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Global Payments, Inc. (GPN)

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CORPORATE PARTICIPANTS

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

OTHER PARTICIPANTS

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

All right. Good morning, everybody. Glad to be kicking off the second day of the Morgan Stanley Fintech Conference here with Global Payments and newly appointed CEO – President and CEO, Cameron Bready.

Before we get started on our conversation with Cameron, I do have a quick disclosure to read. Please see the Morgan Stanley Research Disclosure Website at morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales rep. Also, not on stage today, but we also have CFO, Josh Whipple; and Head of IR, Winnie Smith, in case we screw up too badly, so they can fix it for us.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

Good to have protection.

QUESTION AND ANSWER SECTION

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

So, yeah, absolutely. Look, maybe I'll start Cameron with the first and broadest reaching question is that you're now CEO of Global Payments, obviously. How do you think you'll look to manage things at least a little differently and maybe more importantly – that's always a hard question. But more importantly, what are the top two to three priorities in the first year of your new role and what's your strategic focus long term?

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. First of all, James, thanks very much for having us. We're delighted to be here this morning. And thanks, everyone, for joining. So maybe I'll start at the end of the question and kind of work my way back. I – as I like to tell people, I didn't just materialize overnight...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...inside of Global Payments. I've been there for almost a decade and I'd like to think I had a bit of an integral part in developing the strategies that we're pursuing today. So, I would say as it relates to the four pillared strategy that we're pursuing, the one that we outlined back in September 2021 at our investor conference focused on software primacy, e-comm and omni-capabilities worldwide, obviously exposure to faster growth markets and the fourth pillar, the newest pillar, B2B, that very much is going to remain our focus as a strategic matter as we move forward. And I'm very much behind that strategy. I think it's the right strategy for the business. I think it's proven to be quite successful in terms of allowing us to grow at attractive rates, win share in the market and position the business for long term success. I want to couple that obviously with consistent, strong execution. I do think one of the hallmarks of Global Payments over a long period of time is our relentless focus on execution and our ability to produce consistent results through cycles. Look, there's a lot of great competitors in the space. There's a lot of good companies with good people, good assets, good strategies. But I think, obviously, end of day, what separates one company from the next is really execution.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

So I spent my last four years as President and COO, really focused on execution internally and will keep that kind of relentless focus as we move forward in time, coupled with a strategy that I think is appropriate for the business and one that differentiates us in the marketplace. As it relates to near term priorities, clearly, I'm focused on Q2.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

I want to make sure we deliver a strong Q2, show that the transition inside of the company is going smoothly. I want to make sure that that transition is seamless, both to our team members inside the company as well as to our constituents outside of the company, our clients, our customers and investors, of course.

I would say, secondly, I'm very focused on making sure EVO goes smoothly. Obviously, it's a fairly sizable investment. We closed back in the first quarter – at the end of the first quarter and ensuring that that integration goes very smoothly, we're able to realize the value that we saw inside of EVO and the value premise in the transaction is incredibly important to me as well.

And I'd say, lastly, look, I'm focused on addressing kind of where we are from a multiple matter.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

Obviously – I think, obviously the whole sector has been under a little bit of pressure for a period of time now. I think the disconnect between our multiple and our underlying performance and execution is maybe wider than others. And I'm very focused on what we can control in terms of tightening up our story in addressing any concerns that may exist in the marketplace to really address kind of where we're trading and try to improve upon where the multiple is, because I don't think relative to the underlying performance of the business, the execution...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

...we delivered and obviously the financial outcomes we've been able to achieve that the multiple really reflects that. So,...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Right, right.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

...very focused on addressing that as much as I can in the short to near term.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

No, that makes sense. And us being overweight rated on Global Payments, we tend to agree and – but it's also like a step by step process,...

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

It is.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

...right and you've kind of mentioned Q2 and getting through the June quarter here and I guess would be remiss we didn't kind of start there at least as that's one of your priorities for this year. Now what we've generally seen from the consumer spending data overall has been that we're stable from March, April to May at least based on what Visa has talked about. But there seems to be this kind of shift to more non-discretionary spend and services from goods and investors continue to be really concerned about potential weakening and they seem to be quick to pull the trigger if they feel like something is changing. What is your latest read on consumer spend and the macro and what metrics are you watching closely?

