Nayax

Nayax's second quarter 2026 earnings conference call transcript

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Operator

Hello, everyone, and welcome to Nayax's Second Quarter 2026 Earnings Conference Call. All participants are at present in a listen-only mode. Following management's formal presentation, instructions will be given for the question and answer session. As a reminder, this conference is being recorded. I will now turn the call over to 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 will 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 a 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 of 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 manner different from the industry standards. Finally, please note that all figures in today's call will be reported in U.S. dollars unless stated otherwise.

Yair will start the call with key financial and operational highlights. Following that, I will speak about some of our strategic initiatives in more detail. Finally, Sagit will go through the details of financial results and discuss the outlook. With that, I would like to turn the call over to Nayax's CEO, Yair Nechmad. Yair?

Yair Nechmad

Thank you, Aaron, and thank you everyone for joining us this morning to discuss our results for the second quarter and the progress we are making across the business. We had a strong quarter with revenue up 28% to approximately $123 million and adjusted EBITDA of $14 million. For the first half of the year, revenue increased 30% to approximately $230 million, with organic growth of approximately 24%, in line with the full year guidance we outlined at the beginning of the year. Our business is performing extremely well, driven by our strong growth algorithm. We continue to onboard more merchants, sell payment devices, and then monetize every transaction that flows through our platform. Our flywheel is working. Each new device installed compounds our high margin recurring revenue stream.

To this end, we increased our installed base to more than 1.55 million devices globally, and our customer base reached 125,000, reflecting both our continued success and the significant opportunities in the market. Furthermore, the fundamentals across the business remain solid. Our Net Revenue Retention remained around 120% with historically low churn. This is an indication that we are supporting our customers and they, in return, are buying more from us each year. As our business continues to expand into higher value verticals such as EV charging, growth is increasingly driven by the number of devices we deploy and also by the increasing value generated by each connected device, as reflected in the continued growth in ARPU and ATV.

This, in addition to the tailwind from the cash to cashless conversion trend, presents that we have the right strategy, the right product offering, and the right team to execute against a large and growing market opportunity today. We see great opportunities in several key strategic areas across the organization, and we are accelerating these investments to support our growth and take advantage of our leadership position in unattended payment. Specifically, in financial services, we

are extending the platform into funding and card products for the merchants we already serve. As many of you have already seen from our announcement a few days ago, we continue to expand the strategic capabilities of the Nayax platform. Nayax Capital gives us in-house lending and installment technology that we have been building for several years now. In addition, we have deployed our own card infrastructure as a licensed principal issuer.

Combining those two gives us the opportunity to add loyalty solutions, interweaving the complete financial product portfolio while bringing more value to the merchant. These services, coupled with our recently announced application for a U.S. bank charter, would give us a set of capabilities that few of our peers can match, which includes banking, loyalty, financing, and issuing. Aaron will share more about this exciting news and what it unlocks in more detail in a moment. In EV, customers of the combined Nayax and Lynkwell offering are driving demand that is enabling us to deploy a higher rate of DC fast chargers at more than double the pace we saw pre-acquisition. We are intentionally not slowing that deployment rate, as it directly drives both the growth rate of Nayax's future recurring revenue and our market share in the EV market.

Every charger deployed faster becomes a source of recurring revenue and captures more share sooner. While these investments do not change our expectation for revenue or adjusted EBITDA guidance for 2026, both of which we are reaffirming, it will impact our free cash flow in the short term. We believe this investment positions us to capture significant long-term growth opportunities and solidify our industry-leading position. Separately, five years after going public, we have implemented a new long-term management incentive plan to recognize and reward our dedicated senior leadership team over the next five years, built around our 2028 strategic milestones and beyond. The vision is simple. Nayax is building towards a multi-billion dollar revenue company, and this plan ties our senior leadership to our strategic milestones we have set out publicly.

Let me close with where I believe the company is heading. 20 years ago, we were selling a card reader for a vending machine. Today, we are the payment engine for more than 125,000 businesses across more than 40 verticals, and most of them run their daily operation on our software. Every device we connect is a permanent touch point, running our software and processing on our platform. What excites me now is what we can put on top of the platform. Payment was the first service, software was the second, financial services are next, and others will follow. Each one is a new revenue stream for our new and existing customers, leveraging infrastructure we have spent years to build.

The investments we are making this year in EV and in our banking infrastructure are extending the platform we've built and creating additional long-term recurring revenue opportunities. As a founder, I am more confident about where Nayax is headed than I have ever been. With that, I will turn the call back to Aaron to discuss some of our strategic initiatives in detail. Aaron, please go ahead.

