Nayax's Second Quarter 2024 Earnings Conference Call Transcript

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COMPANY PARTICIPANTS

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John Coffey - Barclays – Analyst

Operator

Hello, everyone, and welcome to Nayax second-quarter 2024 earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the call over to your host, Mr. Aaron Greenberg. Please go ahead, Aaron.

Aaron Greenberg

Thank you, operator, and everyone, for joining us today on this conference call. With me on the call today are Yair Nechmad, Nayax Co-Founder and Chief Executive Officer; and Sagit Manor, Chief Financial Officer. Following management's prepared remarks, we will open the call for the question-and-answer session. Our press release and supplementary investor presentation are available on our Investor Relations website at ir.nayax.com.

As a reminder, during this call, we'll be making forward-looking statements. All forward-looking statements on our call today are based on assumptions and, therefore, subject to

risks and uncertainties that may cause results to differ materially from those projected. We have no obligation to update these statements, except as required by law.

You can read about these risks and uncertainties in our supplementary investor presentation released earlier today and our regulatory filings. In addition, today's call will include a discussion of non-IFRS measures. Management believes non-IFRS results are useful in order to enhance our understanding and our ongoing performance.

However, these measures should be considered as a supplement to, and not as a substitute for, IFRS financial measures. A reconciliation between Nayax's non-IFRS to IFRS measures can be found in our earnings press release issued earlier today.

All key performance indicators are intended to evaluate our business and properly measure factors in a macroeconomic environment to guide and support our decision-making. These key performance indicators may be calculated in a different manner from our industry standards.

And, finally, please note that all figures in today's call will be reported in US dollars unless stated otherwise. Yair, you will start the call with key financial and operational highlights. Following that, Sagit will go through the details of financial results and discuss the outlook.

And with that, I would like to turn the call over to Nayax's CEO, Yair Nechmad. Yair?

Yair Nechmad

Thank you, Aaron. Thank you to everyone joining us today to discuss our earnings for the second quarter of 2024. We are excited to share another robust quarter with significant improvement in all metrics, notably in gross margin and adjusted EBITDA.

For the first time since 2018, we returned to positive operating profit, which is a significant milestone in our company's trajectory. This achievement underscore our business model and strategic execution, setting the tone for strong 2024.

The ongoing margins enhancement underlines our operational leverage, building a resilient foundation for long-term success. Our strategic focus on automation and operational efficiency continued to bolster our profitability.

In Q2, we have continued to make notable strides in improving our hardware margin and optimizing our supply chain infrastructure. We expect to continue to see improvement in profitability as we push towards our long-term target model of 30% adjusted EBITDA margin.

Revenue continued to grow to record level, with $78.1 million in the quarter or a 39% increase from Q2 2023. We believe that the automated self-service industry has been resistant so far to the discretionary spending headwind that some industries are facing.

In Q2, we saw a rise in larger enterprise sales. Small- and medium-sized businesses also contributed significantly to our sales. We added more than 9,000 new customers in Q2, reaching 85,000 by the end of Q2. Continuing our trend of substantial new customer growth over 6,000 of the customers were from organic growth. Driven by this achievement, we added 78,000 new managed and connected devices in Q2, reaching 1.2 million devices. Our pipeline remains robust, positioning us strongly for the rest of 2024.

In Q2, we closed two strategic acquisitions that expand our product offering and market reach. Our M&A strategy support sustained growth and market leadership, facilitating both organic and inorganic expansion. The acquisition of Roseman Engineering, a hardware and software provider forecourt and EV management, strengthen our position in the fast-growing energy segment.

This aligns with our strategy to offer a comprehensive payment solution in forecourt . We see great potential in providing a unified payment ecosystem for various fuel card services. As a result of integration synergies, we launched in Q2 our first payment devices at gas pump, with one of the largest gas station operations in Israel.

We intend to expand into European markets later this year. This will be a significant potential as we see this expansion increasing our company's team.

We also completed the acquisition of VMtecnologia, or VM Tech, a leader in Brazil automated self-service industry, making our entry into the Latin America market. This acquisition broadened our geographic footprint and diversify our product offering.

VM Tech's strong presence in laundry and micro market segment present significant growth opportunities, both locally in Brazil and in other parts of the world. A few months into integration, we are seeing a great collaboration and value added between the team in Brazil and our headquarter in Israel.

In fact, we've been already implementing VM Tech business model of Hardware-as-a-Service or rental business model in other regions. We will continue to update on our progress in this region over the coming quarters.

Looking ahead, we are increasingly optimistic about Nayax's prospects for the remainder of 2024 and beyond. Our pipeline remains strong, and we continue to win new customers, increasing our installed base, and expanding our revenue. We are committed to improving profitability as demonstrated again in this quarter results.

To provide more detail on our Q2 performance and our outlook, I will now turn the call over to our CFO, Sagit Manor, who will dive deeper into the financial results and elaborate on how our strategic initiatives are reflected.

Sagit please go ahead.