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. It's a great question. So obviously we look at the data that Visa produces like everybody else.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

But I would say on the merchant side of the business is we're seeing trends that are very consistent with what Visa has said. We started the year like a lot of people, we had really good results in January,...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...February as it relates to volumes. Obviously, some of that was off of an easier 2022 Q1 Omicron comp. And obviously, as we got to the March timeframe, there was a little bit of decel around that. But April was pretty consistent with March and May has been pretty consistent with April. So we're seeing good stability, I would say, from the consumer. I think the consumer tends to be or continues to be relatively strong, I would say, in light of everything kind of going on in the macro environment. And I think by and large, we're somewhat facing unprecedented times. You have stubborn inflation. You have a Fed that's obviously committed to combating that with rate actions over a period of time. But employment is very strong and employment trends continue to be very

strong. And I think as long as the employment market hangs in, similarly to how it has been, I think the consumer is going to remain relatively stable and relatively healthy overall.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

We have seen shifts, as you described. Obviously, through the pandemic, there was much of buying every single retail good you could find...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Yeah, yeah.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

... [indiscernible] (00:06:23). And post-pandemic, we're continuing to see the shift towards experiences, services, more non-discretionary items as, I think, people to some degree catch up on foregone spending over a long period of time through the pandemic. So, we're seeing that same mix shift in our business. The nice thing about our merchant business is we are well-diversified across discretionary, non-discretionary vertical markets. We're seeing good trends in the non-discretionary, but we're seeing very stable trends in the discretionary channels as well. So, I think the overall health of the portfolio is quite good and we're happy with what we're seeing as a volume matter relative to the expectations we have. And going back to my earlier comment, I think we're poised to deliver a very strong second quarter when we report later next month, just given the trends we're seeing in the business thus far.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Got it. So, when we think about the way that you've formulated your full year guide and outlook, at the time back at the beginning of this year, you chose not to incorporate any sort of macro softness in the full year. And that was different from some of your peers and kind of the assumptions that they went through. Can you walk us through your thinking assumptions around that and where you'd expect to be your plan relative to your guide if we did see a – spend soften a little bit or a soft landing scenario, if you will?

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, I have a little different perspective on that as to whether or not we included macro softness or potential weakness in the guide. The way I think about the guide is twofold. One is we're managing a complex business globally,...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Right, right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...we're in dozens of different markets, dozens of different verticals, different lines of business. There's a lot of complexity in the business and we don't manage it for perfection is the point.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right. Right. Right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

We obviously understand when you're managing a business like this, things go bump in the night. We have to account for that and accommodate that in whatever guidance we produce. And that's the way we run the business for a long period of time, is point number one. Point number two is, as I think about the range of outcomes that our guide encompasses, it also encompasses and accommodates a variety of different macro outcomes.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

So, as I think about the guide, we certainly have room in our guide to accommodate some softening or some weakness in the back half of the year that might suggest this shallow-ish sort of recession or certainly a softening...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Got it.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...in the macro environment. And obviously that would drift us towards the lower end of that guidance range. And if things are better than people are expecting, I think that would allow us to drift towards the higher end of the guidance range. So I think the range itself, we left it purposely rather wide in the first quarter update. And the reason for that was there is uncertainty around the macro. So I think on the lower end, as I said before, we can accommodate some softening in the macro and on the upper end, we have room for the macro to slightly improve, but that's generally the philosophic approach we sort of took to the guide with an eye towards being able to accommodate again a range of outcomes from a macro...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Sure.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...perspective for the full year. Look, if the macro falls off a cliff, which certainly not expecting sitting here today,...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right. Right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...that could put some pressure on things, but I think that's true for everyone frankly.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Yeah, yeah. Yeah. That's right. That's right. So, on that point, you've – you just said and you've said previously that you think you can withstand some softening and still achieve your target. What are the levers that you're able to pull to do that? And how do you rank order them, I guess, between pricing, expenses and other levers you may have?