Aaron Greenberg

Thank you, Yair, and hello, everyone. I want to cover two topics today, the bank charter application we announced last week and what it means for our embedded financial services strategy, as well as provide an update on our M&A strategy. Last week, we announced that we filed an application with the Connecticut Department of Banking to establish Nayax America Bank Inc., a non-depository Innovation Bank under Connecticut's Innovation Bank Charter framework, headquartered in Fairfield County. The filing is not the beginning of the process. It follows a year of application drafting and direct engagement with the department and builds on the operational and regulatory foundation we began putting in place in early 2025. Let me start with why. Today, Nayax provides payment facilitation in the U.S. through partnerships with acquiring and processing banks under the agent of payee exemption.

This works for what we do today, but does not give us the regulatory framework to expand our product portfolio. The moment we offer more financial services such as financing or card issuing, we would trigger licensing requirements across a large number of states, each with its own application, bonding, and examination. Having a single Connecticut bank charter largely replaces that patchwork. First, the charter strengthens the foundation under the business we already run. Second, it opens the door to embedded financial services, and that is the larger opportunity. Over the past five years, we have built our own issuing infrastructure from the ground up. We are already a licensed principal issuer in the E.U., U.K., and Israel. Last year, we brought Nayax Capital fully in-house, adding lending and installment capabilities.

Together, these give us a nearly complete offering in embedded financial services, built in-house rather than stitched together from vendors. With that, we can serve our customers better than a traditional bank. Our underwriting is based on the payments we process. We see settlement data from these merchants in real time, every day on our own platform, so we can make a faster decision on a lower-risk loan than is possible from looking at financial statements or a credit file alone. Collections run through automated deductions from settlement flows we already control, which materially changes the recovery profile. Our acquisition cost is extremely low because these merchants are already on our platform. It is important to highlight that we intend to only extend credit to our payments customers. This is a value-added service layered on top of the core business, not a separate vertical with a different risk profile.

That will keep the loan book conservative and margins strong. The United States is our biggest initial opportunity, where today, almost all of those merchants' financial services are handled by someone else. On timing, the department's review, which includes an independent feasibility study and a public hearing, is expected to take approximately six months. Approval is not guaranteed, and we cannot give assurance as to whether or when a charter would be granted or on what conditions. Assuming approval, our plan is for the bank to be operational in 2027 and to begin contributing incremental revenue that year, with acceleration as we move into 2028 and beyond.

On capital, we expect to fund the bank initially with $10 million using our existing balance sheet, with approximately $1.5 million of capital restricted at opening.

Once we show proof of concept, we intend to minimize the direct impact on the balance sheet by utilizing off-balance sheet funding structures such as a warehouse facility. We believe this is a large opportunity for Nayax, coming from capturing more wallet share from the merchants already on our platform rather than from adding new customers. Turning to M&A, our pipeline remains robust and our priorities are unchanged from what we have previously described. We continue to target two to three acquisitions a year. We are actively working on several opportunities and still expect to announce more this year. As we said in March, we will only guide on acquisitions once they have been finalized.

Our playbook is consistent. We look for software companies and verticals where payments and software have to work together. We combine them with our payment stack and we take the result global on infrastructure we already own. We did it with Lynkwell and EV, with Tigapo and Family Entertainment. It is a repeatable model and it is how we intend to keep scaling into new verticals. I would now like to pass the call over to our CFO, Sagit Manor, to go over our business and financial results and provide our outlook.

Sagit Manor

Thank you, Aaron, and good morning, good evening, everyone. We appreciate having our shareholders, analysts and the entire Nayax team with us today as we review our financial results for the quarter. As Yair and Aaron highlighted, we continue to execute well across both our core business and continue to invest in our strategic growth initiatives. The fundamentals of the business continue to strengthen. During the second quarter, we delivered record revenue as well as record total transaction value, while we continued to grow our customer base and installed base of managed connected devices. We also continued to improve key operating metrics, including ARPU and ATV. These results reinforce the strength of our business model. The more customers we onboard, the more opportunities we create to extend payment adoption, increase transaction activity, and grow recurring revenue across our platform.

These quarterly achievements demonstrate both our ability to scale the platform and to deepen customer engagement across our installed base. Looking ahead, we believe we are still in the early stages of our long-term growth opportunity. As our newer verticals continue to scale and our OEM partnerships mature, we see meaningful opportunities to extend both our installed base and the value we generate across the base over time. Let me now walk you through how our execution is reflected in our financial results for the quarter. Turning to the financials. Revenue increased 28% to approximately $123 million, including 21% organic revenue growth over the prior year's quarter. Organic revenue growth for the first half of the year is approximately 24%, in line with our guidance. Recurring revenue grew 24% and represented approximately 72% of total revenue.

