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PRESENTATION

Peter James Heckmann - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Good morning, everyone. This is Pete Heckmann, one of the research analysts at D.A. Davidson. Thanks for joining us at our 2020 Technology Conference. Today, we have an interactive chat with ACI Worldwide. We're pleased to have the company's new CEO, Odilon Almeida; long-time CFO, Scott Behrens; and John Kraft, the VP of Investor Relations and Strategic Analysis. We're also joined by my associate, Alexis Huseby.

Hello, gentlemen. Thanks for participating.

Odilon Almeida - *ACI Worldwide, Inc. - President, CEO & Director*

Thanks.

QUESTIONS AND ANSWERS

Peter James Heckmann - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Why don't we go ahead and get started? Odilon, can you remind participants of your background? And can you relay some of your early findings on the unique characteristics of ACI since you joined in March?

Odilon Almeida - *ACI Worldwide, Inc. - President, CEO & Director*

Definitely. I have more than 20 years in the payments industry. The last 17 years, I spent at Western Union, and my last position was the Global President of the money transfer business, which was like a \$5 billion business. And then after that, I joined in a venture capital company, Advent International, where I worked for like 6 months over there, and then I joined this position here. It was very clear for me when I start looking at the company. The opportunity for value creation, significant opportunity for value creation. And the share price by that time was \$35, so you can imagine now what it is. And the good news is that when I entered the company, I found exactly what I thought that I would find, what I saw from outside, which is basically a great portfolio of products and clients, but the opportunity to strengthen our go-to-market muscle, and that's what we're going to be doing.

So our structure rely in 3 pillars now. Pete, I think the first pillar we call fit for growth, and it's about design and implementing this nimble, agile, fit-for-growth organization with a focus on sales and on go to market. And to do that, we are going to be centralizing sales in the company, and we're going to be beefing up the organization -- the sales organization significantly going forward.

I think the second pillar, recall focus on growth, and that's about assure that we invest and we focus our investment behind growth areas in the company. Definitely, one of them is real-time payments, the other one is emerging markets and more to come now. And they're going to be very clear about that in our investors meeting in November about the areas and about this whole plan.

And the third pillar, it is what we call step change value creation, which is basically continue the M&A strategy, accretive M&A, as we have done in the past, to be able to make those jumps in value creation and in the value of the company.

Peter James Heckmann - D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

Got it. Got it. That's helpful. And so when you think about the overall company as well, the 2 primary segments of On Premise and On Demand, how do you think about aspirational growth targets for those businesses? Certainly, On Demand is going to be higher and you mentioned real-time emerging markets. Can you talk about some of the subsegments that are going to be driving growth over the next 3, 4 years?

Odilon Almeida - ACI Worldwide, Inc. - President, CEO & Director

Yes. We're not giving guidance now, right? I mean -- but what I can tell you is that I firmly believe that the company's now positioned for organic growth. I would say continuous, profitable organic growth. And that's going to be new because if you look at our best, we have been talking about the evidence that this has not happened. And that's what these 3 strategies are about, it's all about that, it's about continuous profitable growth.

Just to give an idea, we are looking for -- we are going like to a zero-based analysis in the whole company. They're going to free up a lot of cost of the company, and hopefully, we will invest a majority of those costs in our go to market. So I think that's what you can expect. I would say, again, that you can -- without talking about On Premise and On Demand, you can expect significant growth in real-time payments and emerging markets.

Peter James Heckmann - D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

Okay. And then we are -- the followers of ACI have known over the years that bookings can be tremendously lumpy quarter-to-quarter. But at least year-to-date, bookings are looking quite good, off to a real nice start. How do you think the pandemic and the related economic impacts and some of the uncertainty of the economic outlook plays into bookings over the next few quarters?

Odilon Almeida - ACI Worldwide, Inc. - President, CEO & Director

Yes. I'll ask Scott to complement that conversation. But I can tell you that, if you look at the whole bookings, the On Demand is very solid, our bookings in On Demand and also in On Premise, but it is clear for us that COVID-19 has impacted new bookings, mainly on our license revenue. But I would like Scott to make more specific comment on that.

