Nuvei Second Quarter 2023 Earnings Call Transcript

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to Nuvei Corporation's Second Quarter 2023 Earnings Call. As a reminder, this conference call is being recorded.

I'll now turn the conference call over to Chris Mammone, Head of IR. Please go ahead, Mr. Mammone.

Chris Mammone, Head of Investor Relations

Thank you, operator, and thanks to everyone for joining us this morning. With us today are Philip Fayer, Chair and CEO; and David Schwartz, CFO. As a reminder, this conference call is being recorded and webcast and is copyrighted property of Nuvei. Rebroadcast of this information in whole or in part without written consent of Nuvei is prohibited. Earlier this morning, Nuvei issued a press release announcing financial results for the period ended June 30, 2023. The release as well as an accompanying supplemental slide deck is available on the Events section of our Investor Relations website, investors.nuvei.com.

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

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

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

Philip Fayer, Founder, Chair, and Chief Executive Officer

Thank you, Chris, and thank you all for joining the call this morning. We have a lot to share with you today. As you have seen, Nuvei had a solid quarter with total volume up 68% and revenue up 45%, and Organic revenue growth, excluding digital assets and crypto currencies was 20%. This growth underscores the continued strength and momentum in the business as we advance our strategic initiatives while reaching a number of significant milestones along the way.

Furthermore, we have now both lapped and outgrown the digital assets and crypto currency headwinds in the past 12 months. With Paya largely integrated and now in the fold, my prepared remarks today include an additional one-time disclosure to expand on Nuvei's evolution, our channels and related go-to-market strategies, and current trends, which shape our outlook for the remainder of the year as well as our medium-term targets.

As I think you'll appreciate, we have fundamentally changed the business and are favorably positioned for future growth. Given our strong and consistent financial performance, cash flow generation and de-leveraging, we will discuss some important announcements made today with respect to future capital allocation.

Starting with our market position. Nuvei is a global payments platform with category-leading modular technology, growing rapidly with the addition of new end markets and use cases, geographies and capabilities. We are one of the few single global platforms today. This year alone, we have accelerated our offering in Colombia, Chile, Peru, Brazil, Singapore, Hong Kong, Australia, UAE, South Korea, France and Japan, just to name a few. We are focused on being the technology partner of choice and are scaling the business with over 16 million daily interactions supported by more than 3,000 servers, 10 global data centers and innovating with 36 releases year-to-date driving 2,500 new features, functionality or enhancements.

As you can see, we are constantly innovating. Importantly, with every passing day, we are increasing our product and technology gap versus the competition. The reality is that we have only four competitors who are able to serve their customers globally. This is not a segment where we can easily be disrupted by new entrants, nor can someone easily acquire their way to the space. Our right to win in this market is more compelling than ever.

For those that have been tracking our progress, you know that we have spent a lot of effort building a world-class go-to-market playbook and have successfully made the Nuvei brand famous for all the right reasons—integrity, transparency and capability. We are considered a prominent voice in payments today with large customers and well-known brands across a mix of discretionary and nondiscretionary as well as cyclical and non-cyclical end market use cases.

As a brief update on Paya, the overall integration and achievement of our estimated $21 million cost synergy target is on plan, and we've begun to execute on our strategy to realize up to $100 million of incremental revenue by 2027. We are at a new and exciting juncture in our company's evolution, with Paya now in the fold and having lapped the full year's impact of digital assets and crypto currencies, we want to share some incremental insights into how we've organized our commercial organization, reframed the market opportunity, explain why we're winning, and help you better understand the growth drivers and trajectory of the business.

Today, we operate the commercial organization through three different channels: (1) Our Core channel, which is Global Commerce, (2) our Emerging channel, which is comprised of B2B, Government and Integrated Payments and (3) our Legacy channel, which is our SMB portfolio. Our Core and Emerging growth channels address a large and under-penetrated global TAM, which on a combined basis equates to more than $100 trillion for which we believe we have a unique modular platform to compete and win, providing ample white space with deep pools of opportunity globally.

As I'll describe, the key tenets that have made us a category leader in our Core Global Commerce channel—great technology, capabilities, global reach and investment in our go-to-market function—are 100% applicable to our Emerging B2B, Government and Integrated Payments channel. By applying the same playbook that significantly accelerated our growth following the SafeCharge acquisition just a few years ago, we expect to accelerate the growth profile of our Emerging channel.

Now double-clicking on the results for the quarter by channel, starting with our Core channel, Global Commerce, which is our largest and fastest-growing channel. Revenue grew 16% to $172 million and 35%, excluding digital assets and crypto currencies and represented 56% of total revenue in the second quarter. We are very pleased with these results as we continue to take market share and outgrow our peers. To reiterate, we have now both lapped and outgrown the digital assets and crypto currency headwinds of the past 12 months.

With the introduction of our unified commerce offering as one of our many product enhancements, which offers card-present solutions, single token and unified reporting, we've expanded the scope of this channel beyond global eCommerce to Global Commerce, as we believe that our unified offering now opens an entirely new TAM previously unavailable to Nuvei.

In terms of new client wins, as you may have seen from the myriad of recent press releases, we had an exceptional # of wins across all regions, including the signing of one of the fastest-growing global online marketplaces with more than 800M users. This new enterprise customer partnered with Nuvei to expand globally and support its rapid growth in Europe and the U.S. and comes on the heels of our win with global marketplace leader Shein just a few months ago.

