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Global Payments, Inc. (GPN)

Wolfe Research FinTech Forum

CORPORATE PARTICIPANTS

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

OTHER PARTICIPANTS

Darrin Peller
Analyst, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to the virtual Wolfe FinTech Forum Fireside Chat with Global Payments hosted by Wolfe's senior analyst covering Payments, Processors and IT Services, Darrin Peller. All lines will remain on listen-only mode throughout the call. [Operator Instructions]

Now I hand the call over to Darrin.

Darrin Peller
Analyst, Wolfe Research LLC

All right. Thanks, again, Tatiana. Thanks, again, everyone for joining us on what's now the 10th Annual FinTech Forum that we've hosted. I really want to send a special thanks to Jeff and Winnie from Global Payments for joining us, especially under this newer world environment – virtual environment. So, guys, thank you for joining us today.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

Thank you.

QUESTION AND ANSWER SECTION

Darrin Peller
Analyst, Wolfe Research LLC

Q

Well, just judging by the demand despite the market volatility, and I could see numbers going up by the second in terms of how much interest there is. So, look, as you guys know, I mean you've been one of our top picks last year and this year and continue to be so. But just given the volatility in the market, I think it would be unfair not to start off, Jeff, with at least a brief addressing of what you're seeing in the market. In the backdrop of coronavirus and everything else going on, can you just give us a sense of what you're seeing in the US market? I know you only have a couple of percent exposure to Asia, but maybe more broadly as well?

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. Thanks, Darrin. Thanks again for having us here today and all the flexibility that you guys have afforded to get the conference in. So, first, let me just say that really our primary concern is the health, welfare, and safety of our team members around the world. And, of course, our thoughts are with all those who have been impacted by the illness.

So, I think the short story is, let me just start by kind of the punch line, Darrin, and then I'll go through the detail. So the punch line is we've seen no discernible impact in our business through last night, through early March, in Europe or the Americas from the virus. As we said at the time of our earnings call about a month ago, we did see in January, and certainly did see more in February, an impact in our business in Asia-Pacific. As you mentioned at the start of the call, Asia-Pacific is only 4% of total company revenue; and in particular, Greater China, yeah, is a little bit less than 2% and Hong Kong is 1%.

Let me just start by saying that we saw no impact – no discernible impact in Australia and New Zealand. So I would say in the quarter in February and a little bit in January, and certainly our expectation in March is that we will see an impact in Asia-Pacific ex Australia and New Zealand. We have an estimate for that now, which we did not have a month ago. We think that's about an impact of US$15 million, that's one, five million dollars of revenue for the first quarter. That's about 80 basis points on the first quarter revenue growth.

But it's important to note, Darrin, that we don't expect any impact to earnings per share. In other words, we've absorbed that in our planning around the company. So we don't think that will impact earnings per share at all for the quarter or for the year. And I'd also tell you that we expect to absorb it in our guidance for the year. So, in addition to no impact for earnings, we expect to absorb the $15 million revenue hemorrhage in the first quarter from Asia-Pacific in our revenue guidance. So we are today reaffirming our yearly guidance that we gave in our call a month ago. And the short story is, we'll just absorb it in the context of our Asia-Pacific business. And I've already mentioned that we've seen through last night no discernible impact in our Americas or European business to-date.

The other thing I'd say, Darrin, I think is helpful to everybody is that T&E is a very small percentage of our business globally at our company. It's less than 2% of our revenues globally and almost 0% in the United States, which is 70% of the company. So, T&E is about 3% of revenue in the UK and Canada, but pretty much 0% in the United States. We're not in the airline business. We're really not in the hotel business in the United States. And as a result, we expect the entirety of the virus issue in Asia-Pacific to be manageable. So, today, we're absorbing it in our guidance and reiterating our forecast.

Darrin Peller
Analyst, Wolfe Research LLC
Q

All right. That's extremely helpful color, Jeff. Thank you. So, look, I mean just to reiterate, it sounds like it's really just the 80 basis points you're talking about on growth and only in Q1 from Asia you're saying. You're not really seeing anything in the US so far, which is great to hear, absorbing into the guidance, so guidance unchanged. Fair?