Scott W. Behrens - ACI Worldwide, Inc. - Executive VP, CFO & CAO

Yes. I'll just add to that, Q2 was probably a prime example where we saw growth over last year, but it was a growth in the On Demand side of the business, and we actually saw a decline in the On Premise side of the business. And as you know, the On Premise side is what drives the license revenue from sales, and so that's kind of where we felt we had a risk on the year and why we had suspended guidance. But as -- the 2 areas that I'd say that are really the key drivers of the growth we are seeing year-over-year are less impacted, I would say, by COVID, are areas where we've seen the revenue growth over the last few years. It's in real-time payments and in eCommerce. And real-time payments really being driven by a lot of the mandates around the world, the initiatives that are requiring banks to connect to real-time networks. And then on the eCommerce side, it has really been somewhat enhanced a bit by COVID, so those are the 2 areas where we're seeing strength. And again, On Demand being higher than last year, and we're seeing softness on the On Premise side.

Peter James Heckmann - D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

Got it. Got it. That makes sense. And just in terms of any other considerations that are worth reviewing in terms of other impacts on the pandemic in the economy, either things that catalyze new spending, as you mentioned, some eCommerce generating some higher transaction growth or

areas where the pandemic has pushed out some revenue or just some of the puts and takes we should be thinking about as we go throughout the summer?

Scott W. Behrens - ACI Worldwide, Inc. - Executive VP, CFO & CAO

Yes. I think it's pretty consistent with what we were seeing in Q2, and that's -- if we look at just pure transactions, the eCommerce, we did see strong eCommerce growth in Q2, saw a bit softer transactions in the Bill Payment side. That's U.S. domestic Bill Payment and so softness in areas like utilities and consumer finance, so that's probably more directly correlated to the macro economy and unemployment and things like that. But those, generally, from a transaction volume and revenue perspective about offset each other in Q2. I think we're continuing to see that here in Q3.

Peter James Heckmann - D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

Got it. Got it. Okay. Well, you mentioned Bill Pay. And so certainly, the most significant acquisition in the last couple of years was the mid-2019 acquisition of Speedpay from Western Union. Now, Odilon, given your history at Western Union, do you have any unique perspectives on this business?

Odilon Almeida - ACI Worldwide, Inc. - President, CEO & Director

Yes. I was fortunate to manage Speedpay and supersede that management, it's back to you. So I found back the team. (inaudible) and I was very happy about that. Tremendous potential here. First of all, I think it was a win-win deal. I think it was good for the previous company, for Western Union, and then was great for ACI. I think ACI, with that acquisition, becomes the biggest and most important direct to billers business in the United States. We got the scale, and you can see the upside of our EBITDA because of the scale. And I think we are well positioned for organic growth, also in that segment. We have the scale, we have the product, I think it's all about really fine-tune our go to market about that. So a very successful acquisition. We will be unifying all the platforms during 2021, have just approved this project, so I think we're going to make this major step towards the consolidation of the platforms, and that will give us a lot of efficiency, but more efficiency that we got before us. So...

Peter James Heckmann - D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

Got it. Got it. And Odilon or Scott, I don't know who wants to take it, but I think the combination of Speedpay with ACI's legacy Bill Pay business, it had some complementary aspects, where Speedpay brought a very up-to-date front end, ACI had significant capacity and efficiencies on the back end. But talk about some of the further development of next-generation Bill Pay capabilities, either in the form of subscription, On Demand, mobile billing. Certainly, when you think about the traditional type of paying your bill on a biller direct basis at your vendor's website, but what else should we think about seeing from this combined business over the next couple of years?

Odilon Almeida - ACI Worldwide, Inc. - President, CEO & Director

That's a great question. I think the specialization vertical by vertical will continue, and it's not only about the payment part, but it is about the add value to that segment. For example, when you're talking about universities, you can enter the site and you can choose a plan of repayment or delayed payment or all of those different aspects that we bring on our day-to-day codeveloping softwares on that. So that's why scale is so important because the ones that have scale can specialize in the different verticals. And there was (inaudible), right, so I think that is the most important competitive advantage that we have.

