treiber

Analyst, RBC Capital Markets

Q

And my second question – and this is a high level one. But, obviously, the payments industry has seen positive impacts due to the pandemic. With the potential for a vaccine and the return of normalcy, how do you see the payments industry going forward? I mean, what do you see as a structural beneficiary or what areas have been structurally benefiting from the pandemic, like a shift to electronic payments, do you see that as a permanent shift? Are there other areas you could think may go back to the old ways or is the old ways in the past giving most merchants have taken that view?

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

A

It's a great question, Paul. I think more importantly as it's relevant to us is, our verticals haven't really seen the COVID bump, right. We don't service grocery stores and we're – that's probably more relevant to our peers. But we think in the verticals that we operate in, we didn't see a natural benefit of COVID. And, certainly, they had their own tailwinds pre-COVID. But it's not as relevant to us as it would be from our other e-commerce-focused peers.

Paul Treiber

Analyst, RBC Capital Markets

Q

Okay. Thank you for taking my questions.

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

A

Thanks, Paul.

Operator: [Operator Instructions] Our next question's come from a line of Todd Coupland of CIBC. Please proceed with your question.

Todd Coupland

Analyst, CIBC World Markets, Inc.

Q

Yeah. Good morning, everyone. I wanted to just make sure that the messaging right on the take rate and the volume going into the fourth quarter. So, I guess, a point on mix shifting and take rate comes in lower in the third quarter, that's the output. And the messaging is, that's appropriate to think about at that level for the fourth quarter and maybe beyond, I don't, if you want to comment on that. And then the volume is coming in stronger than you expected. So, those would be, I guess, the two significant offsets in terms of the top line in the quarter. Could you just clarify that, please?

David Schwartz

Chief Financial Officer & Corporate Secretary, Nuvei Corp.

A

Yeah. That's – hey, Todd, that's right. That's the right way to think about it for the most part. So volume, think about it as the pro forma [Technical Difficulty] (00:43:10). So that kind of gives you a sense where volumes currently that we're seeing in Q4. And then, on take rate, like, we said, it is the [Technical Difficulty] (00:43:25) historically it's been in the 80-basis-point to 90-basis-point range. The third quarter is in the low end of that range. So that's – it's probably the right way to think about it at least for the near term. But there could be opportunities to expand as we offer different solutions that we have higher rates. But, look, ultimately we're driving volume and revenue. So, I guess, I'll read – restate that message. That's the way we think about it. That's the way our teams think about it. We don't really focus on the take rate.

Todd Coupland

Analyst, CIBC World Markets, Inc.

Q

Got it. And then my follow-up is, over time, how material can the move into crypto B on the business? It's certainly impacted some other companies in the material way. Is this just a toe in the water at the moment or could this be material over the next year or so? Any perspective on that would be helpful. Thanks a lot.

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

A

Yeah. Great question. So I think it's a natural extension to our financial service vertical. We think it's actually a very compelling vertical. But we're not just looking at it as supporting it for acquiring. We are also looking at supporting different exchanges directly as alternative payment methods and it is a focus for us in 2021. So it is something that's very relevant. It is something that we're spending quite a bit of time on looking for licensing in the different regions that we operate in. But it will be very relevant for us come next year.

Todd Coupland

Analyst, CIBC World Markets, Inc.

Thanks, Phil.

Q

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

Thanks, Todd.

A

Operator: Thank you. Our next question's come from the line of Matthew O'Neill with Goldman Sachs. Please proceed with your questions.

Matt O'Neill

Analyst, Goldman Sachs

Yeah. Hi, Phil and David. Thanks so much for taking my questions and I'd share congrats on the recent IPO and all the positive momentum. I was just hoping to touch base on two things quickly. One, in addition to everything else going on, just close the Smart2Pay acquisition, just want to think through that integration, what to expect with respect around both cost synergies and revenue synergies, particularly the extent to which some of the gateway volume represents an opportunity for more full stack end-to-end conversion over time.

Q

And then, I'll just ask my follow-up in there. I was hoping to just get a little bit more details around the continued investments in the sales force, just thinking about is that more new geography-based or sort of product vertical base or maybe more broadly. Thanks.

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

Sure. I'll take the first question, Dave. Actually I'll take both, and if you want to add something about this, please do. By the way, Dave, I'm hearing you coming in and out. I'm not sure if it's my phone. Just letting you know the reception on your end doesn't sound great.

A

For Smart2Pay, a great business, about 60 folks operate in verticals that are we think extremely complementary, strengthens our positions in social games and marketplaces. They also have some technical enhancements for us that we think are quite meaningful to our own customer base. So we haven't disclosed cost synergies or revenue synergies, and we won't highlight them, but we do think that they're quite significant.

And naturally from Smart2Pay as they are APM provider only, there is – and you guys call that – it's not necessarily just gateway in that, it's just APM, right. So they are in the flow of funds, but they're only participating in a small part of the overall wallet. So I think it's very much in line with our overall strategy of winning new clients and expanding our wallet share with capabilities. And we think our capabilities combined are very, very much aligned, and it's something that will provide an interesting platform for continued growth.

From an integration standpoint itself, we have our methodology, quite proven of how we enter the business. We're very fortunate that we're able to start early just because of European regulatory approval, which means that we've been quite busy. In terms of the structure of parties and we're going to be coupling solutions engineers and creating local market support services to make sure that it's extremely successful. And it's all going to be investment indirect. So in the verticals that we focus on, in the market that we focus on, and making sure that we

bring the expertise locally into the market, into the regular time zone, and they're interacting directly with the merchants.

Matt O'Neill

Analyst, Goldman Sachs

Q

Understood. Thanks so much, Phil.

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

A

Thanks.

Operator: Our next question's come from the line of Bob Napoli with William Blair. Please proceed with your question.

Robert Napoli

Analyst, William Blair & Co. LLC

Q

Thank you for taking the follow-up. Just, Phil, you talked pretty positively about the M&A pipeline and you did go through the strategies that you're looking for. But I was just wondering if you can give a little more color on the pipeline and what is strategically in the higher end of your list for M&A additions?

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

A

Great question, Bob. I think I would rather just keep it a little bit to higher level. But we have everything from transformational to really interesting capabilities in the pipeline. So we're having very, very interesting conversations. And these really go through the three buckets that we look for.

So we have some very compelling geography expansions – and that they themselves provide a tremendous opportunity for continuously cross-selling – and helping our clients, both ours and the targets, and very, very compelling opportunities in the verticals that we operate in – and that is something that again – you know provides some meaningful revenue synergies. And we do have some on-scale, meaning they are in the markets that we operate, but they help us being scaling up our distribution, potentially adding licenses on a shorter base time because sometimes licensing in markets could take a few years. So we do have some of those, but ultimately it's a very, very deep pipeline, and we're very pleased with the engagement that we've seen from folks especially since our post-IPO as we're having some meaningful conversations with folks that would have never considered it in the past.

Robert Napoli

Analyst, William Blair & Co. LLC

Q

Thank you. Appreciate it.

Philip Fayer

Founder, Chairman & Chief Executive Officer, Nuvei Corp.

A

Thanks, Bob.

Operator: There are no further questions at this time. And with that, that does conclude today's conference call. We appreciate your participation. You may disconnect your lines at this time.

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