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.
A

Yeah. That's exactly right. Obviously, margin will go up, Darrin. I guess we're absorbing it in earnings per share. So, obviously, we'll have a higher margin.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Yeah.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.
A

That's good news for everybody. But we do expect, and I think this leads into your next question, but we expect the first quarter of 2020 to look very much like the fourth quarter 2019 in terms of organic rates of revenue growth, of course ex the 80 basis points I just gave you for...

Darrin Peller
Analyst, Wolfe Research LLC
Q

Yeah.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.
A

...the incremental Asia-specific kind of virus impact. So, we expect card issuing to be very much the same in the first quarter as the fourth quarter. I think in the fourth quarter, it was about 3.5% organic constant currency revenue growth. Fourth quarter is always a little higher in card issuing because we do get some of the benefit of the peak period. So we did see really good volumes in the issuing and merchant business, but for these purposes issuing in the fourth quarter will be a little bit lower than that in the first quarter.

But sitting here today, I've got the actuals for January and February, and we're running ahead of where we thought we would be at this time in the quarter. And given that it's March 10, I think we feel really good about where the quarter is and where the quarter is trending.

Darrin Peller
Analyst, Wolfe Research LLC
Q

All right. That's really good to hear. Just before we go into the core business and what the trends are, I guess I want to just follow up with one more point on the coronavirus impact, just because one of the questions we're seeing is people wonder about any type of sustainable impact that could cause any type of change in your model. I mean, clearly, you're not even seeing that much of an impact so far year-to-date. So, I don't think it would be that applicable to you.

But is there anything that could happen in your business that if things were to get worse before it got better, that would potentially flow through in how you change and how you do things that would impact maybe even 2021? Or would you say that's A, way it's too early to tell or; B, it's just too – it's unreasonable to think that would be the case?

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Well, let me tell you how I think about our business, Darrin, because I think in terms of mix – because I think that addresses your question. So I view our business about 50% of the revenue is pretty resilient...

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

...regards to the economic circumstance. So, as you know, Darrin, we've got $1 billion of owned software revenue today. We do about $1.8 billion in TSYS card issuing, and that's a mix of software revenue as well as processing revenue. But even if you went back to the last recession, Darrin, in the United States, TSYS grew in issuer processing right through that environment in 2008 and that has to exclude though the impact of banks that went out of business. But if you back out the banks don't exist anymore, TSYS in issuing grew right through it.

So, if you add $1 billion and $1.8 billion, you're at $2.8 billion. Then you look at our partnered software business at Global – what's now called Global Payments Integrated, and that's another $1 billion of revenue, and a lot of that is in areas like healthcare. TSYS is a big healthcare business, it's dental, chiropractic, veterinary. A lot of that is really not dependent on the underlying health of the consumer on a day-to-day business.

So, the way I think about it, Darrin, is about half, about $4 billion or 50% of our revenue is pretty resilient. And so, from that point of view, I feel pretty confident in our ability to absorb any kind of unexpected thing that comes up...

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yes.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

...beyond today. The other half is going to benefit from – so that half is going to grow between 5% and 10%; 5% for TSYS issuing; 10% for our software and partner businesses. And by the way, a 10% is like a floor, so it's actually been going better than that. So, that half is going to come in at 7.5%.

I think the other half, which is just the general merchant acceptance business...

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yes.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

...as you know, benefits of a tailwind of 200 to 300 basis points from the conversion of paper to electronic means of acceptance. So I've been at the company 10 years, Darrin. Canada has been between 0% and 1% GDP for the entire 10 years I've been at the company. That business for us for 10 years has grown 2% to 5%.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yes.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

[ph] Kind of just a (8:23) number in the year. Spain, when the economy was minus 3% GDP, grew at 10%; and when it was plus 3%, grew at 20%. So, I think at the end of the day, even the business that's not directly indexed to software, which is about half the company, is still going to grow, call it, 2% to 3%. So the half the company grows at 7.5%, half the company grows at 2% to 3%, it's very hard to see a scenario therefore where we're not going to get very healthy growth in the business. And as we guided last month and reiterating today, we expect 250 basis points minimum of margin expansion this year and probably next year is going to be a big number too.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

So, to answer your question, I think we've got a lot of levers to grow both the revenue as well as the margin and the earnings of the company. And I think, almost regardless of the situation we kind of foresee sitting here today, I think the company should be in an incredibly strong position. And in fact, we had our reviews – our operating reviews a couple of weeks ago at the company and I'd say, putting aside the macro, this is really the healthiest and strongest position our company has been in the last 10 years I've been in the business.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay. I mean so it sounds like what you're saying is basically there's much more resilience even today than there was on prior GPN, although even prior GPN was generally – it would have been fine in a recession, would have still grown. Now, the resilience and the mix of the revenues allows that to be even better in terms of growth profile, even in a tough economy.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. Look, I think the...