Peter James Heckmann - D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

Got it. Got it. No, that's -- we're looking forward to that. So on the -- when we think about the On Demand segment, I know you don't have guidance out for the year, but just the general trends in the business with the acquisition of Speedpay, that taking On Demand for maybe 40 -- low 40s

percent of revenue last year to maybe high 50s to 60% next year. And at least at one time, you talked about the Rule of 40 in terms of thinking about the combination of revenue growth and margins. Certainly, the acquisition of Speedpay was very accretive to EBITDA margins. We haven't yet seen the acceleration of organic growth, but you still think that real authority is -- or at least aspirationally is something you can get close to? And generally, how would you expect the combination of growth and margins to weigh out in getting to that number?

Scott W. Behrens - ACI Worldwide, Inc. - Executive VP, CFO & CAO

I'll take it, yes. We targeted the Rule of 40 pre-acquisition of Speedpay. And if you looked at us organically, putting Speedpay aside obviously, the scale that we had in the On Demand business kind of went from negative margins to breakeven to positive margins, even in Q2 of this year, which is really the last quarter where we had kind of an overlap between when we bought Speedpay and having it being fully overlapped in our business. We continue to see growth in margins in our On Demand business. So Speedpay really brought enhanced scale and that accelerated kind of that profitability level, but I think that's generally still a good target in terms of the Rule of 40. We're obviously enhancing our profitability in that business, both organically and via the Speedpay acquisition, but growth will inherently add to the scalability of that business model. Again, on a relatively fixed cost base, and Odilon talks about some of the things that continue to work on like platform consolidation, that is inherently going to reduce cost as we look out into 2022 and beyond because you're going to go from having multiple platforms to single platform and so there will be further profitability enhancements that come in future years.

Odilon Almeida - ACI Worldwide, Inc. - President, CEO & Director

Just to complement that, I think, as Scott said, our marginal cost is very low, and that's why I have been reaching it's all about organic growth. If we generate organic growth and when we generate organic growth really, so we are going to see margin expansion with it.

Peter James Heckmann - D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

Great. Great. That's helpful. And then just in terms of the dynamic around real-time payments, I haven't seen a more recent count, but seems like maybe a couple of dozen countries that have either already moved to real-time payments or in the process of doing so. In many of those, like the U.K., Malaysia, et cetera, India, ACI is planning a key role in providing the infrastructure software to achieve that real-time payment capability. When we look out 2 or 3 or 4 years, if the current trends continue or if they accelerate, how big could the real-time payments portion of the business get?

Odilon Almeida - ACI Worldwide, Inc. - President, CEO & Director

I look at real-time payments today in the environmental payments globally, right, and I know the global market. The -- it's clear that this the place where payments is growing and will continue to grow within the next 10 years. So we are well positioned on that bucket of growth that will probably last decades as the countries adapt to this real-time payments. I think that we can continue to grow real-time payments by double-digit going forward for a long period of time. And you put the math together, but you can see that I would expect that in the future, real-time payments will be a much more important part of our business today. I think today, Scott, it's around what, it's across teens, right?

Scott W. Behrens - ACI Worldwide, Inc. - Executive VP, CFO & CAO

10%, yes.

Odilon Almeida - ACI Worldwide, Inc. - President, CEO & Director

Yes. Around 10%, 12%. So it will continue to grow by double-digit going forward. So I think can become very significant for ACI going forward. And I would say, again, think about emerging markets, right, about markets also outside of U.S. and Europe because those are the markets that are growing really, really fast.

Peter James Heckmann - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Right, right. And to that point, in India, a huge country, modernizing their financial service infrastructure. You made an investment in Mindgate. Can you talk about -- in terms of the -- without totally quantifying it, the relative proportion of growth within real-time in terms of phasing, is India the big growth story here over the next 2 years and then maybe the U.S. 2 years later? Can we think about it that way?