Sagit Manor

Thank you, Yair, and good morning, good evening, everyone. We're grateful to have our shareholders, analysts, and the Nayax community with us as we discuss our Q2 2024 earnings. This quarter continues to build on our historic strength and our solid performance in the quarter, showcasing our ongoing commitment to growth and innovation.

Starting with our quarterly performance, I'm pleased to report that our revenue for Q2 2024 reached $78.1 million, marking a 39% increase from Q2 2023. As in previous years, we expect revenue acceleration in the latter half of the year, driven by our strong hardware sales pipeline, as well as our recurring revenue. More details on our revenue guidance will follow shortly.

A key highlight of this quarter has been the substantial growth in our recurring revenue, which reached $53.4 million, a 47% increase year over year. This performance is a testament to the scalability of our SaaS-based business model and in our sustained high-dollar net retention rate of 130%.

As a core component of our business model, recurring revenue in this quarter from our SaaS subscription and payment processing fees represented approximately 68% of our total revenue. This shift underscores our strategic focus on driving a larger share of our business through SaaS and payment solutions.

Moreover, we observed a significant increase in transaction value of 34%, which grew to approximately $1.2 billion in Q2 from approximately $885 million in Q2 2023. This growth not only reflects our expanding market presence but also the increased adoption of utilization of our platform.

Hardware revenues reached a new high in Q2 of $24.7 million, an increase of 24% year over year, driven by strong demand across all the regions. We continue to take market share globally, particularly in automated and self-service verticals.

In terms of profitability, we've made notable strides in improving our hardware margins and optimizing our supply chain infrastructure. As a result, our overall gross margin improved impressively to 44.3% in Q2 2024, up from 37.1% in Q2 2023.

This rise includes a significant increase in hardware margin to 28.7% this quarter from 18.8% in Q2 2023, driven by an advantageous customer mix and substantial cost reduction. Recurring margins improved significantly as well to 52% in Q2 2024, up from 47% in Q2 2023, driven by improvement in both SaaS subscription and payment processing margin.

While total revenue grew by 39% over Q2 of last year, total gross profit grew by 66% to $34.6 million from $20.9 million, a tremendous improvement, reflecting the scalability and strength of our business model. We reported a return to operating profit of $0.9 million compared to an operating loss of $3.7 million in prior year quarter.

Finance expenses net were negatively impacted by $1 million, a complete write-off, due to a change in the fair value of a minority interest in Nilus, treated as a financial asset, measured at fair value through profit and loss.

Additionally, our adjusted EBITDA grew this quarter to a record high of $8.1 million compared to an adjusted EBITDA of $1.3 million in the same period last year. Revenue and adjusted EBITDA were negatively impacted by a $1 million purchase accounting adjustment to deferred revenue related to the Retail Pro acquisition.

The improvement in adjusted EBITDA highlights our commitment to maintaining cost control while investing strategically in growth opportunities. As communicated earlier this year, our centralized global service center in Romania has continued to significantly reduce call center times and improved support satisfaction rate, which has also contributed to overall cost efficiency and operational leverage.

Our customer base also saw significant growth, reaching 85,000 by the end of Q2, growing by over 9,000 customers this quarter. This includes 3,000 new customers, mainly from our recent acquisition of VM Tech, which will was closed early Q2 and will help accelerate our presence in Latin America. We continue to invest in our customer support and success teams, ensuring that all clients receive maximum value from our solutions.

The number of managed and connected devices stands as a testament to our scale and robust platform capabilities with almost 1.2 million managed and connected devices, a 44% increase year over year. This metric is crucial as it correlates directly with our ability to generate transaction-based revenue and demonstrate the scalability of our SaaS infrastructure.

On the financial front, our cash flow from operation activities was very strong, showing $9.2 million. Cash position remains healthy with cash and cash equivalents and short-term deposits standing at $86 million at the end of Q2, bolstered by approximately $63 million net raised through our recent offering in Q1. This cash position reflects the payment of $18.7

million for the recent acquisition of VM Tech and Roseman. Our debt stood at $54.4 million, maintaining a strong net cash position.

Looking ahead to the rest of 2024, we are excited about the opportunities that lie ahead. We are reiterating our revenue guidance on a constant currency basis of $325 million to $335 million, representing at least 38% year-over-year growth. This takes into account a slight contribution from the two acquisitions we've made this year, offset by our ongoing strategic shift to a hardware-as-a-service or rental business model, which replaces revenue today with a longer-term and higher future revenue stream and margin.

We anticipate a continued improvement in our hardware gross margin due to the economic of scale, enhanced pricing strategy, and continued cost optimization initiatives. In light of this factor, we are increasing our guidance for the year on hardware margin to the range of 27% to 29% from 25% to 27%.

We expect a slight increase in operating expenses due to the addition of the recent acquisitions. Furthermore, we are reiterating our 2024 adjusted EBITDA guidance range of $30 million to $35 million as we continue to see strong operational leverage in the business.

Finally, we reiterate our guidance that for the full year 2024, free cash flow, defined as operating cash flow minus capital expenditure, will be positive in aggregate.