We ended the quarter with an installed base of more than 1.55 million managed connected devices while serving 125,000+ customers globally. Total dollar transaction value grew an impressive 29% to $2.1 billion. Consistent with recent quarters, we continue to see a favorable mix shift towards higher value verticals. Average Transaction Value, or ATV, increased to $2.52 from $2.20, while take rate remains strong at 2.62%, representing a mix of both regional and vertical shifts. Combined, these indicators show that our growth is increasingly driven by adding devices and also by increasing activity and monetization. We saw a continued increase in the revenue generated from each connected device. Average revenue per unit, or ARPU, increased to $251, up 13% year-over-year. This increase continues to be driven by two main factors.

First, the ongoing conversion of existing machines from cash to cashless transactions. Second, our strategic expansion into higher value verticals such as EV charging, amusement, and car wash. Turning now to hardware revenue. Hardware revenue increased 40%, increasing by approximately $10 million year-over-year to $35 million. This growth reflects continued demand across all markets together with the contribution from Lynkwell. Approximately two-thirds of the year-over-year increase in hardware revenue came from Lynkwell, reflecting the continued expansion of our EV platform and strengthening our position in this important long-term growth market as we continue to capture market share. Lynkwell is the second-largest charging network in the New York area and seventh-largest in the U.S. In the card-present payment solution through Nayax LLC, we believe we are a leading provider in the U.S.

By combining our payments with the Lynkwell platform, we have a differentiated solution that sets us apart and which we continue to scale. This success is shown with our first half beating internal estimates in EV-related revenue. Moving now to profitability and margin for the quarter. Overall gross margin for the quarter was 47%. The continued expansion of our recurring business remains the key driver of our long-term profitability, with both processing and SaaS margins improving again this quarter. Recurring gross margin increased to 54%, up from 53% in the prior year quarter, reflecting continued scale, higher transaction volume, and broader adoption of our software solution across our installed base. Processing margin improved to nearly 41%, up from 39% a year ago, reflecting the continued benefits of our renegotiated acquiring agreements together with our enhanced smart routing capabilities.

SaaS margins also expanded to 76% from 74%, reflecting continued scale. Turning to hardware margin that came at 28.1%. The primary driver for hardware margin this quarter was product mix. As I mentioned, approximately 65% of our hardware revenue growth came from Lynkwell, which has lower hardware margins than our VPOS product family. In addition, higher freight and logistics costs created modest pressure on our hardware margin during the quarter. Adjusted OpEx was $44 million, representing approximately 36% of revenue and consistent as a percent of revenue both sequentially and compared to the prior year period. While we maintain an active hedging program,

the appreciation of the Israeli shekel against the U.S. dollar resulted in an approximately $2.3 million headwind compared to the first quarter.

Adjusted EBITDA increased 12% to $14 million compared to the prior year's second quarter. Adjusted EBITDA was impacted primarily by the appreciation of the Israeli shekel against the U.S. dollar, which increased our operating expenses in dollar terms. At the same time, as we enter into the second half of 2026, we continue to drive initiatives to improve productivity and operational efficiency as we scale the business. We expect adjusted OpEx to be roughly $42 million per quarter in Q3 2026 and in Q4 2026, excluding any impact from changes in FX. Let me provide some more details about where the improved productivity and operational efficiency will come from.

The meaningful step-up from the first half will be driven by the continued mix shift towards recurring revenue with higher processing and SaaS margin, as well as an expected uplift in hardware gross margin in the second half of the year. The balance will come from operating leverage as we continue to implement AI in our day-to-day business and continue to integrate process automation. As Yair mentioned, in the second quarter, we initiated a company senior leadership stock-based incentive plan called the Diamond Plan. The total consideration from this plan is approximately $48 million over five years. In addition, the company awarded our CEO and CTO, both co-founders, with a long-term incentive plan tied to the Nayax total shareholder return, with it fully vesting at $240 per share.

The total consideration from this plan is approximately $10 million over three years. This aligns the long-term future of our co-founders and senior leadership with the shareholders towards a common goal. This quarter includes several stock-based compensation items that are separate from the underlying operating performance of the business. Stock-based compensation totaled $12.4 million in the quarter compared to $2.5 million in the prior year period. The increase reflects three elements. First, $5.8 million stock-based awards related to employee performance in 2025, which, under applicable accounting rules, are recognized in the current reporting period. Second, the $5.9 million stock-based awards regarding the launch of our Diamond Plan, a new five-year long-term management incentive plan as mentioned above. Q2 specifically absorbed a higher stock-based expense related to a one-time fully vested RSUs of $4.5 million given as part of the Diamond Plan.