Odilon Almeida - *ACI Worldwide, Inc. - President, CEO & Director*

Yes, definitely. I think look at India, I believe India is like a tremendous opportunity, right? So for example, Mindgate has this great front end. And then it's really in the real-time payment scenario there, so I think the opportunity of Mindgate is not only restricted to India, but we can use that ownership and that company to help us around the globe.

Peter James Heckmann - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Got it. Got it. Okay. And then when we think about the eCommerce part of the business and where you're playing there in terms of who you're enabling, whether it be on the gateway side, can you break that down a little bit more? There was the acquisition of what -- I believe it was PAY.ON a few years ago, allowing to accept different types of currency -- actual currencies and some of the mobile wallets. But when we think about mobile wallets and we think about eCommerce, where exactly is ACI playing? And then who are the customers there?

Odilon Almeida - *ACI Worldwide, Inc. - President, CEO & Director*

Yes. I think that's a great question, and I'm going to give a very simple answer to that. Because now, I think it -- with all the study that we are doing with our consultants on the portfolio, it's becoming really clear for us. Our clients are global merchants that want to provide -- acquire agnostic experience to their consumers, and they want to manage the customer experience. And on that sense, I think ACI is very well positioned to do that. Most of the competition is not acquire agnostic, but we are. We have real-time payments, we have cards, we have everything that you want and you may need. And we can enable those merchants, very sophisticated merchants, on really focus on the front end and leave the back office, the back end for us to operate. And that has been our successful with our success as being tracking that kind of client around the globe.

Peter James Heckmann - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Right. Right. Okay. And to the extent that the pandemic has accelerated the growth of eCommerce transactions, then that benefits you from the perspective of the contracts being based on a transaction-based limit, so it just means that the renewal comes sooner.

Scott W. Behrens - *ACI Worldwide, Inc. - Executive VP, CFO & CAO*

Yes, correct.

Odilon Almeida - *ACI Worldwide, Inc. - President, CEO & Director*

Very much, very much. It's growing. It's basically -- the revenue is per transaction, right? So basically, the more transactions you get, the more revenue you get.

Peter James Heckmann - D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

Got it. Got it. Okay. And then in terms of -- are there any risks to ACI from the mobile wallets? Some people talk about sort of the risks of maybe to the networks in terms of transactions being resident within the wallet. But how do you think about that? Do you view any of the emerging wallets as potential risk factors?

Odilon Almeida - ACI Worldwide, Inc. - President, CEO & Director

No, exactly the other way around. It further differentiate us, right? Because then we're linked to the wallet, and then it's more of a premium method that you can offer, again, acquire agnostic. So we have that all around the globe, right? We are linking already to some important one that's around the globe.

Peter James Heckmann - D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

That makes sense. That makes sense. Okay. And Scott, maybe you can talk a little bit about the balance sheet. The company has been modestly acquisitive over the years and with the Speedpay acquisition that popped up a little bit. But how do you see debt tracking towards your longer-term targets over the next year or so? And then once you get into that target range leverage, what would be your priorities for capital deployment?

Scott W. Behrens - ACI Worldwide, Inc. - Executive VP, CFO & CAO

Well, I would say we're still targeting towards that 2.5x leverage. Yes, we had an uptick when we financed all of the Speedpay acquisition with debt, but we've continued to delever it. Obviously, our comfort level at any level of leverage is really the ability to delever and kind of resume our path towards the 2.5x. So I'd say, and at least in the near term, I would say it's paying down the debt. Obviously, earlier this year, we bought back stock. But I'd say, those are the near-term uses of cash. But obviously, as we get into the latter part of next year as we approach the 2.5x leverage, we want to be in a position coming out of COVID to be stronger than when we went in and to be able to use our currency, whether that's our shares or use our balance sheet to be able to take that as Odilon talks about the third pillar to at least be in a position to be opportunistic on that step change value creation. But I'd say, continue to target that 2.5x and just be opportunistic as we come out of COVID.

Peter James Heckmann - D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

Got it. Got it. But I guess my impression is that there aren't any clear holes in ACI's lineup in terms of what they go to market with. So in terms of appetite for M&A, would these primarily be consolidating the type of transactions where you're looking for vertical integration or what would you be looking for from an M&A standpoint?

