Nayax's First Quarter 2024 Earnings Conference Call Transcript

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Operator

Hello, everyone, and welcome to Nayax's first quarter 2024 earnings conference call. (Operator Instructions) I would now like to turn the call over to Mr. Aaron Greenberg. Please go ahead.

Aaron Greenberg

Thank you, operator, and everyone for joining us today on the 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 discussions 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 that 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 manner different from the industry standard.

And finally, please note that all figures in today's call will be reported in US dollars, unless stated otherwise, 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 CEO, Yair Nechmad. Yair.

Yair Nechmad

Yeah, thank you, Aaron and thank you to everyone joining us today to discuss our earnings for the first quarter of 2024. We are off to a great start to the year at Nayax. Continuing the strong performance we saw last year, we've made impressive progress in managing our daily operations to achieve profitable growth.

This quarter highlights our ability to keep growing and improving our profit, giving us a solid base for the years ahead. Specifically, our gross margin reached a better-than-expected 43.8% with hardware margin at 27%. These margins are reflective of the success we've achieved through enhancement automation and operational efficiencies across our supply chain.

Furthermore, given our operation leverage, approximately 37% of every new dollar of revenue that came in the first quarter, cascaded to the bottom line in the adjusted EBITDA. In the first quarter of 2024, Nayax reached $64 million in revenue, with $46.2 million coming from steady ongoing recurring businesses.

Our revenue growth reached 22% with our recurring revenue streams growing by 43%. With respect to recurring revenues, this growth is crucial as it highlights the shifting dynamic of our revenue streams, with recurring revenue becoming increasingly significant relative to hardware sales. As our revenue mix continues to see an increased number of transaction for micro market energy and retail, we expect increases in our average transaction volume to help drive our strong processing growth.

Additionally, we achieved a record 62,000 new and managed and connected devices, an all-time high for newly activated devices in the quarter. This quarter, we've seen an increase in revenue from SMBs compared to an enterprise customers. We anticipate a significant uptick in enterprise sales as the year continues, positioning us well to drive substantial top-line revenue growth.

Outperformance was also supported by strong demand in our OEM hardware businesses, which made up a large part of our Q1 hardware sales. This aligned with our strategy to integrate our payment solution early in the supply chain, enhancing the durability and depth of our customer relationship. As a leading IoT technology company, we are gearing up for a transformative year ahead, committed to increasing the portion of recurring revenue in our businesses.

We look forward to an exciting year ahead, focused on innovation, and we are committed to continuous growth. Furthermore, our total transaction value saw a significant increase of 34% year-over-year, crossing the $1 billion mark for the first time. This milestone is a clear indicator of our growing influence and success in the market. This growth in transaction value is accompanied by an increase in our take rate, which has improved our processing cost efficiencies as we continue to scale.

In recent weeks, we closed two strategic acquisitions that have significantly enhanced our product offering and geographic market reach. We completed the acquisition of Roseman Engineering, a provider of sophisticated software solution for fuel and electric vehicle management. This acquisition is particularly strategic as it strengthen our position in the fuel and EV sector, areas we are anticipate substantial growth due to the global shift towards sustainable energy solutions.

We are focused on having a complete one-stop solution in the payment and POS space for the energy segment, where we see significant microeconomic tailwinds due to the ongoing energy transition.

Additionally, we closed the acquisition of VMtecnologia at the end of April, a pivotal move that establish our presence in the Latin American market, particularly in Brazil. VMtecnologia is a leader in Brazil in the automated self-service industry, and this acquisition

not only expand our geographic footprint but also extend our product offering across diverse market segments in one of the most dynamic regions in the world.

For example, they have some unique technological feature with the micro market space, such as AI-enhanced security surveillance, that will work to integrate into our global offering. This sale in the micro market have been a large portion of their revenue mix over the past couple of years. And we believe micro market solution are still underpenetrated in Brazil. The Brazilian market presents significant growth opportunities, and with VMtecnologia, we have a strong and immediate foothold in this region.