Third, $0.7 million related to the new long-term incentive plan to our founders. We expect stock-based compensation to be approximately $27 million for the full year 2026, representing approximately 5% of the revenue for the year. Net financial expenses increased $4.3 million compared to the prior year period, primarily reflecting higher expenses due to FX and interest expense associated with the bond issuance completed in 2025. We reported a loss of $10.1 million for the quarter, compared to net income of $11.7 million in the prior year period. The primary driver in Q2 2026 for this change was a significant increase in non-cash stock-based compensation expenses of $12.4 million, as mentioned above. The prior year net income included a one-time

gain of $5.6 million related to the share purchase of the remaining 51% of Nayax Capital, which was previously held as a joint venture.

Given the significant non-cash stock-based compensation recognized during the quarter, we believe adjusted net income also provides a useful view of the underlying operating performance of the business. Adjusted net income for the quarter was $6 million, compared to adjusted net income of $11 million in the prior year period, driven primarily by higher financial expenses.

Turning now to our balance sheet. As of June 30, 2026, cash and cash equivalents and short-term deposits totaled $304 million, while total short- and long-term debt stood at $349 million, maintaining a strong balance sheet and significant financial flexibility. Cash generated from operating activities for the first half of 2026 was $2.3 million. For the quarter, free cash flow was negative $13.1 million, primarily reflecting Lynkwell's project-heavy business, securing sourcing of key components and costs, increased banking infrastructure investments, and the timing of cash settlements from our processing activities.

Turning now to our outlook and referring to the forward-looking information included in today's press release. As Yair mentioned earlier, we are reaffirming our full-year 2026 revenue and adjusted EBITDA guidance. We continue to expect revenue of between $510 million and $520 million, including organic revenue growth of 22%-25%. We also continue to expect adjusted EBITDA of approximately $85 million-$90 million, representing an adjusted EBITDA margin of approximately 17%, as we continue to improve our margins and our operating leverage through AI implementation and process automation. The one element we are revising in our guidance is our free cash flow outlook. We now expect free cash flow conversion from adjusted EBITDA of approximately 5%-10% for the year. This primarily reflects an accelerated investment we are making to support our long-term growth initiatives.

The areas of investment are in financial services, including lending, installment, and issuing capabilities, capturing market share in the EV charging space, and securing sourcing of key components and costs. Importantly, this update reflects the timing of cash flows rather than a change in our underlying operating outlook. As Yair discussed earlier, these investments are aligned with our long-term growth strategy. Overall, we remain confident in our outlook for 2026. The fundamentals of the business remain strong, and we believe the investments we are making today position Nayax to further strengthen our leadership position and create long-term value creation. I want to thank all of our Nayax colleagues for their hard work. With that, I'll now turn the call over to the operator for our Q&A session. Operator?

QUESTION-AND-ANSWER SESSION

Operator

Thank you. We'll now be conducting a question and answer session. If you'd like to ask a question, please press star one on your telephone keypad, and a confirmation tone will indicate your line is in the question queue. You may press star two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we assemble the queue. Thank you. Our first question is from the line of Josh Nichols with B. Riley Securities. Please proceed with your questions.

Josh Nichols - B. Riley Securities Holdings Inc

Yeah, thanks. Appreciate my question. Good to see another strong revenue post for the quarter. Maybe if you could provide a little bit more granularity on some of the insights, particularly what's driving that top line. You obviously had Lynkwell this quarter, but EV charging I assume has been ramping up pretty specifically. Also, if you could provide any commentary about specific geographies, whether it's U.S., Europe or Latin America, to what you're seeing there, that could be helpful.

Sagit Manor

Thank you, Josh. Josh, how are you doing? We saw a beautiful Q2, as you said, it's 28% over the quarter and 30% since the beginning of the year. The growth comes from all geographies and all verticals. You can see that in the geography pie that we usually provide. Very strong quarter. Yes, EV is also growing beautifully through Lynkwell. We were able to secure several large deals that are growing nicely. As you know, the hardware is just the beginning. It's the lock-in and the enabler for the CPMS, which is the Charge Point Management System, that later on will bring the recurring revenue, including payments.

Aaron Greenberg

Sorry, this is Aaron. Maybe I'll just add on the EV side. We've had an acceleration in the U.S. because of the Lynkwell acquisition, and we're seeing a lot of success right now with bundling the payment solution, our payment solution, with Lynkwell's OCPP management solution. We're also starting to see some more success year-to-date in Europe, after the VPOS Media came live. In the past several months, we've won a couple of large RFPs in Europe recently because of the PIN-on-Glass device. We expect to see more acceleration in the rest of the world for the EV side going forward.

