Nuvei Third Quarter 2023 Earnings Call Transcript

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CONFERENCE CALL PARTICIPANTS

Sanjay Sakhrani, *KBW*

John Davis, *Raymond James*

Darrin Peller, *Wolfe Research*

Dan Perlin, *RBC Capital Markets*

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PRESENTATION

Operator

Welcome to Nuvei Corporation Third Quarter 2023 Earnings Call.

As a reminder, this conference call is being recorded.

I'll now turn the conference over to Chris Mammone, Head of Investor Relations. 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. Prior to this call, we published a Shareholder Letter for the third quarter. We encourage everyone to read it if you haven't done so already. The Shareholder Letter contains commentary that otherwise would have been included during our prepared remarks to this conference call. Shifting to this new format allows us to spend more time on today's call answering questions.

We decided to make this change in part based on feedback from investors. We hope you find the Shareholder Letter informative, and of course, we welcome your feedback. We would also encourage investors that the Shareholder Letter be read in conjunction with our press release, MD&A and consolidated financial statements, all of which are available in the Events and Financial Information section on our Investor Relations website, investors.nuvei.com.

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

Our discussions today will include non-IFRS measures, including, but not limited to, Adjusted EBITDA, adjusted net income and adjusted net income per share. Management believes non-IFRS results are useful in order to enhance our understanding of our ongoing performance, but they are not a supplement to—and should not be considered in isolation from or a substitute for IFRS financial matters. Reconciliation of these measures to IFRS measures is available in our earnings release and MD&A.

We will just have some brief prepared remarks here before opening up the call to your questions. In order to get to as many people in queue within the allotted Q&A time, we ask that you limit yourself to one question and one follow-up.

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

Philip Fayer, *Chair, Chief Executive Officer*

Thank you, Chris, and thank you all for joining us this morning. As you have now seen, we reported solid third quarter results, in line with our growth objectives. Highlights for the quarter include strong growth across the board with total volume increasing 72%, revenue increasing 55%, and Adjusted EBITDA increasing 36%. On a pro forma basis, third quarter revenue growth was 14%. This was 550 basis points greater than our growth rate in the second quarter. Pro forma per channel, revenue growth improved sequentially as well. Global commerce increased 25%, accelerating by 890 basis points. We continue to believe this represents category-leading growth. Our B2B, Government and ISV channel increased 16%, which represented 360 basis points of growth acceleration, and SMB declined 3.8%, which was 170 basis points better sequentially.

We are driving efficiencies throughout our business and expanded our Adjusted EBITDA margin sequentially by 40 basis points to 36.3%. On capital allocation, we continue to delever, re-paying $36 million of debt and reducing our leverage by 0.2 turns to 2.6x at September 30, 2023

Our Board has authorized and declared a cash dividend of $0.10 per share. It is worth noting that since 2022, we have returned $237 million to shareholders in form of share repurchases and dividends. With these results, we are raising our full year financial outlook for 2023.

This concludes my prepared remarks, and we are now ready to take your questions.

Operator

Our first question is from the line of Sanjay Sakhrani with KBW. Please proceed with your question.

Sanjay Sakhrani, *KBW*

Thank you. Good morning. Pro forma growth across all the three channels accelerated. Could you talk about what were the drivers of that acceleration?

Philip Fayer, *Chair, Chief Executive Officer*

Good morning, Sanjay. Yes. Happy to. I think first and foremost for us is the way we have been managing the business. We have created Tiger teams to look at how we engage with our current customers and how we execute on new customers. We have been able to bridge the gap to help them go from signing to live faster, by embedding sales enablement and executive leadership into every single factor from client onboarding. That has been seeing some great results, early momentum now, across both our core channel, which is Global Commerce, as well as our B2B government, ISV and SMB.

In our Global Commerce channel, we have been activating the pipeline that we have been building. Obviously, we saw a very significant pipeline and we have been monetizing across our regions of operation as well as naturally continuing on driving product innovation. In our B2B government and ISV business, we've been applying our playbook. This really was one of the theses of why we acquired Paya, and you are starting to see the results, naturally up sequentially, mid 300s of basis points, and we see there's a lot more drivers there.

When you unpack that, taking our B2B operators globally, cross-selling our value-added services beyond pure play acquiring, and from a continued growth perspective, we find that there's opportunities around off-balance sheet factoring and Accounts Payable in our B2B business in particular. We're seeing momentum in government as we move from a direct sales channel to an indirect by allowing our citizens portal to bolt on existing software platforms. Then naturally, ISV is a relatively new channel for us, but we're seeing great momentum in being able to offer unified omnichannel global commerce solutions for them to service their customers in all pockets of the world.