As we look ahead, we are excited about the prospects for 2024 and beyond. Our M&A strategy continue to strategically complement and add to our mostly organic growth, and we expect to remain active in buying synergistic companies over the coming years. This proactive approach is central to our strategy for sustained growth and market leadership.

And lastly, I want to highlight our successful capital raise in March, led by several leading investment bank, which brought us roughly $63 million net of fee and expenses and give us a war chest for continued strategic M&A. Notably, we have been actively focused on increasing the liquidity of our shares on Nasdaq and we believe the raise in March is a significant step forward in increasing the daily trading volume.

To summarize the first quarter of 2024 has had strong and optimistic turn for the rest of the year. We are thrilled with our financial performance and the strategic progress we've made. Our platform not only facilitated expansion within existing markets, but also enable us to seamlessly enter new markets and enhance our global footprint.

We remain committed to leveraging our unique platform to deliver a comprehensive payment and loyalty solution across a broad spectrum of market segments, thereby continuing to drive growth and enhance shareholder value.

I would now like to turn the call over to our CFO, Sagit Manor, who will go into more detail about our business performance for the first quarter and our outlook for 2024. 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 Q1 2024 earnings. This quarter continues to build on our historical strengths and showcases our ongoing commitment to growth and innovation.

Starting with our quarterly performance. I'm pleased to report that our revenue for Q1 2024 reached $64 million, marking a 22% increase from Q1 2023. I would like to highlight that we consistently managed roughly 20% of our annual revenues during the first quarter. We expect, as with previous years, our revenues to accelerate as the year continues supported by strong pipeline that gives us confidence in our growth trajectory for the rest of the year. I will provide more information about our guided revenue later.

A key highlight of this quarter has been the substantial growth in our recurring revenue, which reached $46.2 million, a 43% increase year over year. This performance is a testament to the scalability of our SaaS-based business model and our sustained high dollar net retention rate of 134%.

As a core component of our business model, recurring revenue from our SaaS subscription and payment processing fees now represents approximately 72% 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 $1.1 billion in Q1 from approximately $800 million in Q1 2023. This growth not only reflects our expanding market presence, but also the increased adoption and utilization of our platforms.

Hardware revenues decreased this quarter by 11% because of a shift in customer mix towards SMBs, as well as a change in product mix, which favors devices with lower average selling prices, both of which resulted in a higher gross margin.

In terms of profitability, we've made notable strides in improving our housing margins and optimizing our supply chain infrastructure. As a result, our overall gross margin improved impressively to 43.8% in Q1 2024, up from 34.1% in Q1 2023. This includes a substantial rise in hardware margins, which increased to 27% this quarter from 12% in the prior year quarter, thanks to an advantageous sales mix and significant reduction in our product costs.

While top-line revenue grew by 22% over Q1 of last year. Total gross profit grew by 56% to $28 million from $17.9 million. Additionally, our adjusted EBITDA grew this quarter to $3.6 million compared to an adjusted EBITDA loss of $0.6 million in the same period last year. This includes purchase accounting adjustment to deferred revenue related to the retail for acquisitions. Without this adjustment, adjusted EBITDA would have been higher by $1.3 million.

The improvement in adjusted EBITDA highlights our commitment to maintaining cost control while investing strategically in growth opportunities. Our customer base also saw a

significant growth, reaching over 76,000 by the end of Q1. This does not yet include customers from our recent acquisitions of VMtecnologia and Roseman, which were closed early Q2 and will add further depth and breadth to our customer portfolio.

We continue to invest heavily in our customer support and success teams, ensuring that all clients receive maximum value from our solutions. The number of managed connected devices stands as a testament to our scale and robust platform capabilities, with over 1.1 million managing 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 demonstrates the scalability of our infrastructure.

On the financial front, our cash position remains strong with cash and cash equivalents standing at $93 million at the end of Q1, bolstered by approximately $63 million of net raised through our recent offering. Our debt stands at $48.2 million.

Looking ahead to the rest of 2024. We are excited about the opportunities that lie ahead. We are reiterating our revenue guidance to a range of $325 million to $335 million, reflecting our confidence in the underlying strength of our business and the efficacy of our growth strategy.