We partnered with Cart.com, an incredible opportunity to integrate payments, fulfillment, shopping carts and marketing capabilities into a single offering with Nuvei becoming its exclusive payments partner. In online car rentals, we partnered with Rent Cars, the largest online car rental platform in the Americas and a global leader in the segment for whom we will be providing our full set of capabilities across LATAM.

In mobility, we welcome inDrive, an international ride-hailing service with more than 175 million downloads operating in 47 countries and which partnered with Nuvei to improve their checkout experience and loyalty programs. Incidentally, inDrive was the second most downloaded mobility app globally in 2022. On the travel side, we won several major airlines and now servicing four of the top 20 global airlines. As part of our efforts to continue innovating and supporting new experiences within the payment ecosystem, we've partnered with a top five car manufacturer to pilot in-car payments in APAC with ample opportunity for wallet share expansion.

We also saw significant wallet share expansion opportunities with existing customers. Our engagement levels with existing customers remains strong across all regions and capabilities. We are now firmly at the table with Fortune 500, Fortune 1,000 and Internet top growth stars globally. While just a sample of what we have listed above is not live yet, they're in various stages of activation. We feel really good about the growth vectors across our four regions of operations today. When considering the mix of growth in this channel, approximately 80% of our growth comes from existing customers, where we expand our wallet share by cross-selling new capabilities or geographies, while new customers represents approximately 20% (of growth).

One thing we've learned more recently is that implementation timelines aren't equal across all end markets around the world. This is something that is relatively new for us, and something we will strive to communicate better to our shareholders. The fact is that it takes more time to activate large global customers, and our prior expectations for the timing of implementation was too aggressive. Nevertheless, we have approximately $100 million in annualized revenue in various stages, and are highly confident we will activate these customers over the next few quarters.

Turning now to our Emerging channel, which includes B2B, Government and Integrated Payments. We believe this is the next frontier to monetize Nuvei's unique capabilities with our deep ERP integrations and proprietary software, which we expect to accelerate by enabling our commercial playbook. Emerging channel revenue grew 13% on a pro forma basis to $54 million and represented 18% of total revenue in the second quarter. Starting with B2B, there's strong momentum in B2B payments given the enormous white space driven by the ongoing shift away from inefficient check-based payments towards the conversion and accelerating adoption of electronic payments, which drives greater automation and efficiencies for businesses. For perspective, it is estimated that B2B represents a $25 trillion TAM globally.

Today, our proprietary accounts receivable automation module that sits on top of the ERP and in between our payment engine is designed specifically for the nuanced and complex use cases for B2B transactions and acts as a billing engine, providing our customers enhanced tools to collect receivables more quickly, streamline back-office processes and reconcile order-to-cash data within their core ERP accounting platforms.

With deep integrations into our ERP partners, we facilitate the customer experience while helping our ERP partners create stickier offerings and increase their software win rates in the market. As you can appreciate, leveraging Nuvei's many existing competencies with our seamless global reach, our vast local payment acceptance options, our instant and automated payout capabilities and our embedded finance—with specific focus on factoring—in addition to AR automation, drive a comprehensive suite of solutions to enable our B2B customers to grow efficiently.

Historically, we have focused our commercial efforts primarily within the Sage, Acumatica and ECI ERP ecosystems. This quarter, we greatly expanded our TAM by adding two other global ERP leaders—Infor and SAP—to our list of partners, and we plan on adding Microsoft Dynamics, the largest ERP player in the world, later this year. We have now expanded our ERP engagements beyond the U.S. to all regions of the globe. Combined, we estimate these expansions will increase our ability to reach more than three million ERP customers globally. With respect to the performance in this year's second quarter, new account onboards were up 27% versus the previous year, which we believe lays the foundation to expand our growth in 2024.

In Government, we help over 2,000 agencies, public utilities and municipalities in 30 states create streamlined engagements with their citizens. Our Government offering is powered by our recently enhanced proprietary applications, UtilityConnect and Citizens Portal, which seamlessly bolt on top of the agency's ERP software and offers an instant digital experience to enhance citizen's engagement that streamlines and reports applicable usage, account invoicing, auto pay capabilities and simplified workflow, thus eliminating the cost and hassle associated with late and paper-based payments. Here, we go to market both directly to the agencies and more recently, via software-focused partnerships.

Post acquisition, we are enhancing the payment functionality to include open banking payments and payouts wherever applicable, along with expanding the footprint of our offering beyond the United States. In the quarter, new client wins included the U.S. Virgin Islands, the cities of St. Petersburg, Florida and Erie, Colorado to support the main public water utilities in those municipalities, and Llano County, Texas for processing property taxes, amongst many other wins.

Early results here too are compelling. This quarter alone saw more than 10% in annualized new business growth as we're successfully winning both new partners and municipalities. We believe Government growth can also accelerate to over 20% in the medium term.

Moving now to Integrated Payments. While it's early days, the monetization opportunities for Nuvei with software partners—based on embedding our unified commerce capabilities into the ecosystems of global software and technology partners—are very compelling. Integrated Payments is an enormous global market opportunity with a TAM of approximately $35 trillion, and like Global Commerce and B2B, we believe our capabilities are uniquely suited to help our integrated partners thrive globally.

To support the varying business models of our integrated partners, we launched this quarter our fully managed PayFac-as-a-Service offering, which includes onboarding, reporting, fraud management and configurable funding options with a comprehensive roadmap of additional functionality under development. This quarter alone, we onboarded two very large integrated software vendors (ISVs), both processing over $1 billion in annual volume and servicing over 20,000 unique locations across North America. Based on our current capabilities, coupled with our investment roadmap, we believe we have the potential to be the partner of choice for mid-market integrated partners globally. In summary, we think there's enormous opportunity here for Nuvei to accelerate the growth of our Emerging channel to 20%-plus over the medium term.