In our SMB channel, we're seeing progress as well, as you can see some great recovery. We're quite bullish about what this will do over the course of 2024. On one end, product innovation, like we talked about from a backend perspective, from simplifying clearing and settlement. And on the second side to be able to provide more tools to our resellers, and ultimately on the third side is just driving some focus. When you bring it all together, we've seen 14% pro forma revenue growth (in the third quarter). We're quite confident in our two high growth channels, and quite confident in terms of bridging the gap in SMB to bring us in line with our medium-term growth targets next year as we continue driving the building blocks.

Sanjay Sakhrani, *KBW*

Thank you. If I think about the revenue growth into next quarter, this may be a question for David. When we think about the slight deceleration from the third quarter, how much of that is related to conservatism versus the client loss? I'm just trying to think about the sequencing of the revenue growth and seasonality and such. Maybe, David, you can help us with that.

David Schwartz, *Chief Financial Officer*

Yes, sure. Good morning, Sanjay. From a revenue perspective let me start off thinking about just overall assumptions for the fourth quarter. First from a volume perspective, it's early in the month of November, but for the month of October and so far in the month of November, we're seeing good progress in terms of the trends that we're seeing on volume. Remember that Q4 on the volume side, there is a fair amount of seasonality. We've seen that in the past. From a sequential perspective, we will see volume step up sequentially in the fourth quarter. But keep in mind that the mix of volume isn't necessarily the same, and it doesn't necessarily yield the same from a revenue perspective.

There is a lower yield on some of that volume. Keep in mind that we do a fair amount of government payments as it relates to real estate taxes, and donations are also a factor. Those are more large sized transactions with fixed fees associated to them. That results in a lower yield, and you'll see that in the outlook. From a yield perspective, our outlook comes down from the 63 this quarter to the mid 50s next quarter.

Then from an adjusted EBITDA perspective, the outlook is really around that 36.3% to 36.5% margin level, very similar to what we saw in Q3, so we feel good about that margin. We continue to focus on (adjusted EBITDA) margin expansion. We feel that we're at an inflection point from a platform perspective and that there's certainly, as we move forward, opportunity to expand adjusted EBITDA margins and ultimately get to that long term target of 50 plus percent.

Overall, I don't think there's anything different seasonally that you'd see in the past into Q4. But again, and Phil highlighted from a channel perspective, the channels are performing quite well, each of the three channels, so (we'll focus on) continuing to drive that growth that Phil just outlined.

Sanjay Sakhrani, *KBW*

Okay, great. Is there any way to quantify that large client loss headwinds?

David Schwartz, *Chief Financial Officer*

What I would say is that most of the impact happened in Q3. It wasn't a full impact in Q3. But Q4 will be a quarter with the full impact. But like we said, it was with a Top-10 customer. We have talked about in the past, no customer represents more than 5% of total revenue. That can give you a sense of size. But certainly, there is some impact into Q4, still with that customer, from a sequential perspective and year-over-year.

Operator

Our next question is from the line of John Davis with Raymond James. Please proceed with your question.

John Davis, *Raymond James*

Good morning, guys. Phil, I just wondered if you could touch on some macro and competitive landscape. Obviously, you had Adyen talk about competition, Worldwide macro fears. Just want to get your perspective on what you are seeing from a macro perspective, but also competitively.

Philip Fayer, *Chair, Chief Executive Officer*

Thank you, John. It has been quite the topic, as you are aware, in terms of competition. From our perspective, I think it is important to understand where we sit within the ecosystem. On one end, we are not necessarily touching the mega merchants, we are really focused on mid-market to enterprise. I think that's the first pocket, meaning that we are targeting different merchants from a size perspective.

I think the second thing that is really important is that we are the challenger, meaning the incumbents typically have these stresses from a margin compression, (whereas) we are a challenger. If you look at Nuvei's history coming from a single vertical focus now to supporting multi verticals and multi markets and multi jurisdictions, this allows us to naturally have a more dynamic opportunity, and we think that this is an up-sized opportunity for us as our product continues to evolve, both with what we are doing on the authorization side, and with what we are doing on clearing and settlement, and what we are doing just in general from the geographies that we support. We feel quite good from a macro perspective.