In closing, our long-term outlook remains robust with projected revenue growth of 35% and a target gross margin of 50% through strategic initiatives, including adding more rental and leasing options, loyalty products, and embedded finance solutions. Our long-term adjusted EBITDA margin target continues to be 30%.

Thank you again for joining today's call. We look forward to sharing more about our progress in the upcoming quarters. I will now turn the call over to the operator to begin the question-and-answer session. Operator?

QUESTION-AND-ANSWER SESSION

Operator

(Operator Instructions) Chris Kennedy, William Blair.

Cristopher Kennedy - William Blair - Analyst

Thanks for taking my question and hope you guys are well. Can you talk about some of the progress that you're making in the high-growth verticals such as EV, parking, and transit?

Yair Nechmad

Hi, Chris. Thank you for the call. It's, Yair. We're not giving too much details regarding the high growth but I can tell you that we see a lot of need from our point of view to see the consolidation of a one-stop solution for the parking.

We progressed quite nicely with the EV, now that the EV started to be more regulated, and we see all the A/C charges have been imposed to put cash on top of it in terms of our presence. So we have a high hope on this market, and it's still maturing. It's not significant yet in our business. But for sure, we're feeling very comfortable with the achievement that we are reach until now related to the market.

Cristopher Kennedy - William Blair - Analyst

Okay. Thank you for that. And then just a follow-up, Sagit, is there any way to think about the quarterly progression in the back half? I know hardware kind of is volatile quarter-to-quarter. Thank you.

Sagit Manor

Thank you, Chris. So as mentioned, now usually, our H2 is stronger than H1. Although we are very happy with Q2, again another record quarter from all aspects. So very comfortable with the guidance that we've provided. We see strong backlog and we see our recurring revenue that this quarter being 68% of total revenue continued to grow in that case meeting the guidance that we've provided.

Cristopher Kennedy - William Blair - Analyst

Okay. Thanks for taking my questions.

Sagit Manor

Thank you.

Operator

Nik Cremo, UBS.

Nik Cremo - UBS - Analyst

Hey. Good morning and thanks for taking my question. First, I just wanted to discuss the strength in gross margins that you saw on the recurring side of the business. Can you just provide an outlook for what we should expect there for the remainder of the year? Thank you.

Sagit Manor

Thank you, Nik. So yes, improvement in gross margin in all areas. You've asked about the recurring revenue. I'm going to mention also the hardware margins grew to 29% from 19% of last year -- our prior year quarter. Also from a recurring standpoint, we've seen an improvement. If you think about the software margin or service margin, we saw the move to the call center in Romania, it really helped us to improve and put some efficiencies there.

Also, we've spoken about the transactions and our processing margins as well where with the smart routing and many other, again, initiatives that we put in place. We are able to improve the margins there. So also recurring revenue grew from 47% to 52%. And again, continuing to improve our operation and put the emphasis on profitable growth.

Nik Cremo - UBS - Analyst

Great. Thanks for all the color, and congrats on the strong execution.

Sagit Manor

Thank you.

Operator

(Operator Instructions) John Coffey, Barclays.

John Coffey - Barclays - Analyst

Great. Thank you very much for taking my call. I just had two questions. One was on the contribution to revenue from VM Tech and Roseman. I was wondering if you could try to break that out a little bit. Or if you couldn't do that, is there a good way to think of what the pro forma revenue would be as if you had Roseman, VM Tech last year?

I'm just trying to gauge the strength of the revenue because you probably have some fairly easy comps, so I would imagine for the next four quarters. So just trying to think about that kind of revenue growth cadence going forward.

Sagit Manor

Thanks, John. So from an acquisition perspective and M&A, as you know, both VM Tech and Roseman happened in Q2. So we're going to have them this year partially as well as first year with integration in mind and that the contribution will not be that significant. And I think I've mentioned that in our call of last quarter as well.

So, from a Roseman perspective, it wasn't material. From VM Tech, it was $1.9 million, so approximately $2 million that contributed to Q2.

John Coffey - Barclays - Analyst

Okay. Perfect. Thank you very much. That's a good reminder. And the second question I had, it looks like your take rate went up to 2.7% versus 2.6% last quarter. Is that just a little bit of seasonality, is that merchant mix? Is that sustainable? Any comments you have there would be very helpful.

Sagit Manor

Of course. So yes, it's everything that you said it's between customer mix as well as geography mix that impact take rate. It's also -- as you've noticed that we've seen that

increasing. And that can be from more EV charging and more parking, which, as you know, we don't necessarily have an influence from that. So it is.

John Coffey - Barclays - Analyst

Great. Thank you.

Operator

We have reached the end of the question-and-answer session. I would now like to turn the call back over to management for any closing comments.

Yair Nechmad

Yes. Thank you all for joining us today. I think it's another record of -- another record quarter of Nayax. Actually, this is the highest quarter that we have had since 2018 returning to operating profit, which is a significant milestone for Nayax with a very, very strong visibility to our future. And I really want to thank also to my -- to all the employees and all the work that the team are doing.

And we're looking forward to see you in the next quarter onwards and to keep raising the bar all the time. Thank you, all.

Operator

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

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