Finally, turning to our Legacy channel, which predominantly consists of our non-integrated standalone SMB portfolio, pro forma revenue declined 5% to $81 million and represented 26% of total revenue in the second quarter. Specifically, the Legacy business is more sensitive to the prevailing macro conditions that can impact same-store sales trends. As such, Q2 marked the second straight quarter where we saw a slowdown in same-store sales versus the previous year. Nuvei's Legacy channel is a mature business. And while we'll continue to provide full support and remain loyal to our customers, it is not expected to be a key focus of our growth. Bringing it all together, you now have better visibility for each of our channels, which should give you more insights into our overall growth.

To summarize, we have fundamentally changed our business, significantly increased our TAM and expanded our technology use cases. We have category-leading growth in our Core Global Commerce channel, 35% growth, excluding digital assets and crypto currencies and $100 million in pending new business. We also have a defined path to accelerate growth into the 20% range for our Emerging channel of B2B, Government and Integrated Payments.

Finally, over time, as the Legacy channel becomes a smaller portion of the overall business, the impact to our consolidated growth rate will become less meaningful. As it relates to the medium-term outlook for our consolidated growth, while we execute on our expanded distribution and end markets in pursuit of these growth initiatives, we feel that it's prudent for now to amend our medium-term revenue growth target to a range of 15% to 20%. We remain confident that we can grow consistently within this range.

Turning now to an update on technology, product innovation, there are few key highlights for the quarter. We are on track to insource North American processing, with Canada being finalized by year end and the United States by mid-2024. This is an important step as it will allow us to normalize all operational functions globally, drive greater efficiencies and standardize processes, in addition to improving our operating margin in the region. We are continuing to invest in our advanced APM offering, now supporting 634 alternative payment methods available to our customers globally. We have also launched self APM enrollment functionality in our merchant dashboard, allowing our customers to select and enable additional payment methods instantly.

We've launched our AI-driven data analytics platform, providing insights to help optimize approval rates for customers by as much as 1% to 2%. But here, we are just scratching the surface and continue to identify new opportunities in traditional AI, machine learning, and generative AI to improve the outcomes and the overall customer experience. For generative AI in particular, we're starting to use it in customer service queries to support our compliance and legal teams, as well as for customer onboarding to name just a few of the emerging use cases. But unlike others, we don't necessarily believe AI is purely a cost reduction opportunity, but rather, it will help us scale the business faster and provide greater efficiencies, thereby allowing us to expand our operating margins over time.

Additionally, we continue to advance our domestic processing capabilities for global airline customers, providing them with a more compelling acceptance offering across every major market in which they operate. Finally, we have released the first phase of our new global chargeback suite, which we expect to benefit our customers by automating significant portions of the dispute resolution process. As you can appreciate, we are not standing still. Every new capability drives greater opportunity to deeply engage with our customers as we focus on helping them grow their businesses.

Turning now to capital allocation strategy. We continue to be highly disciplined in our approach. During the second quarter, we focused on de-leveraging, repaying $55 million of our outstanding debt, bringing our leverage ratio down to 2.76 times at the end of June. This puts us in a very comfortable leverage ratio and gives us optionality. While we expect to continue prioritizing debt repayment, we will also explore opportunities to expand our use cases, end markets, capabilities and geographic reach via strategic M&A as appropriate.

In terms of our ongoing commitment to returning excess capital to shareholders, and giving careful consideration to our limited float, we are introducing a quarterly cash dividend, which for this quarter is $0.10 per share. With the dividend in place and as one of Nuvei's largest shareholders, I have elected to forgo any stock-based compensation going forward, thereby further aligning my compensation with the interest of all shareholders.

I'll now discuss recent market trends and how that informs our views for the current quarter and the rest of the year. Daily average volume through July and early August have remained solid, and we're not seeing any signs that the near-term macro environment has changed. We are, however, revising our full year outlook driven by two factors: First, the delayed timing of new business versus prior expectations and Second, our recent decision to offboard a large customer. Dave will cover the updated outlook in more detail.

Despite this near-term revision, I've never felt better about how Nuvei is positioned to accelerate its growth potential over the long term. We have a rapidly growing Core Global Commerce channel, and phenomenal potential in our Emerging B2B, Government and Integrated Payments channel. And we're executing very well against a wealth of opportunities across the entire business.

Before turning the call over to Dave, I'd like to welcome our new recently appointed board member, Coretha Rushing. Coretha joins the Nuvei Board with over 36 years of human resources experience. She is a former Chief Human Resources Officer at Equifax, and serves on the Boards of both ThredUp and 2U Inc. She also further strengthens our corporate governance by increasing the number of independent directors, and advances our Board diversity. As Chair of Nuvei, I look forward to working with and learning from her. To our Nuvei colleagues, I want to thank you for all your hard work and dedication. You guys are simply amazing.

With that, I'll now turn over the call to Dave.

David Schwartz, Chief Financial Officer

Thanks, Phil, and good morning, everyone. I'll start by reviewing our financial performance for the second quarter. I'll then discuss our outlook for the third quarter and fiscal year 2023.

Looking at our performance during the quarter, we are pleased with our execution through the first half of the year. For Q2 specifically, it is notable that we realized some very significant milestones. We achieved in excess of $50 billion in total volume, $300 million in revenue and $100 million in Adjusted EBITDA for the first time in the Company's history. These quarterly accomplishments speak to our success in scaling our platform. Yet in terms of our overall runway for growth, we are in the early innings with so much opportunity still ahead of us.