Josh Nichols - B. Riley Securities Holdings Inc

I think that's the context there. Just to touch on it, you reaffirmed the guidance for the revenue and EBITDA. Makes sense that you're doing some more investments in the near term, that they're taking free cash flow conversion down a little bit. You also mentioned at Lynkwell, some of the hardware margins were down, but you expect those to rebound. In terms of timing, are these

mostly 2026 investments, and you think that things revert to a little bit more traditional conversion for next year and hardware margins, or is this going to be something that takes a little bit longer?

Sagit Manor

Yeah, thank you, Josh. With respect to the investment, we expect that to be mainly in 2026. We've mentioned that, and this is really the reason why we reaffirm our guidance on the revenue and adjusted EBITDA, because it doesn't really affect that. But we revised our guidance on the free cash flow because of those investments. It's actually three or four elements of cash investments. One is, as you can see, Lynkwell has a heavy cash investment at the front to later on receive those cash rewards from the government as we get those funds back. This is really to capture market share as we do right now. Lynkwell is the second place in New York with their CPMS, their management system. They are third in the Northeast, and they are seventh nationally.

With those investments, we have a great opportunity here, right, to capture market share. We do not want to pass on that. The second area of investment is the financial services area, where, as you know, we have the issuing through CoinBridge, and we have the financing through Nayax Capital. We also have the loyalty, and now we have the banking through the bank charter and through the application that we just announced in the Connecticut Department of Banking. It obviously will take six months, but those four elements, again, the issuing, financing, loyalty, and banking, really give us the full solution that is needed to provide our customers what they need the most, right? One end-to-end solution that gives them not just the area where we built at the beginning, which was the hardware, the software, and the payment.

Now we actually have those financing services. That's the second area of investment. The third area is securing a few key components from a sourcing and cost perspective. We were able to really manage our costs despite the memory issue. The memory issue might come in 2027, in the second half of 2027, which is a long time from now. We are focusing on the now, and we are able to really focus on how do we manage the cost and the margin extensions we showed also in the hardware margins. Lastly is the timing, obviously, that we have every time between the money, the funds from our customers, and the processing requires money. All of that created that really looking at our free cash flow, what do we want to invest now that has long-term growth initiatives and opportunities in the future.

Josh Nichols - B. Riley Securities Holdings Inc

Thanks for the clarification. Appreciate it. Good luck.

Operator

The next question is from the line of Rayna Kumar with Oppenheimer. Please proceed with your question.

Rayna Kumar - Oppenheimer & Co Inc

Good morning. Thanks for taking my question, and congrats on the bank charter. I know that was tons of work, so congrats. Just want to start on the hardware margin. Was that decline in the hardware gross margins anticipated in 2Q? How should we think about hardware and SaaS and payments margin for the remainder of the year? Thank you.

Sagit Manor

Hi. The hardware margins. I will start from the beginning. We are going to take any opportunities we have, especially when it comes to creating a strategic opportunity from our perspective to capture market share, and that was the Lynkwell story this quarter. Almost two-thirds of the revenue, the growth of the revenue, came from Lynkwell. That is the reason why it has a higher weight, if you will, on the margin. As we step into Q3 and Q4, I am expecting the margins to go back to more or less where they were in Q1. So that will help us, in that sense, to continue and keep our margins in the high 40s as we showed recently.

Rayna Kumar - Oppenheimer & Co Inc

Okay, that is great color. Very helpful. I understand that you are reiterating your EBITDA guide, lowering the free cash flow guide because of accelerated investment. Are all of these investments going through CapEx? Why is it not flowing through EBITDA? Thanks again.

Sagit Manor

Some of them are coming through EBITDA. Some of them, like the financial services, not everything can be capitalized, and that's one of the reasons why our adjusted OpEx was a bit higher, on top of the hedging of the exchange rate impact. Having said that, let's start from an OpEx standpoint or adjusted EBITDA standpoint. We are expecting an improvement both in the hardware margins as well as continue on the recurring margins that, as you can see, processing margin improved almost by 1% and SaaS even improved. So continue to push where we can on the margin extension overall. We also implemented a few efficiencies within our company, both from AI implementation, looking at our customers and what we can, make the smoothest condition and reduce the friction with them as well as internally.

How can we do more with less, especially that we've implemented AI almost across all of our departments. There's a lot of things that are being done from a P&L standpoint to meet what we said we're going to do. On a cash flow perspective, I provided a bit more color on where those investments are going and how that's impacting the 2026 free cash flow forecast.

Rayna Kumar - Oppenheimer & Co Inc

Thank you.