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. I think we have a good track record of being able to pull levers as we need to, to sort of achieve results within reason, of course. Dating back to the pandemic, I think we're able to take action very quickly to remove a significant amount of costs from our business relatively overnight. And I think that positioned us well, notwithstanding all the challenges that the pandemic presented in 2020, to still grow earnings that year and produce record levels of free cash flow for the business at that time. That was post-merger of TSYS, which made it...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...a little bit easier to achieve. But I think obviously entering the pandemic, there was a lot of uncertainty as to what the outcomes may be. And I think to grow earnings and produce strong free cash flow through that environment is really a testament to just how well and how aggressively we kind of managed the business from an expense perspective. So, I think we have a long history of demonstrating we'll take the necessary actions to manage expense to help obviously achieve outcomes if environments weaken or worsen relative to kind of expectations that we have for the business.

I would say on the revenue side, I think we do have opportunities on the revenue side as well, particularly around pricing. The pricing environment right now for our business is probably more favorable than it's been in quite some time...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

...just given actions that other competitors have taken. So, I do think there's opportunity again within reason on the pricing side to lean into that a little bit more if we needed to, if we were seeing trends that were certainly softer than what our expectations were for the balance of the year.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

So I want to turn to pricing specifically. I mean, I think from our perspective, we've been encouraged to see like the volumes growth and in particular how the volume growth has trended, especially over the last couple of quarters now, the revenue growth hasn't quite matched that, but I think that a lot of that's pricing and mix and that kind of thing. So, when you said that there's little opportunity to move there if, within reason, like what is both the near term, not only to manage through this year, but what's the long term path there in terms of additional value capture on the volumes that you're able to do and grow?

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. I will start with pricing in and of itself and I kind of alluded to this in my last answer, but I think we are seeing a more constructive environment than we've seen in some time. And I would say unlike some of our competitors who maybe have been a little more aggressive in leaning into price...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

...kind of going into this year for different reasons, they all have their own reasons for that,...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

...I think our approach has been more consistent over a longer period of time.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Okay.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

We've had a philosophy around trying to ensure we're optimizing our pricing across our portfolios every single year over the course of time that I've been at the company and it's really focused on, again, making sure that we get it – we think we're getting paid fairly and appropriately for the level of value and service we're delivering to the customer.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right, right, right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

And that philosophy hasn't changed in 2023, and that's the approach we're taking. So I think on the pricing front, we've probably been less aggressive than some of our peers, which gives me a little more optimism that we could lean into that a little bit more over time if we needed to. I think if you look at the long term trajectory, assuming we're out of this environment where capital is going to be free and competitors have to be a little more rational around how they're balancing growth and performance from an EBITDA and free cash flow perspective in the business and quite frankly just have to be profitable, I think you'll continue to see a more rational sort of competitive environment,...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...particularly as it relates to pricing, which I think is really good for our business long term.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

And I think we can continue with our philosophy, as we had over many years. But I think the landscape in which we're doing that is just going to be a little more constructive and that gives me a lot of optimism. And then, of course, as we continue to pivot the business towards more technology enablement, those take rates are going to be higher, the spreads we're able to earn between software and payments are going to be better and we'll continue to see revenue growth, pacing with volume growth and hopefully exceeding volume growth over a longer period.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

So right now, the revenue versus volume growth difference, if you will, what's that largely attributable to and when you say over the long term, be able to better match that or even outpace it, like what are key to-dos that you have?

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, I would say right now revenue growth is right on top of volume growth,...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Got it.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...which to me is important.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Yeah, sure.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

But I don't want to see is wide disconnects between – certainly, on the side where volume is outpacing revenue growth meaningfully or vice versa, revenue growth is outpacing volume growth meaningfully. End of day, volume is still an important metric in terms of the health of the underlying business that we're managing. Obviously, to the extent we can drive more value into our customer relationships with products and services and capabilities that aren't necessarily tied to volume, we can continue to see revenue growth outpace volume growth over a period of time. But I'm very happy with what I've seen trend-wise in the business, which revenue and volume are tracking closely and they're...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...correlated. And that's something that I'm going to continue to look to achieve over the near to medium term.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

So on competition, I think this is something that we've been watching pretty closely and one, and to your point is that there was this period of very cheap capital that resulted in a flood of investment coming into the space trying to be competitive, etcetera. How did that from your perspective in retrospect and looking back on that period, how did that level or that elevated competition manifest itself in – both in terms of what you saw in the market behaviorally as well as the impact on your business?