For the second quarter, total volume increased by 68% to $51 billion and was within our outlook range. Results were driven by our focused investments and execution within our Global Commerce channel and the inclusion of Paya for the full quarter. E-commerce volume represented 88% of total volume in the period.

Revenue for the quarter was $307 million, up 45% year-over-year and essentially aligned with the high end of our outlook range. Paya contributed $76 million of revenue during Q2. As a reminder, all revenue figures for Paya are expressed net of interchange to be consistent with our accounting treatment of revenue. Excluding Paya, organic revenue growth was 9% in the quarter. This reflects the impact from the decrease in revenue relating to digital assets and crypto currencies. Adjusting for this factor, organic growth at constant currency and excluding digital assets and crypto currencies was 20%.

From a regional perspective, we experienced strong growth. In North America, revenue grew by 108%. Latin America grew by 77% and Asia Pacific grew by 67%. In the Europe, Middle East, Africa region, reported revenue was essentially flat year-over-year due to the $15 million revenue decrease relating to digital assets and crypto currencies. Excluding the impact of digital assets and crypto currencies, the EMEA region growth would have been 17% in the quarter.

Consistent with our focus on driving incremental gross profit dollars through expanding wallet share with our customers, gross profit increased by $78 million to $253 million compared to last year's second quarter, representing gross margin in excess of 82%.

Selling, general and administrative expenses in the second quarter increased by $75 million or 51% year-over-year to $222 million. Of this increase, $63 million can be attributable to the contribution to SG&A from Paya across all expense items, including commissions, employee compensation and depreciation and amortization. Share-based payments increased by $3 million versus last year. The majority of this increase is due to the contribution from share-based payments related to the Paya team members who joined Nuvei.

As a percentage of revenue, share-based expense continued to decrease from 15% in Q2 last year to under 12% in the second quarter of this year. We expect share-based expense to continue declining as a percentage of revenue over time. Adjusted EBITDA for the quarter was $110 million and was above the top end of our outlook range, representing an Adjusted EBITDA margin of 36% in the quarter.

Looking at other line items on the income statement, net finance cost was $28 million compared to net finance income of $4 million in last year's second quarter. The main driver of this delta was an increase in finance costs to service our outstanding debt including the new $800 million credit facility we entered into in late February in connection with financing the Paya acquisition.

Going forward, as we use excess cash to de-lever, we expect this will have a positive impact on finance costs. Net income for the quarter was $12 million or $0.07 per share compared to net income of $35 million or $0.23 per diluted share. As I just mentioned, the $31 million increase in net finance costs was the largest contributor to the reduction in net income. Adjusted net income was $58 million or $0.39 per diluted share for the quarter.

Turning to the balance sheet. As of 6/30/23, we had cash & cash equivalents of $118M and term debt of just under $1.3B. Meanwhile, our cash generation remains strong. Free cash flow increased by 19% to $96M, representing an 87% conversion rate from Adjusted EBITDA. Cash flow from operating activities for the 3mos period was $60M vs $91M for the comparable period. As I mentioned, this year's figure was impacted by financing costs related to the Paya acquisition.

In Q2, interest paid increased by $29 million. During the second quarter, as part of our capital allocation strategy, we deployed $55 million of cash towards reducing our outstanding debt to bringing our leverage ratio down to 2.76 times. Of this $55 million, $44 million was voluntary, which shows the magnitude of our cash generation and our approach to de-levering. Our financial profile provides us with enhanced opportunities to return excess cash to shareholders in several ways, while still maintaining the flexibility to invest in our business in pursuing both organic and inorganic growth. Through the first half of the year, we chose to use excess cash to further reduce our leverage from current levels and to repurchase almost 1.4 million of our shares under our normal course issuer bid.

Today, we announced a quarterly cash dividend of $0.10 per share payable on September 5, 2023, to shareholders of record as of August 21, 2023. The aggregate amount of (this first quarterly) dividend is expected to be approximately $15 million.

I will now turn to our outlook and would refer you to our forward-looking information disclosure in our press release and MD&A. We are revising our growth expectations for the back half of the year, primarily due to two factors: The first and more significant factor relates to longer lag times than we anticipated between signing and implementing new business. As we've come to appreciate, the nature of serving larger enterprise customers is that the timeline to go live and begin generating revenue tends to be longer. The second factor stems from our recent decision to exit a relationship with a large customer.

For the third quarter, we expect total volume of between $47.5 billion and $49.5 billion, representing a year-over-year increase of 69% to 76%; revenue of between $300 million and $308 million, representing a year-over-year increase of 52% to 56%; revenue at constant currency of between $294 million and $302 million, representing a year-over-year increase of 49% to 53%; and Adjusted EBITDA of between $105 million and $110 million, representing an Adjusted EBITDA margin of approximately 35% to 36%.

For the full year 2023, we are revising our outlook to reflect the two reasons I just mentioned. We now expect total volume of between $193 billion and $197 billion, representing a year-over-year increase of 51% to 54%; revenue of between $1.17 billion and $1.2 billion, representing a year-over-year increase of 39% to 42%; revenue at constant currency of between $1.16 billion and $1.18 billion, representing a year-over-year increase of 37% to 40%, and Adjusted EBITDA between $417 million and $432 million, representing an Adjusted EBITDA margin of approximately 36%.