We anticipate continuing to see the improvement in our hardware gross margins due to economies of scale, enhanced pricing strategies, and continued cost optimization initiatives. In light of these factors, while we are reiterating our guidance of 25% to 27%, we expect it to be closer to the top end of the range. Furthermore, we are reiterating our guidance of adjusted EBITDA with a 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 of 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 around 35% and a target gross margin of 50% through strategic initiatives, including leasing options for IoT POS and extending SaaS and payment processing revenues. Our adjusted EBITDA margin target continues to be around 30%.

Thank you once again for joining today's call, we look forward to sharing more about our progress in the upcoming quarters. And I will now turn the call over to the operator to begin the questions-and-answers session. Operator?

QUESTION-AND-ANSWER SESSION

Operator

Thank you. (Operator Instructions)

Chris Kennedy - William Blair & Company, L.L.C. - Analyst

Good morning. Thanks for taking the question. You talked about enterprise sales could accelerate in the second half of the year. Can you talk a little bit about the pipeline, whether it's from a vertical or geographic perspective?

Yair Nechmad

Hi, Cris. Thank you for the question. Yes, it is from both. It is from verticals, we see the vertical, as I mentioned in the past, the vertical of the EV. We see it strongly. It's coming from geographic of EV, where we located, where we're serving directly and also with the OEM. So we see the EV as a strong part of the of the growth and also from the unattended, the core business of Nayax, we see the vertical of big operators that will place orders. We have a great a great way to say that we will meet the target of the year. That's the bottom line.

Chris Kennedy - William Blair & Company, L.L.C. - Analyst

Great. Thank you for that. And then just a quick update on CoinBridge. I think revenue started late last year. Just can you talk about kind of your expectations for that strategy going forward, that initiative? Thank you.

Yair Nechmad

So we completed the -- thank you for this. So we completed all the preparations for this business to fly and to start moving ahead. We are doing a testing with the two Israeli companies over here that are taking the -- finalizing their side. And it will be in H2. There will go full flow of full operation in terms of doing marketing campaign over this.

And then at the same time, we will open also with the at least two European companies that will take over also the company, the CoinBridge product.

So I believe this year, we'll see some signs which are taking not just from pilot, but really taking production side. So we're still on track and we still believe that it's a great opportunity for customers to leverage on the what you call the loyalty and what we call the points to fiat money that will move the needle for them and for us.

Chris Kennedy - William Blair & Company, L.L.C. - Analyst

Great. Thank you.

Operator

Nik Cremo, UBS.

Nik Cremo - UBS - Analyst

Thanks for taking my question and congrats on the strong recurring revenue growth. First, I just wanted to touch on the payment processing rate in the quarter, which is up 10% year-over-year. Can you please elaborate on what drove the elevated rate, and should this level persist throughout the year?

Yair Nechmad

I'm sorry, I couldn't hear you quite well. Maybe Sagit, can you answer this? Did you hear good the question?

Sagit Manor

Yes. Thank you, Nik and welcome to our conference call. The question was about the payment processing that increased. And what's the reason for it. And I always say it's two reasons. One is the number of managed and connected devices that are growing significantly. Just this quarter, we increased by 62,000 devices, which means that more devices, more Nayax devices are out there, more and transactions are being processed through our devices, but also it's the continuous of the consumer behavior change and the fact that more payments, more cashless transactions are going through our devices.

Now, if you ask about take rate, if I missed it and you asked about the take rate, take rate is more or less in line with last quarter. But in general, I believe it's mainly the stickiness of the inflation that we've seen over 2023 that still exists, as well as some shift towards verticals that are more expensive in nature like parking, like EV charging.

Nik Cremo - UBS - Analyst

Got it. Thanks for all the additional color. And then for my follow-up, I just wanted to ask on the hardware revenue that came in slightly below our expectations in the quarter. I know there's some lumpiness in this revenue line, but can you share about what your expectations are for hardware revenue growth for the remainder of the year that's contemplated in your 2024 outlook? Thank you.