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Sure. I mean, I would say it's a couple things. Obviously, it's always been a competitive business.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

So, the fact that you had new competitors sort of come into the market during that period of time, that to me is not as big of an impact largely because, again, it's always been a very competitive business in every market, every vertical that we operate in, the competitive dynamics are very robust. It's hard to find a market around the globe that's not competitive. So, that's the first thing I would say. It's – I wouldn't say the competitive dynamics are any more severe, less severe than they have been over a long period of time. It's just some different players approaching things different way. I think the bigger point is the one that I referenced earlier and you alluded to as well, which is you had some less than rational sort of behaviors in the marketplace that some of these newer players were looking to gain share. Obviously, they were doing it in that ways that were unnatural, I think, over a...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right. Right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...long period of time as it relates to the desire to drive growth in the business at the expense of profitability. And a lot of these players had no line of sight to profitability for a long period of time. And when capital's free, everything's a good idea. When capital is no longer free, obviously behavior gets more rational, as we've...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Yeah.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...seen more recently. And I think, ultimately, that's good for the competitive landscape. And I've said a number of times I think competitive landscape is tilted back more in our favor, probably more so than it's been for the last several years. There's not – from my perspective, it's great to have good competitors. We want good competitors...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right. Right. Right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...in the space, but we want to see rational actors and rational behaviors in the space as well.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

So since kind of cost of capital has risen over the last really a year, maybe a little more than we've seen. At least externally, a falloff in that VC driven and private driven portion of investment in the space. Have you seen the actors themselves, to your point, behave more rationally in the way that they're pricing or pursuing business or is like how quickly has that adjustment been made?

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. I mean, I think we talked about it earlier with respect to pricing and the pricing dynamics in the marketplace and some of the other sort of competitive behaviors we're seeing in the marketplace. I do think, as I said before, it's – the competitive landscape has tilted more back in our favor. And we're seeing more rational actors and more rational environment in which we can run and grow our business, which I think long term is, as I said, I think is going to be very favorable for us.

So we're certainly seeing in this environment where, again, capital is no longer free, companies are having to make tradeoff between growth and profitability. They're happy to find ways to be free cash flow positive. They're having to think about their businesses differently and they can't just continue to invest, invest, invest...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right, right, right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...with no expectation of ever producing a return around that. So I think with that backdrop, again, it really does create an environment where I'm more bullish, obviously, the overall competitive landscape that I've been in some time.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Got it. Yeah. And I would agree with that. I think one of the things that we tend to think about is – dovetailing into that is, how does that changing landscape also change the opportunities for M&A and...

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

...you guys have a great history of acquiring technologies and integrating them into your payments business and doing so to expand TAM and increase exposure to the faster growing parts of the payments market. EVO looks

like it could be a great example of that. As you get further along on the EVO integration, what other areas of the market are you looking at and finding attractive and what's your willingness to keep pursuing those new areas with M&A right now?

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. Look, I think M&A has been a great tool for us over a number of years...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...as we look to grow and expand our business. Obviously, we invest heavily organically to drive organic growth in the business, but we also invest heavily inorganically to do the things that you just described, increase the TAMs, gain access to new TAMs, obviously get exposure to faster growth markets around the globe, etcetera. And I think M&A is going to continue to play obviously a role in the growth and success of Global Payments for many years to come. I think identifying, sourcing, executing, integrating M&A transactions is a core competency of Global Payments.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Yeah.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

I think it's a muscle that we've built very well over a number of years. And I think it has helped to build the business into the company that we are today. So from my perspective, I'm very focused as a priority matter in terms of finding ways to grow and expand the business. And I think M&A is going to be an important part of that strategy longer term.

Of course, that has to be obviously contrasted against what the alternative uses of that capital are, and I'm very return focused as well. So, as we think about M&A, and we think about adding to our business and finding opportunities to augment our strategies through M&A, we're going to be very focused on the returns of those opportunities relative to the returns that we can generate from buying back our own stock. And I think obviously where we're trading today, I think buying Global Payments is a pretty compelling value creation opportunity at this multiple. By the time we're at a point we're putting capital to work, I hope that situation will be different. But certainly...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right. Right. Right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...as we think about any M&A opportunity, it's got to be obviously contrasted against the alternative use of capital, which for us is really buying back in our shares. And...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

...we'll make those decisions accordingly at the time. For the balance of this year, we're very focused on getting our leverage back to our targeted leverage ratio. As we've said publicly already, on the heels of completing the EVO transaction, we're also very focused on ensuring that EVO goes well.