Darrin Peller
Analyst, Wolfe Research LLC

Q

All right.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc. A

...diversification, Darrin, was intentional. And I think we're now in a very healthy position.

Darrin Peller
Analyst, Wolfe Research LLC Q

Yeah, yeah.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc. A

Yeah.

Darrin Peller
Analyst, Wolfe Research LLC Q

That's great to hear. All right. So, let's put aside the virus for a minute and just talk about the core trends. I mean, look, as you said, I mean you ended up last quarter growing pretty well within expectation for that to sort of accelerate through the year from fourth quarter, similar first quarter to fourth quarter, and then again acceleration in the second half.

When we think about that 7%, 7.5% starting our off point from last quarter, I guess it would have been 8% without some lapping things. Do you still see the 9%-plus growth possible in the second half 2020? And that's, again, put aside the virus, just from the core trends you're seeing?

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc. A

Yeah. The answer is absolutely yes. So, as I said before, our business has never been healthier. We exited last year with a 22% earnings growth rate in the fourth quarter, our highest all year. We're guiding to 20% to 23%, which we're reiterating today.

I think there's a number of things you have to factor in in terms of the accelerating growth in the quarter. The first thing that we've talked about, of course, the CFPB as it relates to Netspend. That lapsed actually on April 1. So, that's getting at a few hundred basis points to Netspend revenue growth, Q2 through Q4. The second is the one customer and the one product in-sourcing at TSYS issuing, which happened in the middle of the second quarter last year, of course before we bought the business at – before we partnered with the business at Global Payments.

So, when you think about that, you have a merchant business that really is at kind of double-digits today and really was in the fourth quarter, and that I expect to accelerate as we get to the back half of the year. You're going to benefit from several hundred basis points of CFPB lapping in April on Netspend, and the issuer business we just described last quarter did 3.5% constant currency organic. And once we lap that single product from one customer that was in-sourced, that's going to be right back at the mid-single-digits growth rate that we forecasted all year.

And I'll tell you separately that we have a variable pipeline in issue. We do expect to announce wins as we approach the next quarter. That's only going to be additive over time to the numbers that I gave you. So I think the business is incredibly healthy and I think we expect to exit the year at probably our highest rate of organic revenue growth and earnings growth that we've had all year, which makes us feel really good about the momentum in the business.

Darrin Peller
Analyst, Wolfe Research LLC

Q

That's incredibly strong. Good. All right. Let's touch on just bigger picture long-term strategy, Jeff, for a minute. I mean, you've definitely spent a lot of time focusing on software and the opportunity for that to differentiate yourselves going forward. And then, we've seen a lot of M&A activity in terms of scale and payments more than software perhaps in the last year.

So, I know we've touched on this with you before, but maybe you can help reconcile where is your head right now in terms of long-term Global Payments strategy in terms of software versus payments and scale?

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

So, as I said last month, Darrin, on our call in February, our pipeline right now for M&A is full, and it's full of a bunch of assets, as you said. So there are software assets. Those are primarily in United States just because it's more of a deep market in the United States for software assets of size. So we still there are looking at those. We're looking overseas, primarily in Europe, at pure payments assets in geographies that we're not in today. And we're also looking at processing assets globally, especially in Europe, but also in other markets.

So, to a certain extent, these things come down to what's the right cultural fit, what is the right financial outcome. The strategy I think is sound for all of them. Obviously, given the state of the capital markets in the last few weeks, we need a little bit of stability, not so much because the price moves around all that much. I mean, we're a synergistic buyer. We bring revenue, margin and earnings sustainable enhancements. But more because we need to know the credit markets are in a good place and we need to know their stability. So there's receptivity to kind of what we're doing. So, that pipeline is full.