Operator

The next questions are from the line of Cris Kennedy with William Blair. Please issue your questions.

Cristopher Kennedy - William Blair Capital Partners

Great. Thanks for taking the questions, and appreciate all the information. Yair mentioned how financial services could represent the next leg of growth for the business. Is there any way to frame the opportunity there relative to payments or software?

Yair Nechmad

Hi, Cris. It's Yair. We're not putting out some kind of, what do you call, more color to this right now, but I can say the following. We're holding more than 125,000 customers. Basically, I'm always saying that the pay-in was the part of, what do you call, the business of the acquiring that we're doing, and you see the take rates that we're having out of it. But we can only imagine that, if everything goes well, the payout will be part of it. You can imagine that, pay-in and payout all together, both sides, is protecting our margin, protecting the churn, protecting the growth of the business, and for sure, creating the working capital better for the customer.

Aaron Greenberg

Cris, maybe I'll just add that the financial services, it's a value-added service to the payments and software that we're doing. We're not trying to become a bank first. We're still a payments company, and payments is the core of our business. The financial services are really to try to add additional value to our existing customers, and that's a large part of what I was discussing, is we're trying to come in from a low-cost perspective. But we're trying to bring value to the customer, which means, because we can underwrite at lower risk, because we know their payments flow, we know day-to-day how they're transacting in their business, we're able to underwrite easier.

We're able to make decisions faster and more nimble, and at a lower risk, which allows us to be able to give a lower interest rate, hopefully, to the customers than competing traditional banks. If we're looking forward, can it be a good accelerant to the business? Absolutely. Do we think that it's going to become the majority of revenues? Absolutely not. It's going to be a value-added service to our existing customers. Obviously, we'll have more to talk about over the coming quarters and once we launch the bank charter in 2027, like we mentioned. We'll hopefully give some more guidance then on how we're seeing things as well.

Cristopher Kennedy - William Blair Capital Partners

Great. Thanks for the additional color there. Sagit, I know you affirmed full-year organic growth guidance. Can you just talk about the modest slowdown in the second quarter and the implications for organic growth in the second half? Thank you.

Sagit Manor

Thanks, Cris. We look at it. You know me. We know each other for a few years now, that we never look at one quarter and look at it as a trend. I look at it from a six-month perspective, 24% organic growth, 30% growth for the first six months, showing that everything is working. The flywheel is working. The fundamentals of the business are there. We had a great Q4 and Q1 from a retrofit on the VPOS Media. Q2 was great as well, but you can see that it's kind of getting back to where it was before. I'm expecting the same, 22%-25% as we've initially guided from the recurring revenue.

We see the growth, as I said, in all geographies, growing beautifully, both in Europe and in the U.S., as well as in other areas like Asia and Latin America. I'm expecting to see Q3 and Q4, which are always higher, right? The first half is usually around 45% of the revenue, second half is around 55% of the revenue. That's where it's going to come from. All the great verticals that we've been able to build during the last 20 years of the company, with 1.5 million devices that are paying, the growth and the strong recurring revenue of 72%, the flywheel is working.

Cristopher Kennedy - William Blair Capital Partners

Understood. Thanks for taking my questions.

Operator

The next question is from the line of Hannes Leitner with Jefferies. Please proceed with your question.

Hannes Leitner - Jefferies

Thanks for letting me on. I have also a couple of questions. Maybe just on the banking charter, you have given quite extensive commentary here. Maybe just why is it now the right time? Just thinking a little bit about your scale, and why would you think that you can do this under self-control better than through a smart partnership? That's the first question. Then maybe just thinking about the H2 outlook comparative, especially in VPOS it gets tougher, but also in geographies like Europe and the U.S., if I look at previous years' growth rate per region. Maybe you can comment about the moving parts and maybe not only about geography, but also in terms of product. That would be very helpful. Thank you.

Aaron Greenberg

Hi, Hannes. This is Aaron. I'll take the first question, and then maybe Sagit will take the second question. With regards to the bank charter, this is a process that we started to look at in early 2025. It's something that, even before that, we've been investing in the technology for financial services for several years now. We've been working on issuing since right after COVID with CoinBridge. We've been working on the financial services with lending and hardware purchase financing with the Nayax Capital solution since around 2022. This has been part of the long-term

plan for many years. Why now? Because we see this huge opportunity in the market, especially with all the AI enablement and everything. The ability to be able to understand data now is significantly better than even 12-24 months ago. How can you monetize data?

In many different ways, this is something that we've been looking at for the last several years. As we look forward, really what we want to do is to be able to help our customers be able to better operate their business. That comes really in two ways. One, we've already implemented, the second one we are implementing. The first one is being able to give more actionable insights to our customers. Think through the MoMa application, for example, and being able to utilize AI to allow for planograms and to give them better insights on what they should be stocking in order to get higher revenues. That's number one, and we've been putting a lot of time and investment into that.