I'm a big believer in making sure you do well the things you've already committed to do before you take on...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Right, right.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

...next new thing. So I think the timing for that will actually work out reasonably well. By the time we get to a point where we think we're back in the capital allocation game, so to speak, I think EVO integration will be at a very healthy place and we'll be able to think about what's next for the business.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

So, I think, there are a couple things that – there that I want to follow up on. First on EVO and the integration. Can you give us a progress update on where you are and basically what – how you're coming along on the revenue and EBITDA synergies you've outlined and where they're going to be realized first versus what's further down the line.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. So, it's a great question. I'll just start by saying we're delighted with the progress we're making with EVO.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Okay.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

It's a fantastic transaction for us. I would characterize EVO as really center of the fairway. I mean, it's – it's – this is something that we do very, very well,...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Got it.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

...from an acquisition and integration perspective, and frankly from my vantage point, there's not a ton of risk in that integration from our perspective. I think it's something we know how to do really well. Our teams are executing very well and I'm delighted with the progress that we've made already with EVO. As you can imagine, our first priority with any integration is making sure that we get our go-to-market motion right,...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Right. Right.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

...we don't disrupt the underlying momentum in the business, we make sure the business produces performance consistent with the expectations that we have for that and we try to obviously dovetail our integration activities into that to make sure that we don't create disruption in the underlying [indiscernible] (00:22:05)

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Yeah, yeah.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

I can only take that cost out once, but if I obviously break the machine in the process, we're going to have other issues that we have to grapple with. So striking the right balance around that I think is incredibly important. And it's also, again, something that I think we do well and have done well over a long period of time. Obviously, our near term focus on EVO is integration, of course, and in realizing the expense synergy targets that we've established. We said we would achieve \$125 million of run rate expense synergies within two years post-closing...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Okay.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

...of the transaction. Those targets are very much on track today. I think we'll realize somewhere in the \$30 million to \$35 million of expense synergies this year and all of the plans to achieve those levels of synergies over the next couple years have been established and we're now executing against those. So, I think we have very good line of sight to achieving the expense synergy targets which really drive kind of the near term EBITDA benefits that we expect from the EVO transaction.

I'd say longer term, we've put in motion plans on the revenue side as well. Those take a little bit more time to germinate inside of the business. In some cases, they take more investment to realize. But I think I'm probably on balance more bullish today the revenue synergies and the opportunity to enhance revenue inside of the EVO business than I was even when we announced the transaction last August and certainly when we closed a couple months ago. The more time we spend with the business, the more opportunities we uncover to drive incremental revenue growth in the business. We have plans, of course, to bring, I think, the breadth and depth of product capability that sits inside of Global today to EVO markets, where they really don't have that product today. EVO was largely just a payments company.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

And I don't mean that to be pejorative, but they didn't have I think the breadth and depth of value added services and other product and solution that we can bring to enhance their competitive positioning in those markets. Obviously, EVO has a lot of large multinational customers that they really couldn't serve on a multinational basis. I think we're having great dialogue with them already about expanding our relationship in different markets where Global Payments can serve them. And of course, we're really excited about the B2B capabilities that EVO...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

For sure.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

...adds into our existing B2B positioning. And I think long term, the assets that they bring will be foundational as we look to continue to build out that B2B strategy more fulsomely.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And then I want to talk about – so you mentioned like, hey, you want to integrate, then reduce the leverage associated with that acquisition and then always being mindful of kind of where your own valuation is versus that of potential acquisition targets and as we look forward. But how are you feeling about where valuations are now, etcetera, in the potential acquisition market? I mean, if I look at things and kind of the refrain that we've heard consistently is that, seems like they've been slower to move in the private markets, but there is movement. Like, what's your sense and are you feeling okay taking your time and letting things continue to settle out?