We feel that while some of the companies you mentioned are world-class companies, we feel like we now have a great seat at the table. We have upside, naturally from our end, every incremental dollar that we process creates gross profit dollars. And because we are at scale today, the majority of those gross profit dollars fall to adjusted EBITDA. We really like what's out there today. We think this macro in terms of merchants focusing internally as well as still managing their growth is an opportunity for us.

In terms of pricing and take rate, we have not actually seen that (compression that others may have spoken about), per say. We are seeing merchants moving faster and being more thoughtful in terms of how they monetize and connect with their customers. That's been boding well for us because we are not just a pure play acquirer. We provide our modules, as is required for our customers. We are seeing them being really thoughtful in terms of what they need in the different markets.

In general, that is what we are seeing. We are seeing great momentum in our core channel in Global Commerce. We are seeing some great movement in volume from a macro perspective. We are not seeing any significant deterioration from a consumer standpoint. Naturally, we are very different to our peers as we do have other end markets, and we have been very thoughtful in bringing our use cases into B2B, into government and into (integrated) software as well. Our makeup of our end customers is different. The size of our customers is different.

I think the last part is we don't have 100% wallet share. In fact, some of these new end markets for us, we are still very much the challenger with a strong product offering and that gives us upside.

John Davis, *Raymond James*

Okay, thanks. Appreciate all the color there. Just as a quick follow-up, can you help us with the crypto contribution in 3Q or what's implied in the 4Q guide? That would be helpful. Thanks, guys.

Philip Fayer, *Chair, Chief Executive Officer*

I am happy to. We have seen a sequential decline from the second quarter to the third quarter. It’s declined around mid-single-digits from Q2 into Q3. It was down more mid- to high-single digit from a year-over-year perspective. We've lapped a larger part of it, but it is still a declining vertical for us.

Operator

Our next question is from the line of Darrin Peller with Wolfe Research. Please proceed with your question.

Darrin Peller, *Wolfe Research*

Hey, guys, thanks. It's obviously great to see the acceleration in the business and it's interesting coming off last quarter, which was one where investors were concerned on the guide change and it was a second guide change. I really just want to make sure we understand the visibility that you have when you look forward. It was a nice acceleration. You beat numbers. Obviously, you guided conservatively after last quarter. Help us understand your philosophy in guiding now and making sure that the next quarter is properly set, and what you really have going into it in terms of macro assumptions also.

David Schwartz, *Chief Financial Officer*

Hey, good morning. I can start off. With the last quarter we certainly had some one-off events that really resulted in the guide down. We now have better understanding for how those things have gone. We learned a little bit more on the delays in implementation. In terms of the guide that we gave last quarter, you're seeing the result and we're happy with the results coming in line and slightly above in Q3. We're also pleased with what we're seeing in Q4. Like I said earlier, our October and November trends are good. Obviously, we have more visibility into Q4 now than we did a few months ago.

We want to take a position where we're trying to be very mindful of the macro at the same time. There's certainly some challenges there. We think that from a macro perspective we're pretty well insulated, but there's always some level of items that we want to think about as it relates to macro. That's always top of mind, but we're trying to be mindful and be reasonable in terms of the guidance and the outlook that we're giving, both for the quarter and for the medium term. As we exit the year, there's a couple of months left in the year, (but) we've already started to work on next year, and we're looking forward to giving our 2024 outlook when we report our Q4 results in March.

But overall, we're trying to be mindful and reasonable in how we give outlook, and make sure that we're achieving what we set out to achieve. Internally, the execution has been great. We're really happy with how the business is performing. From a revenue growth perspective, the margins are great, the cash generation is great. We're being mindful around capital allocation. Internally, things are really humming and we've just got to make sure that the expectations we set externally are reasonable and that we achieve them. That's the approach we're taking.

Darrin Peller, *Wolfe Research*

Phil, when we spent some time in meetings with you recently, it was pretty clear that some of the differentiation is resonating, the vertical differentiation you have especially on the digital side, right? The e-com side, despite competitive questions that even came up earlier on this call. Can you just revisit, there are verticals like airlines and others that were pretty exciting that were coming in, in a much bigger way. Can you just revisit what's actually insulated versus the competitive dynamics in the digital side? Then as a quick follow up, just the improvements that you could make from here on SMB to get that back to flat to better. Thanks, guys.