Odilon Almeida - ACI Worldwide, Inc. - President, CEO & Director

I would say, accretive M&A, right, like Speedpay-type things that you can really bring to the company and create value really fast.

Peter James Heckmann - D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

Yes, yes. That's great. Okay. I don't know if you'll have any update, but one of the questions that we get for investors, just around the 3 mega mergers in payments last year and ACI have some exposure there, but just talk a little bit about -- you have good long-term relationships as really an arms merchant, selling to financial institutions, selling to processors, selling to country network, selling to merchants. But some of these larger processes have gone through mergers and their need to go through and sign contract expansions with ACI. How do you think about that in terms of the time frame when we might hear something in that regard?

Odilon Almeida - ACI Worldwide, Inc. - President, CEO & Director

Yes. We keep talking, I talk to the 2 CEOs more than one time this year. And so we have companies that we cooperate, we compete, I mean that's been the dynamic around the globe, right? So -- and there are deals with them, and there are deals also with the big banks and big merchants and big dealers around the globe. I think it's not different. I don't see those deals differently than the others that we have, and I would add to that large companies also like Microsoft, like Mastercard, like all of those companies that we continue to talk to.

Peter James Heckmann - D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

We talked about M&A. And certainly, the company has done one divestiture in the past. But as you go through and review the portfolio of businesses, is there a possibility for other divestitures of businesses that you don't feel kind of meet the either growth, the return profile?

Odilon Almeida - ACI Worldwide, Inc. - President, CEO & Director

Yes. I think as a result of this assessment that we call focus on growth, we're going to parts of the business that we are going to be investing significantly behind. I told you 2 of them already. And also, we are going to see parts that we are not going to invest anymore and we're going to divest. More to come in November. I think November will be the day that we're going to be announcing the whole strategy and also giving long-term guidance for the company. So in November, we are going to be ready to do all of that. But I can anticipate to you that I'm very happy with the outcome of the studies that we are doing inside of the company. I think that we are going to be able to find significant amount of resources that we can channel to growth in the company.

Peter James Heckmann - D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

Great. Great. Okay. Well, I'm getting a note from our moderator that we are out of time. So gentlemen, I really appreciate you all participating. Great to see you, and looking forward to that analyst event in November. Did you want to say anything else?

Odilon Almeida - ACI Worldwide, Inc. - President, CEO & Director

Yes. I think -- Scott, I think we talked about talking more deep about Q3. I think we should give some message about Q3, right?

Scott W. Behrens - ACI Worldwide, Inc. - Executive VP, CFO & CAO

Yes. Well, obviously, given the uncertainties around the COVID-19, we've suspended our financial guidance for the year, but with just a few weeks left in the quarter, I can provide some commentary around Q3 to update your models. Here in Q3, we're continuing to see the impact of COVID-19, primarily as it relates to the license revenue for new sales. As you know, our products are mission-critical, so it's not impacting our existing customer renewals, meaning we're not losing customers, but it is impacting license revenue from new sales. So it's more a matter of timing, but the reality is we're continuing to see COVID-related delays, primarily from banks and financial intermediaries, in particular, in North America and Europe, and we expect that trend to continue for the balance of the year. But for Q3, in particular, with just a few weeks ago, we expect revenue to approximate \$310 million, which is down versus 2019 on a fairly consistent percentage basis with what we saw in Q2 as a result of COVID-19. But despite the COVID-19 challenges on revenue, we continue to be very focused on profitability. We believe EBITDA will approximate \$70 million for Q3. And again, we're continuing to see that COVID-related delays primarily impacting our -- the nonrecurring license fee revenues, and we're expecting that trend to continue for the balance of the year.

Peter James Heckmann - D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

Got it. Got it. Okay. That's very helpful. I appreciate that update. And again, thanks again for participating. Hope you have a good rest of the today.

Scott W. Behrens - *ACI Worldwide, Inc. - Executive VP, CFO & CAO*

Great. Thank you.

Odilon Almeida - *ACI Worldwide, Inc. - President, CEO & Director*

Thanks.

Peter James Heckmann - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Bye.

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