In addition, we now expect full year organic revenue growth at constant currency and excluding digital assets and crypto currencies to be between 16% and 20%. In addition, as Phil mentioned, we are amending our medium-term revenue growth target to be between 15% and 20% and are reiterating our long-term Adjusted EBITDA margin of greater than 50%. Overall, we are pleased with our results and continue to be excited about our prospects going forward.

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

Philip Fayer, Founder, Chair, and Chief Executive Officer

Thanks, Dave. Before opening it up to questions, I'd like to reiterate the key takeaways from today's call. First, our category-leading Global Commerce business had 35% organic revenue growth, excluding digital assets and crypto currencies. Second, we're well on our way to accelerate the growth profile of our Emerging B2B, Government and Integrated Payments channel to 20%-plus over the medium term. Third, our revised outlook is due to two near-term transitionary effects with no bearing on our robust pipeline of high-profile customer opportunities. Fourth, our strong cash generation provides us flexibility to de-lever our balance sheet quickly and return excess cash to shareholders via dividends.

With that, Operator, we're ready to take questions.

Operator

Thank you. The first question comes from the line of Will Nance with Goldman Sachs. Please go ahead.

William Nance, Goldman Sachs

Hey, guys, good morning. I wanted to ask on some of the building blocks of the updated target. The vertical disclosures over the last couple of quarters have been helpful. If we think about SMB, it sounds like that is going to be relatively flat. The Paya (Emerging) business has kind of been growing at low double digits. It would seem like the updated guidance implies something like high 20s growth on the 55% of the business that's Global Commerce. Is that the right way to think about growth going forward? Or are there any refinements to that framework you would make?

Philip Fayer, Founder, Chair, and Chief Executive Officer

Good morning, Will, it's Phil. I think you have it in the right ZIP code. For us, we tried to do a channel disclosure to highlight the different segments of the business now with Paya fully in the fold. For our Core channel, we're expecting between 20% and 30% growth. In our Emerging channel, we are accelerating the growth. Today it’s 13%. We believe we can accelerate it. And SMB relatively flat. It is down 5% this quarter, predominantly just because of same-store sales movements, but we expect it to be relatively flat. One thing as you build your models is to understand that Core (Global Commerce) is 56% of our revenue today. But as it continues growing, it's going to be a larger part of the revenue. The impact from SMB over time will decrease. Certainly, as Paya and our Emerging channel continue driving momentum combined, we believe that our high growth channels (Core and Emerging) will both be 20%-plus and SMB will be a lesser part of the drag on growth in the outer years.

William Nance, Goldman Sachs

Got it. That's helpful. Then if I can just follow up on the $100 million pipeline disclosure that you guys gave. How do I think about that in the context of the updated medium-term target if we're thinking about some of the out years in our model? I know you mentioned in the script that new business is only 20% of the growth. If you think about that being a contributor to new business, what can you tell us about wallet share expansion opportunities with the existing customer set that could kind of bridge the rest of that delta?

Philip Fayer, Founder, Chair, and Chief Executive Officer

Yes. Revenue opportunities for us are always built into existing customers and new customers. I think you've seen the myriad of press releases that have come up. I'm so proud of this team. We are winning ultimately the “who’s who” across all of our regions, and it is just taking a little bit more time for those customers to activate. But the opportunities and the quality of business that we've been onboarding this year is truly exceptional. But it's taking a little bit longer for us to onboard and that's something that we have reflected in the revised outlook for the remaining of the year.

But the interesting thing is that client opportunities have tentacles of continued growth. They onboard for a particular feature or functionality, and as they drive forward they add to that experience with Nuvei as they enter new countries or consume new solutions. The $100M revenue is a mix of both new (and existing customer opportunities). For in-year new, you typically see a smaller percentage of the full potential of the customer. It takes two to three years to really drive the full potential of the customer's existing profile. Naturally, as we add capabilities and geographies, wallet share opportunities expand as that customer continues developing. It's a fascinating business. It's not a sign and done. It's a sign, engage and grow with, which is such an interesting component to the end market that we're servicing in our Core channel.

William Nance, Goldman Sachs

Got it. I appreciate you taking the questions.

Philip Fayer, Founder, Chair, and Chief Executive Officer

Thanks, Will.

Operator

Thank you. Next question comes from the line of Darrin Peller with Wolfe Research. Please go ahead.

Darrin Peller, Wolfe Research

Hey, guys. I think we'd love to just get a little bit more color on what actually drove the cut to the medium-term guide in terms of the change from what you had anticipated even at the time of the Paya close to now saying 15% to 20% versus the 20% not too long ago. Is there something competitively changing? Just maybe a little more color on what the actual drivers were first would be helpful.

David Schwartz, Chief Financial Officer

Good morning, Darrin, it's David speaking. We obviously spent time looking at our medium-term targets. It's important to make sure that we're in line. We talked about in our prepared remarks the great quarter that we had. I think we should start there. Just thinking about the growth that we've seen, 45% revenue growth in the (second) quarter on a reported basis. Organic growth (ex digital assets and crypto currencies at constant currency), 20% and then if you think about that Core Global Commerce channel growth on an organic basis, excluding digital assets, is 35%. Those last two data points, the 20% (total) organic growth and the 35% organic on Global Commerce, excluding digital assets, that's where I'd frame in terms of what our growth profile looks like.