Philip Fayer, *Chair, Chief Executive Officer*

Yes, thanks, Darrin. Great question. I think the first thing to keep in mind is our customers are never new (start-up) customers. We're always entering the wallet share with our customers because of their particular needs. We are not servicing an Uber, for example, and they are just a start-up. Customers are coming to us for a very particular need, and that is true across all the verticals as we continue extending and building innovation around helping our customers grow their business, do things better, and execute on their own journeys.

We focus on verticals that have the propensity to operate in multi country, in multiple currencies and require multiple payment methodologies. That is where we focus, predominantly cross-border or local-to-local depending on the business model that our customers execute on. We think there are a lot of tailwinds across the board. Obviously, starting from (processing for online) gaming, which is a no nonsense, always-on, no latency vertical that our customers are sometimes spending millions of dollars a day in marketing, and we deliver. We have taken that skillset into social gaming, into marketplaces, into travel, into (online) retail, while building out our capabilities to improve authorization rates, lower the latency, and provide greater conversions for them.

What we are seeing today is our focus on execution, naturally in (online) retail, what we are doing around travel—working with global airlines with respect to local acquiring and access to local domestic interchange around the world by utilizing our platform, and then naturally looking at the overlap between our solutions that we require from a multi-vertical perspective, very much like B2B. We think about virtual card issuance that's relevant from both a loyalty perspective to a payout perspective, and to an accounts payable perspective.

In general, from a roadmap perspective, we have made meaningful inroads into airlines. I mentioned last time that we are supporting four of the Top 20 (global airlines). We think there is a lot more to do there, specifically due to how other acquirers have treated airlines during the pandemic. We think that has left a bad taste and they are seeking alternatives with greater technology. We think we are well-positioned there.

Retail ultimately was a low-single-digit vertical for us. But we have been meaningfully accelerating our position with customers like Shein and Temu and Capshi amongst many others, and naturally (have formed) a very significant pipeline as we help our merchants go from market to market. The same is true with strengthening our position in the markets in which we have a leadership position—like gaming. We are very bullish about our end markets. We try to be industry experts in terms of where we operate in Global Commerce. I think we mentioned this in the shareholder letter. The days of customers just needing a vendor are long gone. They need partners, they need people that pull up a chair. There are always challenges and opportunities, and I think that's where my team shines, to be able to be that partner for our mid-market enterprise customers. That is on the vertical side.

On SMB, you and I chatted about this when we were in Boston, we've seen some sequential improvements in SMB. We think there is more to come. Naturally, to achieve our medium-term targets, SMB (year-over-year growth) has to be between that 0% and minus 5%. We feel very comfortable with what we set out from our medium-term growth targets. That being said, we think there are opportunities to improve in SMB and a lot of that is going to be driven by (two things). First, applying the resources of our global capabilities. Today with our Omni, we are able to expand our SMB footprint and expand the tools that our sales channels can consume.

I think the second are the things that we are seeing right now in Canada as we have implemented our back end. We are doing interchange prediction, meaning that we now see interchange prices on a per transaction basis, which is what's required from our global customers. But that also allows us to have great tentacles for things like instant commission funding and instant payments for ISV, ISO, and reseller partners. There are a lot of tentacles for improvement from a product perspective, specifically when we look at this macro where we are able to change the lives of both our resellers and then customers.

There is more to come. We think there are opportunities to continue improving and all of that comes back to utilizing our product stack and our technology to drive feature functionality, to execute on both our customers and our resellers in the case of our SMB channel's journeys.

Operator

Our next question from the line of Dan Perlin with RBC Capital Markets. Please proceed with your question.

Dan Perlin, *RBC Capital Markets*

Thanks, good morning. Phil, I just wanted to ask you about the hundred million of annualized revenue you identified last quarter for the enterprise clients. Obviously, we're not going to see a bunch of conversions over the holiday season, but I'm really more interested in the conversations that you've had with those clients and then your level of conviction that that can still close over the next 12 months. Obviously, you've got a lot of great momentum in the business, so I suspect that that's not going to be an issue, but any color there would be helpful.

Philip Fayer, *Chair, Chief Executive Officer*

Yes, thank you, Dan. Great question. I think the biggest thing I could leave you with is just the overall momentum. What we saw this year versus last year was client conversions were running behind last year, not because the pipeline was smaller, just ultimately the time from signing to closing (was taking longer). The biggest thing that we've done internally is created Tiger teams, and we've changed the way we operate. I run the business to make sure that we have a really clear set of visibility in terms of the opportunities and how we can help as an organization to drive those conversions. What's happened since doing that is quite interesting. We've gone from being down year-over-year to being up 15% year-over-year from a new business perspective when we look at our overall sales conversion. We're starting to see really good progress on that.