The second is the financial services. As we look forward, the bank charter is not a two-day process. It doesn't only take six months. This is a multi-year process. Strategically, we started planning this a couple of years ago because we believe that we're now at the inflection point of our business, where being able to take on these financial services, we'll be able to add value, and we have enough scale to be able to service our customers.

Then to the final question that you asked, why do it ourselves and not run it through sponsor banks? It's a really good question, and again, it kind of goes back to where we stand in AI right now. What is the most important asset that you have nowadays? It's data. If you give up your data to sponsor banks, they are the ones who are essentially underwriting the customer. They're the ones who own the customer at the end of the day. We've essentially lost all control over our customer.

We believe that as we go forward in our business, these key services, payments, lending, issuing, are three very core parts to our business that we want to have full control over the risk tolerance, being able to manage our customer base, and being able to really help support our customers' growth. We don't want to be relying on third parties to go and make that decision for us. Hope that helps.

Yair Nechmad

I will add to this, Hannes. It is Yair. I think if I understand correctly the question, I can say the following. The tailwind that we are seeing, what we see in the market is crossing all territories. We do not see any kind of what you call headwinds in the way that we operate. What you can see in depth of the data, that we are growing on the ATV, and the transaction, the payment is growing as fast as we expected, but the ATV is growing even higher. If you take a track record between 2021 when we started, it was like $1.3 or $1.7, now it is like $2.5. This growth is all coming to our, what you call, to our revenue.

If you look about the gross margin, how we are managing the gross margin on top of this growth. We are keeping this gross margin. It is a testimony to how we operate. The growth of this kind of tailwind will keep on going and will grow up, I believe, between $2 to $2.5 again. The next five years will grow up in terms of the ATV, and that secures the growth of the company all the way up. What we have to do is invest and put in more and more ability of us to access more segments, according to opportunities that we see, and that secures the long-term growth of the company.

Hannes Leitner - Jefferies

Thank you.

Operator

The next question is on the line of Sanjay Sakhrani with KBW. Sanjay, your line is open for questions.

Sanjay Sakhrani - Keefe Bruyette & Woods Inc

Sorry, I was on mute. Sagit, you mentioned some of the drivers of ARPU, but maybe you could just give us a little bit more on how you see it progressing over the course of this year and into next. What kind of growth can we see in ARPU going forward, and what would be the main drivers? Thanks.

Sagit Manor

Thank you, Sanjay. We're not providing specific guidance on ARPU, but there are two main factors to the average revenue per unit improvement that we see. First is existing machines moving from cash to cashless. This is one, and we know that most of our growth comes from our existing customers. The second, of course, is the move or the transfer to higher transaction value verticals like EV chargers, car wash, and family entertainment center and whatnot. This is a trend that started probably four to six quarters ago, and we continue to see the trend of that going overall. As you know, there were a couple of years that we gave it annually, but then the growth is actually now being shown even quarterly. We wanted to share that information with the rest of the investment community.

I see that trend continuing. I remind us all that still 70% of the unattended machines out there, which we think that there's 48 million devices out there growing to 60 million by 2029, are still, again, 70% are still accepting cash only. We have 1.55 million of those. So it's on us to sell more machines. As you know, we are at the source, which means that we are working really hard to secure the OEM partnerships in China and other areas where the machine is already coming with the Nayax device, whether it's the VPOS Touch, VPOS Media outside, or is it the Nayax inside, where it comes to the UNO-Mini and et cetera, from that series. So, working from all angles to continue to enjoy the tailwind of cash to cashless conversion.

As you know, we are the only leading company and the global company in that space, being at the 44 different verticals, obviously, and whatnot. So, as you can see, if we see a great opportunity in the EV charging, for example, area to capture market share, we're there to capture it, even if it means a little bit of a setback on maybe margins for a little bit or maybe even cash flow. This is a very important investment that we do today for a beautiful growth opportunity in the future.

Sanjay Sakhrani - Keefe Bruyette & Woods Inc

Okay, wonderful. Thank you for that. Aaron, maybe just one question on this bank license, the Connecticut State banking license. I guess I'm just trying to make sure I understand how it compares to an ILC versus a bank holding and what it allows you to do and what it doesn't allow you to do in terms of banking, and the scope of it. So is it just for North America, or can you utilize it to fund in other geographies? I'm just trying to make sure I understand how it sort of works through the model. Thank you.