When you think about that growth profile and the scale that we're at from a revenue perspective, we think that it's class leading and quite impressive. I won't belabor it when you think about the channels, but I think that's probably the best way to think about that medium-term revenue growth target that we've set. Just to make sure that it's clearly understood, but those three channels, the Core channel at 56% of total revenue, now it grew pro forma 16% (year-over-year in Q2), but 35% growth excluding digital assets. (And as it relates to) digital assets, this is the last quarter that there was really an impact (in terms of tough compares). Starting in Q3, that's pretty much muted.

Then think about the traction that we've just seen in that Core channel. We had a whole bunch of press releases that we mentioned. We had wins—whether it's Shein, Cart.com or inDrive—those are pretty good names. You can see the traction that we're building up in that channel. The downside, at least for the current year is that we learned a bit more about the timing of some of those larger merchants, how long it takes to get them up and running. But we do have line of sight on $100 million of revenue opportunities. That's the Core channel.

For Emerging, again, B2B, Government and ISV (Integrated Payments), that grew on a pro forma basis 13% (year-over-year in Q2). But we certainly have line of sight to (accelerate that to) 20% plus growth (over time). We talked about the expansion of the ERP platforms. We talked about some of the government wins and then as well in ISV, those two large $1 billion plus partners that we signed. Here I'll remind you of the $50 million to $100 million of incremental revenue potential too, that's also on the Paya (Emerging) side, that really plays into that Emerging channel.

If you do the math, taking the weighted average of those growth rates, you get a pretty good sense that 15% to 20% (consolidated revenue growth over the medium-term) is something we feel really confident about achieving, and we want to be disciplined in our approach and make sure that the expectations we set are appropriate. That's kind of the logic of how we got to that 15% to 20% medium term growth range, which is effectively what we're growing at today. Of course, for the rest of this year and even when we think about medium term, we obviously want to be cautious with how we set expectations.

Darrin Peller, Wolfe Research

Okay. Then just a little more color on the decision to exit this large customer. What exactly drove that? Is that really just a one-off to be clear?

Philip Fayer, Founder, Chair, and Chief Executive Officer

We strive to be the North Star across all verticals and use cases globally. That is our commitment across all stakeholders around Nuvei. We have a team of 200 in compliance, risk, and underwriting focused on doing the right thing for the Company regardless of size (of customer). But I think the biggest takeaway is exiting this merchant relationship is just the right thing for Nuvei. These things happen all the time, Darrin, in terms of on-boarding and off-boarding. This just happens to be a top-10 customer. But I would come back and just say that these things are not scheduled, right? This was a Nuvei decision to exit that particular customer, and we feel strongly that it was the right thing for us to do.

Operator

Thank you. Next question comes from the line of Joseph Vafi with Canaccord Genuity. Please go ahead.

Joseph Vafi, Canaccord Genuity

Hey, guys, thanks for the extra color here this quarter. I thought maybe we would just first start on Paya, the large ISVs expanding into some other ERP platforms. Just would like to know, were some of these endeavors underway pre-acquisition, or how much of that extra road map of progress that we're seeing is post-acquisition, and perhaps maybe the beginning of your revenue synergy endeavors here? Then I have a follow-up.

Philip Fayer, Founder, Chair, and Chief Executive Officer

Good morning, Joe. I think it's the beginning of our revenue synergy target. We've been adding resources into the Emerging channel. We feel that our technology and additional use cases combine well together, and we're very excited about what the overall opportunity is for Nuvei. Two additional ERP platforms, both significant ERP platforms with the introduction of SAP and Infor. And we think Microsoft Dynamics will be material as well. But let's also not forget that we've expanded the relationship with Sage into new geographies. We have active discussions on other ERPs for new geographies. It's part of the marriage between what Paya brought to the table and what Nuvei is able to deliver together with that. We think that is ultimately the foundation for accelerating our footprint in B2B.

Joseph Vafi, Canaccord Genuity

Fair enough. Then I guess if we look at the business moving forward, Dave, you said that you framed the headwind here to be more on the ramp of new customers then for that customer loss. Is that customer now exited, and how do we think about lapping that, will it be in four quarters or what is the timing relative to exiting that customer?

Philip Fayer, Founder, Chair, and Chief Executive Officer

No, we started the exit process (for that customer) in the second quarter. I believe it will be done this quarter. It's a process to exit clients (completely), but the majority of the client’s volume has been moved off Nuvei.

Joseph Vafi, Canaccord Genuity

Thanks very much.

Operator

Thank you. Next question comes from the line of Dan Perlin with RBC Capital Markets. Please go ahead.

Daniel Perlin, RBC Capital Markets

Thanks. There's a lot to digest here. I wanted to jump into the guidance and specifically start with third quarter. It looks like pro forma growth at the midpoint is calling for 14%, and I think you just did 9%. I guess, one, what's driving the 500 basis point sequential acceleration. I know FX is about two points of that, but it's still like 300 basis points. I'm just trying to understand why that would accelerate. Then the implied fourth quarter at the midpoint, looks like it gets back to about 8%

with a much bigger benefit from FX. That looks like a bigger deceleration. I'm assuming that's the client deconversion, but really, you just sounded like most of the volumes are off. Maybe you can help us understand the cadence of that.

David Schwartz, Chief Financial Officer

Good morning. Dan, it's David. Obviously for the third quarter, we have a pretty good line of sight since we're in the quarter now. We feel really comfortable with the growth rate that we're seeing. Certainly, there's going to be some variability within the quarters. For Q3, like we said, we lapped crypto, whereas Q2 (growth) was impacted by crypto. There's some variability there.