But ultimately, there's also this comment around macro and naturally end markets. We have signed and won some great large enterprise customers that are scheduled to go live in late 2024. This is very different from other customers that think, I have an issue in Brazil and I need to go live now. It's a matter of us having learning experiences between the different verticals that we operate in. Some of them are planned implementations and some of them have to go like yesterday. These are things that, as an organization, we have improved dramatically and something that we're going to continue to focus on.

In terms of overall timing, certain verticals are continuing on the regular pace that we've seen over the last three to four years. New verticals are just (taking) longer, and so it doesn't mean that we're going to see the 100 million (subject to activation delays) lap immediately next year plus net new. I think just in general, the way it's viewed is that everything has been pushed out, and we're going to get back on a (regular) cadence now. We've pushed it out and we'll start being on that regular cadence on a quarterly basis from a new business activation.

Dan Perlin, *RBC Capital Markets*

That's great. Just one quick follow-up. It's a metric that I might have missed in all the materials but that I found to be helpful over the past couple of quarters. What was your organic global e-commerce constant currency ex crypto growth. By definition, I think last quarter it was 34%. I'm just wondering if you are providing that for this quarter. Thanks.

Philip Fayer, *Chair, Chief Executive Officer*

We haven't provided that metric for the quarter. We are trying to simplify our disclosures and improve the disclosure and such that you see in the shareholder letter. Some of the metrics to point out—organic growth at constant currency was 13%. Keep in mind what we mentioned earlier, that the revenue from digital assets did decrease sequentially—both year-over-year and quarter-over-quarter—by mid-single-digit percentage in both cases. Then the other metric I'd point to is the 14% pro forma growth rate. I think those are the key metrics. Then all the improvements that we have made and continue to make from a channel perspective that you have seen, that will drive us forward to our medium-term (revenue growth) target of 15% to 20%. We will obviously give our 2024 (outlook) early next year. But thinking about exiting 2024 at that medium-term target of 15% to 20% is the way to think about it.

Operator

Our next question is coming from the line of Jason Kupferberg with Bank of America. Please proceed with your question.

Cassie Chan, *Bank of America*

This is Cassie Chan on for Jason. I just wanted to ask if you are seeing any difference in trends by region most recently, particularly in EMEA, given everything going on in the Middle East there? Thank you.

Philip Fayer, *Chair, Chief Executive Officer*

Not specifically, no. We have been seeing consistent volume trends as we have expected between October and November. We have not seen any different trends to highlight. We are seeing great momentum in North America. If you look at the regional disclosures that we have made, good growth in North America, EMEA had 17% year-over-year growth in the third quarter and then naturally good momentum that we are seeing in APAC. Certainly smaller, but great momentum. And in LatAm as well.

Cassie Chan, *Bank of America*

Okay. Got it. Just wanted to ask, margins obviously came in nicely this quarter. Can you just talk about where the incremental gross margins will come from going forward? I know you guys have made some progress with the North American processing being in-sourced. Are you seeing more opportunities in headcount or technology efficiencies, et cetera? Thank you.

David Schwartz, *Chief Financial Officer*

From a margin perspective, yes, we are quite pleased with our performance across both gross margins and Adjusted EBITDA margins. A business like ours that generates plus or minus 80% gross margin gives a lot of flexibility, especially when you think about the platform that it is built on. Yes, at the gross margin level, there will be puts and takes as it relates to what we launch from a new product perspective. The way to think about it though is every incremental gross profit dollar has a high propensity to fall to the bottom-line and generate incremental EBITDA.

On clearing and settlement, you are right. There has been very good progress in that regard. There will be more progress into 2024—during the rest of this year and into 2024—specifically in North America where we will in-source. It certainly creates cost efficiencies and cost effectiveness, which I think was the core of your question. But the other thing that it drives is a greater connection to our customers because we can do certain things that we weren't able to do in the past as we were reliant on a third-party. Improved settlement time, as an example, or speed of reporting allows us to implement things quicker for our customers. There are a lot of intangible or non-quantifiable benefits, more than just the cost savings that it drives from an in-sourcing perspective.