Aaron Greenberg

Yeah, absolutely. It's really interesting because when we looked at the beginning of last year, we looked at all the options, including all the options that you mentioned, and federal charters, et cetera. What we saw was that Connecticut came out with this only in the last few years or so. It's a relatively new initiative of theirs, called the Innovation Bank Charter. This was meant by the state to compete against some of the other states with regards to some of these more fintech type of bank charters. The uniqueness of it, though, is that unlike some of the other ones that are heavily restricted bank charters, this one really is not very restricted at all. The biggest restriction of this charter is that it cannot be used for consumer business.

It is a commercial bank, meaning that we can only work with businesses, which is fine because that's all we do today and all we're intending to do right now. Besides that, we're allowed to do everything else. We chose, when we applied for the bank charter, to be considered a credit institution. As you probably know, there's two things that define you as a bank. One is deposits and the other is credits. We've decided to take the credit route at the moment. The license does allow for you to become a depository institution, although we've opted at the current time to do that through partnership with Adyen, largely because of the infrastructure requirements and the regulatory requirements that would be needed, and it would put us under FDIC oversight, essentially.

This was a faster path for us to be able to do what we wanted to do in the market today. We are very happy with our partnership with Adyen. We just launched the Yellow Account also last week, which has been so far very successful. We feel we are on the right plan with regards to that.

Sanjay Sakhrani - Keefe Bruyette & Woods Inc

Great. Thank you very much.

Operator

Thank you. The next question is from the line of Chris Zhang with UBS. Chris, you have your question.

Chris Zhang - UBS

Great, and thanks for taking my question. My first question is about the M&A outlook for the rest of the year. Can you share with us what you are seeing in terms of the opportunities and the valuation in different areas in the market? Are there any other incremental areas you have been thinking about in terms of M&A? I understand that you have been primarily looking at opportunities where there is an intersection between payments and software, but any general updates at this point of the year would be helpful. Thank you.

Aaron Greenberg

Yes. This is Aaron again. With regards to where we stand, we have really been successfully executing on this playbook over the last few years of buying software-enabled companies that have the payments tied to it, essentially, but they are not necessarily doing the payments themselves. We have done that with Tigapo now and verticalizing in the arcade gaming space. We have done it now with Lynkwell and verticalizing in the EV charging space. As I mentioned at the beginning of this year, I will reiterate that there are a few other verticals that we believe strongly in. If we are looking at our M&A strategy over the next couple of years on areas that we can verticalize in that can bring incremental value to our customers. Those areas are parking, mass transit, so think like buses and trains, for example, and laundry solutions.

Those are the three areas that we have been looking very heavily in. With regard to geography, we have never been restricted to geography with regards to M&A. Although, keep in mind obviously, that 80% of our business is happening in North America, Europe, and U.K. So generally, we are looking for either it is going to fit within that market because we have a lot of cross-selling capability or it is coming from another region. Let us take Brazil, for example, but an ability to be able to take that technology potentially to other parts of the world, like in our core markets. With regards to where we stand right now, as I mentioned, we are still very active in M&A. We are intending to deploy capital this year in M&A. Nothing has changed there, and I hope to have some more updates by the next quarter.

Chris Zhang - UBS

All right. Awesome. Thanks a lot, Aaron. I have another question on the free cash flow conversion this year and understand most of the investments or maybe all of the investments are going to be on the working capital side. More of that reflecting the timing issue. To the extent where there could be any increase in either capitalized R&D, maybe there is some FX impact. Then for the CapEx, that also kind of picked up a little bit in the second quarter. Maybe can you talk about what

you are expecting for the full year, for the second half for those items and basically kind of in terms of the incremental investments on the cash flow side, what is the split between working capital and the capitalized R&D and CapEx?

Sagit Manor

Yeah, of course. It is Sagit. This quarter, definitely, there is an FX impact on all areas. I have spoken about the P&L impact, which was $2.3 million, but of course also in the CapEx, it has an impact on that. Having said that, you can see that CapEx increased as a result of some several investments that we are doing, both from an R&D capitalization standpoint as well as CapEx, which are infrastructure projects that we are implementing that were obviously planned. But if we see, again, an additional investment that needs to be done, this is where we are here, and that is some of the reasons why we revised the free cash flow forecast.

I'm expecting that the R&D capitalization, kind of in the CapEx that you've seen in Q2, that will continue in Q3 and Q4 if not increase a bit simply because of everything that we are trying to do in a very short period of time. I'm expecting that in 2027, free cash flow will be improved, and we'll talk about it more as the year progresses.

Operator

Thank you. Ladies and gentlemen, this concludes today's teleconference. You may now disconnect your lines at this time. We thank you for your participation. Have a wonderful day.

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