If we get some more days like today and we see some more stability, I do expect us to move forward. Our balance sheet is in a really good place. We ended last year at 2.6 times levered, substantially lower than our peers. We don't want to end at the end of this year with a balance sheet that's under 2 times levered.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

So I think at the end of day if these things don't materialize, you should assume that we're buying back stock. We did last quarter. We said we were in the February call. But my primary focus is on growing the size of the company and growing the scale of the business and repositioning in the right direction. So, we obviously prefer to do deals. That's what we're focused on, and hopefully we'll see benign capital markets that allowed us to get that done.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay. All right. That's great to hear. All right. Why don't we start to get into the weeds a little more on the cross-sell opportunity with TSYS now? And when we think about it, I mean there's a lot of opportunities you've laid out for revenue synergies. One of the things we've done a lot of work on is, as I think you know, is Genius and Vital, and cross-selling those systems through the Heartland sales force or the OpenEdge platforms.

Just curious, I mean, when you think of your revenue synergy opportunities, it sounded pretty good on the last call. What are you seeing now in terms of the greatest opportunities? And maybe we can then hone in on some of the specifics of Genius and Vital after that, if you don't mind.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. We're super excited about it. Why don't we start with what we expect overall in terms of revenue synergies? So we anticipate delivering annual run rate revenue synergies of at least $125 million, which is a bit more than 100 basis points of incremental revenue growth to be realized within three years, with some of that starting in the back half of this year.

Now let me be more specific as you were in terms of where that's coming from. First, I'm really pleased to announce that as of yesterday – I mean yesterday, we actually started to sell Vital point-of-sale into the Heartland base. That's in market now in the United States. We expect to be in market in Canada by the end of the year, but we're selling that now.

And you referenced Genius. We're super excited to know what you've already said, which is on the integrated side, we've had really good early success thus far with integrating Genius into the legacy OpenEdge environment. Remember, we think Genius is a terrific asset. It's a combination of hardware and software. To validate this, we have two recent new partner wins, where the combined capabilities of Genius with our integrated solutions put us over the top we believe. And we think that we can add more as time goes forward.

We're also very excited about ProPay. ProPay is really the PayFac asset and multiple disbursement asset over at TSYS. We have some early wins there too by leveraging ProPay into our integrated businesses and we'll also do the same with UCP. So we're super excited about that too. And we're already servicing TSYS integrated partners today out of Global Payments Integrated in Canada.

And then, lastly, because I think it's very impactful, I want to give you and everyone on the phone a sense as to how we move the needle. As we get into the back half of the year, our cloud-based data and analytics services, which were started at Heartland and is now in the Global base, is now an eight-figure revenue business. And we've said this on the call last month, Darrin, that business did not exist two years ago. So, that selling in the Google Cloud, data and analytics on a worldwide scalable basis with really infinite scalability, we're going to start selling that into the TSYS space in the back half of this year.

So we've taken a business that was zero two years ago within Global, it's now into the eight-figures. I think we said last month, it's quadrupled or quintupled over that period of time. And now, we're going to roll it into the 800,000-plus merchants over at TSYS, not hard to do the math. I mean, just assume $4 a merchant a month times 800,000 over some period of time is not a small number. So, when you think about our ability to put this stuff together and roll it out across the base, across 3 million merchants worldwide, it gives you a sense as to how optimistic we are that we're going to beat the $125 million number.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Wow. How does the cross-sell at TSYS enable the data analytics offering? I guess I missed that in terms of what does that bring?

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Right. So, TSYS today does not have the same type of customer engagement platform that we have over at Heartland and Global Payments. So I think for example in merchant reporting, Darrin, where we're offering up new loyalty opportunities, so e-mail marketing campaigns, text campaigns for consumers at their cell phone coming from the merchant relationship, discounting, couponing, anniversaries, birthdays, stuff going on sale...

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

...we're delivering all those analytics today through the Global Payments Merchant Portal, which is our reporting function.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

We'll be bringing that technology, which is distributed globally through Google Cloud, over to TSYS by the end of the year.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Oh, wow. So there's...

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

And that's something that's...