Then if you think about the OpEx side, we have a great platform. We have the people. There are certainly always further enhancements that we can make. But we feel really good about where our OpEx is today, where the margins are today, and we think we can expand (margins) from here. The other area on SG&A we have pointed out in the past is on share-based compensation. That continues to decrease as a percentage of revenue. That is a large item. The other area I would point out is commissions. If you think about our channel distribution and you think about the Global Commerce channel specifically—it is the highest growth channel. Most of the commissions are driven by our B2B, government & ISV channel. As the Global Commerce Channel grows, commissions as a percentage of revenue also has some opportunities (to come down). There are many, many specific cost initiatives that we have internally that both affects gross margin as well as Opex.

Similarly to how we're driving new implementations that Phil talked about earlier, we have (introduced) a similar cadence with respect to costs. We have a regular cadence internally with a Tiger team as well, where we're driving through a lot of the cost initiatives that we identify. The fact is we keep identifying more (savings opportunities) as we go down and hit the larger items and the lower hanging fruit. There's still more that we see, so we're driving margins as we go forward.

Operator

Our next questions are from the line of Matt Coad with Autonomous Research. Please proceed with your question.

Matt Coad, *Autonomous Research*

Hey, good morning, guys. Thank you for taking the question. Wanted to double click on your commentary around the (online) retail vertical earlier. I thought that was pretty interesting. Wanted to better understand the land and expand opportunity here. You have some great clients in Shein and Temu. How do you expand that wallet share over time?

Philip Fayer, *Chair, Chief Executive Officer*

Hey, Matt, great question. What's interesting about Shein, Temu, Capshi, and a lot of these merchants is that they are global brands and they too have their own journeys of expansion. For example, with some of them we're looking at new countries in particular regions, or we're looking at new alternative payment methods. We're always looking with them and piloting with them with respect to authorization rate improvement. We are not a vendor to them, we are a partner. With one (customer) in particular a big driver to help us (expand wallet share) has been cascading and driving better authorization rates in the U.S. That is a very interesting project for us. Then actually using them as key pillars since they are among some of the most recognizable names as you enter with the market leaders—it helps us gain credibility as we continue building out our (online) retail capabilities around the world.

Within that as well on retail, which is really important, is the Omnichannel application that we're building. We're launching that into three markets so that we can provide multi-channel journeys for our customers. We started at the top with retail, with some great brands that our customers themselves are growing. We're seeing opportunity within those brands to capture more wallet share. In transparency, we still have small wallet share, so there's a lot of opportunity to continue expanding our relevancy with these big brands, from a country, capability, and then from a payment application in terms of what we provide to them. Retail is something that we are just entering. We're lapping our first year and a half in retail. We think we're starting to build some really strong momentum.

Matt Coad, *Autonomous Research*

Really helpful, Phil. Then just for my follow up here, the growth and the margin expansion that you guys talked to, free cash flow improvement should follow. Just curious, the incremental dollars of free cash flow that you'll get, how are you thinking about that from a capital management perspective?

Philip Fayer, *Chair, Chief Executive Officer*

I think your base case is that we're going to continue focusing on debt repayment and to de-lever. We're quite excited, just the performance of the business from when we acquired Paya at just under 3x (combined leverage ratio), to today down to 2.6x. We'd like to continue de-levering to a level of, 2.0x or less. We think that's going to open up opportunities. The entire backdrop is changing and from our perspective in terms of building blocks and opportunity around M&A, we think the second half of next year will yield some quite compelling opportunities, both domestically and globally, and we want to remain opportunistic. Our base case for now will be continue to focus on debt repayment, lower our interest expense, and then have the ability and flexibility and optionality to execute on potential M&A. But naturally, we have so much optionality with our cash flow and our balance sheet, and we will execute on that as is appropriate and remain opportunistic.

Operator

Next question comes from the line of Bob Napoli with William Blair. Please proceed with your question.

Robert Napoli, *William Blair*

Hi. Thank you, and good morning. Good to see the solid quarter and guidance. A question on Paya and integrated payments. How is that acquisition performing versus your expectations, and what are your thoughts around being able to leverage the integrated payments strategy from Paya and from elsewhere within Nuvei over the next few years?