Then when you look out into Q4 from a revenue perspective, that's typically seasonally a strong quarter for us. There is some uptake there from a seasonality perspective. If you're looking purely on the revenue side, of course, we can get into the take rate discussion as well. That's a little bit different. There's seasonally some lower take rates that we see in Q4. But generally speaking, from an organic perspective, in Q3 and Q4, certainly the loss of the customer impacts. And then, the new business timing. But both of those are transitory factors and over time, we should see that the revenue starts to come back up to that 15% to 20% level that we have on the midterm target.

But effectively, there's nothing specific to call out other than crypto impacted Q2 (organic growth). You mentioned that the FX impact is more impactful in the second half. As you can see, the first half impact was somewhat of a headwind. Second half is somewhat of a tailwind. Overall, when you look at that FX impact on our total revenue from a percentage basis, it's not huge, but it does add up in terms of dollars. There is some fluctuation there in FX, both in Q3 and slightly more in Q4.

Daniel Perlin, RBC Capital Markets

Okay. That's helpful. Just philosophically, I was a little surprised to see you guys starting to pay a dividend this early in your growth algorithm? Phil, can you just maybe talk about how that discussion even came about? Obviously, you have the free cash flow to handle it, but most companies at this growth stage are probably not dividend payers yet. Anyway, can you just contextualize how that conversation went to arrive at this point? Thank you.

Philip Fayer, Founder, Chair, and Chief Executive Officer

We strive to set the pace, I think that's the biggest thing. But in all seriousness, people forget that we're high growth, and we're highly profitable and we're generating a tremendous amount of free cash flow that provides us flexibility. I think as we started exploring returning cash to shareholders via buybacks or dividend, the dividend boded better for us just because of the limited float, and we do think we'll open up a new line of investors for us, and it's just a continuation of our capital allocation strategy of how we intend on returning capital to shareholders via dividend and buyback.

Operator

Thank you. Next question comes from the line of Todd Coupland with CIBC. Please go ahead.

Todd Coupland, CIBC

Great. Good morning. I wanted to circle back to the lost customer. If you could just—and maybe I missed this, talk about why do you want to exit that relationship.

Philip Fayer, Founder, Chair, and Chief Executive Officer

Todd, just out of respect, it's nothing that we would consider doing (delving into the details). These are all great businesses that have their own success and journey. But it was no longer a fit for Nuvei. I'm proud of our team for making the right decisions. We expect this customer to continue thriving. But from a profile perspective, it's not a client for Nuvei and we'll leave it at that.

Todd Coupland, CIBC

But there should be not any impression left that this is a competitive exit. This is a Nuvei decision?

Philip Fayer, Founder, Chair, and Chief Executive Officer

We've talked about that. Correct.

Todd Coupland, CIBC

Yes. Okay. Secondly, you got the breakdown on growth by your new segmentation. Can you just talk about the EBITDA margin profile or path in those segments, maybe qualitatively to start to get you towards your longer-term target.

David Schwartz, Chief Financial Officer

Good morning, Todd, it's David. In terms of the channels, we don't specifically talk to the EBITDA margins of each. There is infrastructure across the company that really supports all those channels. We talked about the growth profile in both the Core and Emerging channels. Those profiles and that growth certainly will contribute more so as we look forward, both to our (overall) revenue but also to Adjusted EBITDA margin, especially as the Legacy business is flat to declining.

In terms of the 50%-plus long-term EBITDA margin target, that's something that we still feel very strongly about, and this is a business that is at scale and continues to grow, and nothing has changed. Fundamentally, nothing has changed in the business. That target still holds well. We talked a bit about the incremental revenue that we announced last quarter—the Paya revenue synergy opportunities--there's about $50 million to $100 million of incremental revenue that's there.

That (incremental revenue) will certainly contribute not just to growth but to EBITDA margin expansion as we have the platform that can scale and absorb that revenue with a high contribution to EBITDA margin. So we feel very confident about that long-term 50% EBITDA margin and correspondingly, our growth rates that are going to get us there.

Operator

Thank you. Next question comes from the line of Bob Napoli with William Blair. Please go ahead.

Robert Napoli, William Blair

Hi, thank you. I was going to dig into margins a little bit. Just any commentary on the path, or what we should expect on an annual basis? Do you have a target for expansion on an annual basis? Obviously, there's a lot of operating leverage and 15% to 20% growth is still very good growth. Just any commentary on what we should expect as we look at 2024 margin expansion from current levels and what it may be annually?

David Schwartz, Chief Financial Officer

Good morning, Bob, it's David. Nothing specific that we've targeted externally. Of course, internally, we have our own expectations. That ramp to get to 50%-plus, there will be certain things that will result in step-ups. So incremental, as we do certain things from an integration, implementation, in-sourcing perspective, when you think about costs. There could be some (smaller) step function items that happen along the way. But at the same time, there will also be some gradual increases in margin just as we continue to scale and grow on the top line.

It is a function of both. And that 50%-plus target is over the longer term. I think about that as five to seven years out. But nothing specific and nothing that's a large one-step, Bob. It's more kind of incremental steps along the way as we continue to do the things we do from a product, technology, and integration perspective.

Robert Napoli, William Blair

Thank you. Then I don't think you said what sector or vertical the customer that you deconverted is in. Just as you adjusted your guidance for this year, how much of the change is from the (delayed) timing of on-boarding versus the (large customer) deconversion?

Philip Fayer, Founder, Chair, and Chief Executive Officer

Yes, Bob, we're not going to double-click on the customer specifics. But I would tell you, just for the second question, it feels about two-thirds delays in implementation, one-third large customer.