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah. I guess we knew of a lot of the cross-sell opportunities in systems like a Genius or a Vital, and we knew about potentially cross-selling issuer processing. But I think there is maybe still an under-appreciation in the market of some of the – just some of the value-add offerings that Global sells its merchants that TSYS hadn't done before that you can offer now.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. That's exactly right. And I'll say it goes both ways. As I mentioned before, I think bringing Vital POS to the Heartland chain is a really big deal. And we rolled that out yesterday in the United States. So now we're in market. So, listen, I really think this is one plus one equaling three. And I think it's important to note that we're coming off a period at Heartland where December of 2019, January and February of 2020 were some of the best organic sales months we've had in a couple years over at Heartland. And of course, our Global Payments Integrated business has also done terrifically well over the last year and a quarter, which we've been reporting publicly.

So this is against the backdrop of a combined business that's really firing on all cylinders from sales execution. We've seen no impact to-date on new sales in the Americas or Europe or anywhere else, obviously other than Asia Pacific, coming out of the macro issues you've seen. So, our ability to effectively cross-sell, as we head to the back of the year, gives us a lot of confidence that we're going to see that $125 million number.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay. That's really helpful. Just staying on the details of the cross-sell for a few more minutes. The opportunity sounds like SMBs are probably around 20% to 30% penetrated in the sense of an integrated solution. Is that the – would you think of the marketplace about the same way, maybe a third, a quarter, or a third...

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. I think, yes.

Darrin Peller
Analyst, Wolfe Research LLC

Q

All right. And so now you guys...

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. I think that's right.

Darrin Peller
Analyst, Wolfe Research LLC

Q

So now you guys have a variety of different ways to approach integrated payments, right? You have these point-of-sale solution systems that are smarter-based systems that you can cross-sell through OpenEdge and Heartland as well as Vital. And you have software on your own terms that you own that you can sell directly. Just curious where that market is going to go from that quarter to a third up to what percentage and when? What kind of transition do you see in the market?

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. Listen, I think there's really no natural limit on it. Our view, Darrin, is that increasingly we're selling what we call semi-integrated solution, so moving away from just the stagnant box at the desktop into a solution that's partially integrated the point-of-sale on the way to a fully integrated solution.

So, our most penetrated vertical market today in integrated, Darrin, is dental. That's maybe 25% relative to your 20% kind of penetrated. So, Darrin, I don't think there's any reason this stuff can't move up to 40% to 50% kind of integrated to kind of answer your question.

And I'd also tell you that we think, looking at our business, we've been able to reassign in just a short period of time 15 of the top 50 ISV partnerships at TSYS. We're in the verge of reassigning in the next day or two one of the largest ISV partners that TSYS has, which I'll talk more about on our next call. That's a business that TSYS may or may not have retained because there's some product gaps a year-and-a-half from now when that contract was up. And not only are we retaining, we're expanding it to other geographies by integrating that ISP into our UCP platform for multi-national customers.

So I would say sitting here today, Darrin, that there really is no kind of natural limit on the percentage of our business that will be integrated. But look...

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

...if I had to pick one, to answer your question, I don't see why it wouldn't double to go back to where you started. Why wouldn't we go from kind of 20% to probably 40% integrated penetration.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay. Makes sense. Just to wrap it up on integrated, international momentum, it sounded like you were taking some of that into Canada already. But I'd be curious to hear a little bit more of the opportunity for it to really have success in global markets beyond the US.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

So we've been in Canada for quite some time, as you mentioned. We think the places where it's most logical, and we looked at this kind of years ago, are really Canada, the United Kingdom, and Australia and New Zealand. So, we've been very successful, as you said, in Canada. I would tell you today that we probably get, I'll make up the number but it's directionally right, we probably get $10 million a year of in-year new revenue on products and services, which includes integrated as well as on the e-comm that we didn't have in Canada five years ago. Integrated is obviously a big piece of this.

Of course, we also went pretty heavily into integrated with Ezidebit into Australia and New Zealand. And of course, that business – really the core of that business is our integrated solution. You can think of that as really OpenEdge or Global Payments Integrated in Australia and New Zealand. So we're very optimistic on where we can take that business.

The other thing I think that's different about us is our ability to take integrated customers from one country to the other on a seamless basis. So we've taken [ph] rental and rentals (23:19) in the auto services area, for example, probably which is one of the largest providers of software into auto dealers in United States, and followed their footprint and ours into the United Kingdom. So I think we have a distinct ability to do that because of our geographic, physical as well as virtual footprint. I think that's really served us very well.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay. Can we just touch on e-commerce for a minute, Jeff? It's an area that I know you guys have been speaking about a lot more over the past few quarters. And just talk about your positioning versus some of the more traditional e-comm players before, I guess, if you can start there?