Philip Fayer, *Chair, Chief Executive Officer*

Thank you, Bob. Great question. We are super pleased with Paya. For one, wonderful people. We share the same values and culture. We hit the ground running. You can see, ultimately, Paya is our B2B, government, and most of our ISV channel, and we are accelerating the growth of the business. We are creating more dependency on Nuvei's technology stack, and we are executing ultimately not just to expectations, but I think we have exceeded expectations with respect to where we are at right now. We firmly believe this channel can and will be a 15% to 20%-plus grower. We are naturally now above (the low end of) that range, on a pro forma basis, and there is a lot more to come, with each providing very unique tentacles for continued growth. In B2B, we are going to be beta testing factoring off-balance sheet with a partner. We are going to be driving applicability around our card issuing for virtual cards, and then expanding into the Accounts Payable side as well.

There are a lot of tentacles, and then naturally our bread and butter on the B2B side with respect to Paya is bridging and internationalizing these relationships. We have kickstarted that now with Canada, and we're going to be taking these partnerships around the world. We are very pleased with Paya. The performance of the business has been strong, we have been executing thoughtfully on the cost side, and we are actually very pleased, both from the technology gaps that we are able to plug from what Paya had, and more importantly, from the relevance of our own use cases to Paya's end customers.

In terms of integrated payments (ISVs), you will see us spend a lot of time there. We wanted to naturally focus on kickstarting our B2B and government business, which is what we have done, and being really thoughtful in terms of mine and management's time. Now we're turning our focus around integrated payments. It is the slower growing portion out of our B2B government and ISV channel. But we think there is a lot of pent-up opportunity. Where we are focused right now is plugging in our Omnichannel capabilities into that offering, into the three markets that we are servicing, and then driving our ISV capabilities to the use cases that we have in the markets that we support. We believe integrated payments will be that last piece of the puzzle to accelerate this channel to the high end of what our internal targets are.

Robert Napoli, *William Blair*

Great, thank you. Then just maybe, I am not sure if it is a fair question, but what's changed since last quarter? As far as visibility, and certainly the better tone in the quarter, what is it that seems to have led to more stability, clarity overall in your business?

Philip Fayer, *Chair, Chief Executive Officer*

I think it's a fair question. I wouldn't say it's tone or visibility. I think the biggest thing in payments is that it's never built just quarter to quarter. We report quarter to quarter, but customers live and they have their own journeys that we're trying to manage our way to. We were quite bullish last quarter as well. It's just a matter of client activations and expected timeframe around those activations, and then naturally what ends up happening around the end markets that we're operating in.

I think we're really bullish. If we look at our own metrics, be it per channel, organic growth, the health of our financial profile, how quickly we're de-levering, our ability to continue executing, and the fact that we have low Capex and a very, very high cash flow profile, allowing us to be thoughtful in terms of where we're investing, and more importantly, that the investments we have already made have hit an inflection point. We like where we are and we think our core Global Commerce channel has so much opportunity ahead. (Meanwhile), we think we've now had some great stability and momentum in B2B and we're executing on the SMB side.

So I wouldn't call it a question of visibility or tone. It's just a matter of great businesses are not built overnight and they're not necessarily measured quarterly. We understand your job is to measure it quarterly and we totally get shareholder sentiment with respect to the quarterly side. But we really do love what we have going on and we think this is a platform from a profitability perspective to (eventually) be at a multiple of where we are now. We still think we're on the ground floor.

Operator

Our next question is coming from the line of Todd Coupland with CIBC. Please proceed with your question.

Todd Coupland, *CIBC*

Yes, good morning, everyone. Phil, I wanted to have you comment on how much you think is in your control as you think about ‘24 and getting back to your medium term revenue growth guidance of 15% from 13% or 14%, and talk about what's in your control and what needs to happen and what might be a factor out of your control? Thanks a lot.

Philip Fayer, *Chair, Chief Executive Officer*

Good morning, Todd. Great question. I think the biggest thing that I would leave here is that we have the building blocks, the people, the technology and the world class sales organization to execute. That's exactly what we're focused on. You could see that as we look at the sequential improvement in Q3, we really do love the conversations that we're having with customers. We have some pretty meaningful conversations in flight. Naturally, those take time and it's a matter of understanding that it takes time. But those are the things that we're working hard on.

For that, we have changed the way I operate the business in terms of being really, really focused, pulling up a chair and making sure that my entire ELT is extremely focused on 5 pillars, which are (1) our current customers, (2) our new customers, (3) product innovation, (4) cost efficiencies, and (5) our people. Those are the things that are in our control and we're going to be continuously focusing on those. They give us visibility, great building blocks that we have today. Our focus is on delivering so that we exit Q4 2024 in the range of our medium-term revenue growth targets.