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, I'm okay, taking our time, letting things settle out. I think...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Okay.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...it actually – the timing works out reasonably well for us because I do think there's some more reality needs to set in a little bit more as it relates to seller expectations around valuation. Obviously, with what's happened in the public market, it takes a little bit of time for that to trickle through the entirety of the market and sellers need to become more realistic over time. I think as it relates to the rate environment that we're going to be in and obviously valuations in the sector and what people are going to be willing to pay for assets that they have. So, look, I think through any cycle that will happen, I think it's just a question of timing. And I think from our perspective we have a very healthy pipeline of things that we're already looking at today. As you know, it takes a lot of time to sort through, transactions to be...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Yeah, yeah.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...actionable, assessing them from a diligence matter, obviously determining cultural fit and figuring out valuation and whatnot. So, I think as we get towards the back half of the year and we start to look towards 2024 and leverage gets back to the right place, I do think there'll be opportunities that will probably fit – certainly fit our strategy, that will be actionable, that are going to be good cultural fits inside of Global Payments. And then the question becomes, again, what are the returns look like from those transactions versus the alternative that we have for that capital.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Got it. I've been monopolizing the questions. If anybody has a question, just raise your hand. I'll give you a microphone. I want to continue here, though. I want to talk to you about the issuer segment. This is 25% of your business and you've seen a great tailwind from the shift of deposits and accounts to your larger SIFI and money center customers. Is this a tailwind still ongoing or has it abated some? And look, I think you added roughly 20 million customer accounts last quarter. I'm curious what a normalized pace should be and what we should expect in coming quarters?

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, obviously, I think the performance we saw in the Issuer business in Q1 was terrific...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...and we're really pleased with the progress we've made with that business over the last couple years. We have a lot of initiatives in-flight, most specifically our technology modernization project, which moves all of our existing technology platforms from their current on-prem environments to the cloud with AWS, the partnership we've

struck with them and that transaction – or that activity continues very much on track and we're delighted with the progress that we've made there. It's obviously critical to the future of that business. But certainly, in the interim, we're pleased with the financial performance we've been able to produce. As you mentioned, we added 20 million new accounts on file in the first quarter of this year, which was sort of above what I would characterize...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...as kind of a normal run rate for that business. I'd say typically we target mid-single digits, mid-single-digit-plus sort of account on file...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right, right, right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...in any particular quarter, but obviously we had a good backlog of conversions that we're able to pull in to late 2022, early 2023 that added pretty meaningfully to the AOF base for the first quarter. We've seen good underlying trends in the business, largely with the number of our SIFI customers, to your point, that benefited from some of what was happening in the regional bank sector during the first quarter and early part of the second quarter. I would say those flows I don't think haven't really continued the way that they materialized earlier in the year, but the benefits of those flows, we still see...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...kind of manifesting themselves in the metrics just in terms of activity within those issuer customer client bases...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...and I think that has given that business kind of a nice tailwind. And we're seeing metrics in that business that are better, I would say, on balance relative than what we've seen kind of coming out of Visa going back to earlier conversation around most recent metrics. But, look, that business I think is poised to have a good year. We increased the guidance for that business in the first quarter. As I think you're aware, targeting growth this year of

5% to 6%, which was an increase from where we started the year and I think it's really on the strength of the underlying momentum that we have.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Got it. And here to wrap up, I did want to touch on B2B. Those are also included in your issuer segment. And as you've stated a couple of times at least indirectly this morning, it's an important part of your long term growth strategy. Can you parse out what sort of services Global Payments is – provides in the space and how the economics compare to the merchant processing business and the overall TAM and growth contribution [indiscernible] (00:29:23)

Cameron M. Brady

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. I think it's important. B2B is such a large TAM.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

Cameron M. Brady

President, Chief Executive Officer & Director, Global Payments, Inc.

A

We measure it roughly \$125 trillion and obviously people are going to have different measures of the size of the TAM. But needless to say, it's massive. It's multiples of what the consumer sector is. So, that's part of the reason I think we're so bullish about the B2B opportunity long term. That coupled with the fact it's a highly fragmented market,...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Right.

Cameron M. Brady

President, Chief Executive Officer & Director, Global Payments, Inc.

A

...there's no real dominant player and I think we're as well positioned as anyone to continue to grow and gain share in that space over the longer period of time. And it's a business that we expect to grow by multiples over a longer period of time. The other challenge with the B2B market is it means different things to different people and I think it's really important to segment the market and focus on those areas that we, as Global Payments, are really trying to target as a business. And I think that starts really with what I would call just funds flow, right, focusing on money out solutions, customers looking to pay bills, whether check, ACH or hopefully more virtual card.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Brady

President, Chief Executive Officer & Director, Global Payments, Inc.