Sagit Manor

Of course, so usually, Q1 is a traditionally -- is slower quarter, which as we talked about that typically makes up about 20% of our revenue. Specifically on the hardware revenue, it was lower or slower in Q1 for two reasons. One was the customer mix, that shifted to more sales to SMBs, which means smaller order size, but also have a higher margins in place.

And then it was -- the second reason was a product mix that favored lower featured and lower ASP products. But again, have higher gross margins. And the reason why I'm saying it was it was around the fifth of our revenue in Q1 is because we usually have a stronger second half of the year and we believe that 2024 will be the same as previous years. And therefore, we believe that the hardware revenue will be between 30% to 35% of our total revenue as it was in previous years.

Nik Cremo - UBS - Analyst

Got it. Thank you very much.

Operator

Thank you. (Operator Instructions)

Trevor Williams, Jefferies.

Spencer James - Jefferies LLC - Analyst

Hi, this is Spencer James on for Trevor Williams. Thank you for taking the question. I wanted to ask on the trend of device growth and customer growth outpacing the growth in transactions per device in the quarter. Is it fair to assume that trend should continue, that device growth will continue to grow while you might see some pressure on transactions per device?

Sagit Manor

Hi, thank you for the question. So, devices, as you've seen, we believe that it's growing slowly, and we believe this will continue to slow. Q1 was very strong and from a device activation perspective. And as you remember, there's always a certain delay between the time that we actually sell the device. It might be a quarter or two to the time that is actually being activated. So very strong quarter and Q1 and activation as a result of strong revenue in Q3 and Q4.

From a number of customers, you're absolutely right. We've added 4,000 customers this quarter, again, a very consistent with our previous quarters as we continue to grow and we continue to capture market share.

And about the transaction per device, it's still, consistent with previous quarters. So I'm trying to understand the question and what exactly you're trying to understand here.

Spencer James - Jefferies LLC - Analyst

No, that's helpful. Just trying to, -- maybe what was the payment processing revenue per device that I was looking at, but that's helpful context. Thank you. And maybe just to follow up on. Go ahead.

Aaron Greenberg

If I can clarify maybe one of the things to keep in mind was the Retail Pro acquisition at the end of last year as well. So if you're looking quarter over quarter from this year to last year, it does include the 130,000 POS devices that were that were added from Retail Pro at the end of last year, in which case there was not payment processing as part of that.

Spencer James - Jefferies LLC - Analyst

Okay. Thank you for the clarification.

Aaron Greenberg

But as Sagit said, we think it's consistent.

Spencer James - Jefferies LLC - Analyst

Appreciate it. And then maybe if you could just help around the cadence of expenses throughout the year? Is it fair to assume just gradual quarter-over-quarter step-ups throughout the year?

Sagit Manor

So we haven't committed to -- we haven't provided guidance on the OpEx, but we did provide the guidance on the revenue and the adjusted EBITDA. To answer your question, the answer is, yes. At this quarter specifically, we see an increase from Q4, mainly due to the reason for acquisition. And but we are expecting, as we've talked about it when we provided the guidance, a moderate increase in OpEx to meet the expected the EBITDA of $30 million to $35 million.

Spencer James - Jefferies LLC - Analyst

Understood. Thank you for taking the questions.

Operator

Thank you. At this time, end of our question-and-answer session, I would like to turn the floor back to management for closing remarks. Ladies and gentlemen, please standby. We're experiencing technical difficulties. This call will resume momentarily.

Sagit Manor

I apologize. I think that we have some connectivity issues. So I'll take that, and I would like to thank everyone for joining today's call. We're grateful to the Global Nayax team for their dedication to successfully executing our vision and mission.

We also wanted to extend the appreciation to our partners and customers who play a critical role in our success as a leading payments company. We are proud of our achievements so far in 2024, and we are excited about what the rest of the year will bring. Thank you once again, and we'll speak soon.

Operator

Thank you. This will conclude today's conference. You may disconnect your lines at this time, and thank you for your participation, and have a wonderful day.

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