Todd Coupland, *CIBC*

Thanks, Phil. As a follow-up, how should we think about—combined with Paya, the seasonality in 2024? I know you're not giving specific guidance yet, but what will be the rhythm of the business, Q1 to Q4, and any qualitative discussion there would be helpful. Thanks a lot.

Philip Fayer, *Chair, Chief Executive Officer*

It’s been very interesting when you think about seasonality in our business, because over the last three years historically for Nuvei excluding Paya there has been noise. In 2021, you had COVID. In 2022 comparisons with World Cup, which is a significant event both in Q3 and Q4 when you compare Nuvei in 2023 to 2022. Next year, we think we are going to have more of a normal year from a Nuvei perspective.

Then you have the dribs-and-drabs of each of the verticals as we gain momentum into them. In Q1, we have football season. In Q2, you have to build up for the summer season. In Q3, you have travel, and then Q4, you have the holiday season. We are trying to build our end market exposure to have some focus on each of (the 4 quarters of the year). That's what Nuvei has been building out. We like where we sit. But from a normal year perspective for Nuvei, you typically have Q1, a ramp into Q2, slight flattish down into Q3 and then step up into Q4.

Paya is slightly different. What we have seen if you look at historically, Paya had a softer Q1 and an acceleration into Q2 and then flattish Q3 and Q4. What's changed for us around Paya is just the momentum of new business and the pipeline that we have. I mentioned last quarter that (for Q2) we had a 27% increase in new accounts in B2B. That will be opportunity that we will see processing next year. We actually think our emerging channel, which is our B2B, government, and ISV, we will see some step-ups, predominantly driven by new business.

Operator

Thank you. The next question is from the line of Joe Vafi with Canaccord Genuity. Please proceed with your question.

Pallav Saini, *Canaccord Genuity*

Good morning. This is Pallav Saini on for Joe. Thanks for taking our questions. First off, on the emerging business, last quarter you added two new ERP platforms--Infor and SAP. Can you maybe give us an update on the progress there, and any update on Microsoft Dynamics?

Philip Fayer, *Chair, Chief Executive Officer*

Great questions. Yes. We have activated Infor. That is already in process and part of our onboarding. The team is doing a great job. If you think about the steps, first you integrate and partner with the ERP, and then you drive (leads) through the VAR networks. We have seen great progress around that. SAP is still early, and for Microsoft Dynamics, we are expecting to activate this quarter or early next quarter. The great thing here is we now have access to about 3 million end customers in all parts of the world, and that's what we are executing on. Each ERP typically runs through its journey from an integration to activation. But what we found aside from the ERPs is that there is some overlap between the VARs underneath that we may or may not already have relationships with.

It is an interesting environment, and we want to make sure that our use cases and our technology is applicable and accessible for every one of the VARs that end up touching those 3 million merchant customers since that's what we are focused on.

Pallav Saini, *Canaccord Genuity*

Great. Thanks, Phil. It would be good to get an update on the gaming business in the U.S. Thanks.

Philip Fayer, *Chair, Chief Executive Officer*

Yes. I would say, on the gaming business, we are continuously moving forward with new states. I think just last week we added Maine. We are progressing in terms of each of the states that come up. (Elsewhere in North America), we have done a great job in Ontario, and we are waiting to see what happens around Alberta in Canada as well. There is nothing else really to flag from the U.S. gaming business. Obviously, we welcomed Caesars (as a new customer). We helped bring one of our European customers into North America. Otherwise, we are continuously heads down focused on helping our current operators in the U.S. market go from state-to-state, helping our foreign operators enter the U.S. market, and helping our current operators in the U.S. expand their own markets in terms of going global.

I think the most interesting thing that I can leave with you is gaming has become a global vertical. It's not just what's happening within the four corners of the United States. It's what's happening in every single market. Lots of tailwind and interest in South America. Still continued momentum in North America and in Europe. A significant TAM—and even though we have a great position in gaming today—a lot of opportunity for us to continue expanding and growing.

Operator

At this time, we've reached the end of our allotted time for questions and answers. I'll turn the floor back to Chris Mammone for closing remarks.

Chris Mammone, *Head of Investor Relations*

Thank you, Rob. Thank you again to everyone for joining us today. Please reach out to the IR team with your follow up questions. We'll be on the road in the next few weeks. We're planning to attend investor conferences hosted by RBC, Wells Fargo and UBS, among others. We hope to see many of you during those appearances. Bye for now.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.