Robert Napoli, William Blair

Thank you. I guess if I could sneak one last one in. Geographically, where are you doubling down or—and given the lower growth rate profile that you're targeting, which is still very good, are you pulling back on investments in any area?

Philip Fayer, Founder, Chair, and Chief Executive Officer

Well, what’s interesting is we've made the investments already. We actually have lots of white space in APAC and LATAM as we continue growing. We see North America has a lot of opportunity for us as well. We have pending licenses and other infrastructure that's actually already been expensed. We're going to execute on those.

Robert Napoli, William Blair

Thank you very much. Appreciate it.

Philip Fayer, Founder, Chair, and Chief Executive Officer

Thank you.

Operator

Thank you. Next question comes from the line of Jason Kupferberg with Bank of America. Please go ahead.

Jason Kupferberg, Bank of America

Good morning, guys. Phil, I'm just curious about your overall assessment of execution across the organization? It seems like the market opportunity is very real. But forward-looking expectations have been a bit of a moving target?

Philip Fayer, Founder, Chair, and Chief Executive Officer

Yes, it's a good question. I think ultimately, as we're moving up market and just how fundamentally the business has changed, Jason, we're learning as we go through it. But I think you have to keep in mind, right, over $1 billion of revenue, $400-plus million of EBITDA, significant free cash flow and profitable growth. I think we're in a very unique circle, Jason, and our disciplined growth in terms of not revenue at all costs, but our disciplined growth is paving a very compelling path for future growth. Our objectives are high, and we think that there's a lot of scaling left for us to do in every one of our regions within our channels. I think the team is doing a really great job, and I'm really proud of every new employee in terms of execution.

Jason Kupferberg, Bank of America

Okay. Then I guess just coming back to guidance. If we look at the second half in aggregate, the implication is that organic growth ex-crypto will be around 13% on average in the second half. That's below the updated medium-term revenue guidance, and I respect some of the factors impacting this year are transitory. But just how would you encourage investors to get comfortable that the growth can really reaccelerate comfortably and sustainably into that 15% to 20% range as we look at 2024 and beyond.

David Schwartz, Chief Financial Officer

Good morning, it's David. Yes, I think that observation is correct, Jason. But when we think about the rest of this year, it's really those two transitory factors, the off-boarding of the large customer and the timing of new business. That's really the impact of what we see for the rest of the year.

That will lap as we go forward, and I guess the way that I would frame it is coming back to we said at the beginning—two things. One, thinking about the channels and thinking about the growth profiles of each one, specifically Core and Emerging, and if you drill down and kind of strip away the onion and you can see the growth of those businesses, right?

(Core channel growth of) 35% excluding digital assets and crypto currencies, and then just overall in the business, 20% (organic growth ex digital assets and crypto currencies) and then the Emerging business, 13% (pro forma growth in Q2), but with really good upside and line of sight on (the potential to accelerate to) 20%-plus. That's what I would say in terms of how to think about the go forward and the medium term.

We're in that ZIP code now to 15% to 20% or even to some degree above if you look at the core business. We feel really confident about that medium-term target. We feel that's going to be very achievable for us. As Phil mentioned in the prepared remarks, we'll continue to look at that target, but we feel good about it. I'd say also for rest of this year, especially as it relates to Q4, I think we have some caution built into our outlook. I think that's another important factor when you think about Q4.

Jason Kupferberg, Bank of America

Okay. Appreciate the color.

Operator

Thank you. Next question comes from the line of Tim Chiodo with Credit Suisse. Please go ahead.

Timothy Chiodo, Credit Suisse

Great. Thank you. I think we kind of covered this in terms of what's implied in the medium term. But if we look at those three buckets, Core Global Commerce, ballpark, 55% Emerging ballpark 20% and Legacy ballpark about 25% of the revenue, just using round numbers. Core Global Commerce implied in the guide, I'm assuming it's in sort of the 20s to low 30s, Emerging potentially approaching back towards 20%, I believe you said. Then I guess the main question was for legacy SMB within the medium-term guide, are you implying that it will be averaging maybe a slightly negative rate over the coming years in the medium term?

Then the brief follow-up is on the legacy SMB. I know you mentioned that it is non-integrated into software. Can you just talk about how that business is or was distributed? Was it direct sales going to SMBs? Was it through third-party ISOs or just in general, what was the distribution approach for that portion of the business?

David Schwartz, Chief Financial Officer

Good morning, Tim. It's David. On the first part of your question, as to what we baked into the guide. On the SMB Legacy business, like Phil mentioned earlier, it is mid-single-digit decline now, and a lot of that is driven by same-store sales. We suspect that from a go-forward perspective, it's flat to maybe slightly negative for where we see that business.

In terms of distribution on the Legacy side, it was really all through indirect. These are really SMBs indirect where we're going through partners, through relationships to the feet on the street to win that business. That's the distribution model, which is slightly different than our Core, which is really direct and then on the Emerging side, it's indirect, but it's through technology providers and partners, you think about ISPs and that sort. Whereas on SMB, it's more of a feet on the street (approach). It's kind of a one to many through our partners that are on the street.

Timothy Chiodo, Credit Suisse

Perfect. Yes, that's exactly the context I was looking for. Appreciate that. Thank you.

Operator

Thank you. This concludes today's question-and-answer session. I would like to turn the floor back over to Chris Mammone for closing comments.

Chris Mammone, Head of Investor Relations

Thanks again to everyone for joining the call today. The IR team, both Anthony and myself are available for follow-up calls and questions. We look forward to speaking and seeing you out on the road. Bye for now.