A

TSYS is one of the largest virtual card issuers in the world. And obviously we have all the payment rails and capabilities to help customers make money out payments in their business. And then there's money flow coming the other way, which is businesses accepting payments from other businesses, again, whether it's check, ACH or again more and more card in effectuating B2B acceptance on the acquiring side with Level 2, Level 3 processing, invoicing as more and more of that spend shifts towards cards or at least away from checks, whether it's ACH or card. Those are capabilities that we bring to bear on both the issuing side in the acquiring side of the market today. So the money flow side of B2B is one of the most attractive opportunities and it's one I think we're really poised to continue to grow in our business. The second piece is really business efficiency...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

...as I spoke about it. And that's where AP automation, AR automation with integrations back into ERP environments is really critical. So, having now AR capabilities by virtue of the EVO transaction, being able to couple those with AP capabilities that we have through MineralTree and, again, aligning the integrations that we have back into SAP, Oracle, Microsoft, Sage, etcetera, on the ERP side is really valuable to attack sort of that business efficiency opportunity with software...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

...at the heart of our offering in the B2B space. And then the third channel for us is really what I would call employer solutions, and that can be a broad category of offerings. It's clearly [ph] Tip Card, Wage Card, EWA (00:31:52), paycard solutions that were the old Netspend B2B assets, so we've kept as part of that divestiture. It's also payroll HCM solutions that we have within our Heartland business today. So we have an array of what I would call employer solutions targeted towards businesses that help them obviously manage their resources and make payments to their employees as appropriate through the tools and capabilities that we can bring. And then lastly, there's a whole data and analytics play around B2B...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

...and I think being able to be on both sides of funds flow from an AR, AP perspective, being able to bring AP automation and AR automation as a software and ERP integration matter, I think gives us rich data and analytics that we can utilize again to augment the B2B offerings that we can bring to largely that mid-market of...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

...B2B space.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

That's really the target market for us, but...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

...I think segmenting B2B that way is really important because you start talking B2B and it really does mean...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

...different things to different people, but that's how we think about sort of how we're wanting to play in the B2B space, and those are the channels that we're really focused on, on growing.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Yeah. So we actually just published a big survey and – of businesses as well as taking a look at like kind of the efficiencies that are had to be gained, etcetera. And we'd agree is that mid-market is probably where there's the most opportunity over the medium to long run.

Cameron M. Bready
President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

And question, to your point though is like it's highly fragmented. There's a lot of different solutions and solution needs out there And you talked about a lot of the integration work you're doing, so how should we think about, like, where that is from a profitability standpoint versus the rest of the business and – even if just qualitatively and where would you like to see that get over the long run?

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, clearly margins in that space aren't quite where they are in the other parts of our business today. But I also think the flip side is as we continue to grow and scale those businesses, the margin profile will improve and it'll be a nice tailwind to the overall margin growth and expansion that we're trying to achieve in our business. So, we talked about MineralTree. When we bought that business, it wasn't profitable.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

It is now breakeven-plus. For us, as we get into 2023, exactly in line with the expectations we have. As we continue to grow and scale the top line, we're obviously seeing more of that profitability flow through and margins improve in that business. The paycard assets are profitable, probably at a margin, again, that's a little lower than where the issuer margin is overall, but that's a margin, again, that's going to continue to grow and scale over time as well.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Got it.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Same thing on the acquiring side. Interestingly, B2B acceptance is just as profitable as consumer is.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Right, right, right, right.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Obviously, depending on mix, then as more and more of that shifts towards cards over time, I do think there's tailwinds to profitability and margins on the acceptance side as well. So, I think if you roll it all together, it's a margin profile today that's obviously lower than where the average business is, but it's one of the areas of the business that probably has the most potential for margin expansion over a long period.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Well, that's great. Cameron, everybody, that's all the time we have this morning. Thanks for joining us and look forward to seeing how you progress for sure. Thank you very much.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

Very good. Thanks so much for having us.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Yeah.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

Good to see you.

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