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. So we think we're distinctive in we're now calling it omni-channel, Darrin. It's kind of the same thing. But really there's no difference now between e-commerce as well as omni-channel in physical versus virtual acceptance, so I think you can do all those things whether it's at a restaurant or at a retailer. So, we think we're differentiated in two ways. The first way is, we really enable SMBs to go omni in their home markets or kind of regionally. And I think that's distinctive to Global Payments. So, though, the nice thing is others are following that trend, but I think we've got a great lead there.

And two, we selectively focus on those MNCs, just like our competitors, but who have omni needs in harder-to-serve geographic markets. A great example is Taiwan. So we have a very large – probably one of the largest technology companies in the world is one of our customers in Taiwan. When an RFP was issued, it was us and a local bank that were competing for that, and not surprisingly, we won that RFP. And I think that speaks to our ability to get into harder sort of geographies like Taiwan, like Malaysia, like Singapore, like Hungary, which is where our businesses I think really shine.

The second thing I'll say, and a lot of folks say this but I have the validation of it in the second, is that we think we have with our unified commerce platform market-leading technology that provides virtual but also physical acceptance in 38 countries on the ground and about 100 cross-border through a single API integration. Now other folks can claim some of the virtual successes too, but just look at our recent win last October with Citi. Citi launched an RFP and I think provides third-party validation of exactly what I'm saying. Believe me, those guys are smart. They know how to run an RFP and they looked at the technical capabilities that we have in the markets we're in and we're in the process of taking that live globally now. The US was enabled in December. Europe will be enabled in this quarter, early next quarter. And I think that relying on our domestic licenses and processing capabilities in the countries that I described, that's very hard to do.

Global Payments and TSYS combined probably of 7,000 team members outside the United States in 37 countries that aren't called the United States. So I think that's very hard for people to replicate and I really think on omni-channel, Darrin, really explains our points of differentiation.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah. That definitely comes up a lot in our dialogue with companies, even a Stripe or others that are trying hard to go from a certain number of countries to many, many – a much larger number. And it takes time and it takes a lot of head count on the ground, which I think you guys have already. So is that really what allowed you the differentiation on Citi is having all of that local presence in all those markets in an omni-channel manner?

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.
A

Yeah. That's exactly right. So I think there's very few people who can do that. I also think you obviously need a very flexible state-of-the-art technology. I mean, listen, Citi is a really large – I mean don't need to say this but there aren't many sophisticated banks that are bigger than Citi globally. So, they have real demands and needs to satisfy their security policies, their operating policies, their customer service policies.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Sure.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.
A

There aren't many people in the world that can actually do that in a timeframe in which they want that done in. So I think it shows, Darrin, that pure play payments, which is our philosophy, really is winning. We're viewed as experts in that area and I think Citi is delighted – very much a pleasure and delight for us to see that Citi reached the same conclusion that we did.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Okay. That's really good to hear. All right. Let's touch on just quickly cross-selling from an issuer processor standpoint. We've heard of some early success in pipeline at least around selling card issuer processing potentially to some of your JV partner banks. Any thoughts on that?

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.
A

Yeah. So, listen, we as a combined company have 1,300 relationships with leading financial institutions around the globe. So you should assume and we have on three continents, since the deal was announced, been pursuing that with our large multi-national financial institution partnerships. Now, in some cases – in at least one case, one was already running an RFI. So, Cameron flew out to meet with those guys in February, and I think we've got the leg up...

Darrin Peller
Analyst, Wolfe Research LLC
Q

Yes.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.
A

...because of the relationship that legacy Global Payments had with that partner. But we were actively pitching that people today. I think what's different other than just the relationship, and by the way this cuts on both sides, Global Payments legacy merchant is busy pitching merchant acquiring into companies in Europe that TSYS had a really good relationship with on the issuing side. So, of course, it goes in both directions. But I think what's most interesting about this because it's really distinctive is we have the ability to bring both the issuing as well as the acquiring side.

And so we're talking to a large complicated financial institution anywhere in the world, we can solve their issuer needs, but now we can also solve anywhere in the world, not just United States, their acquiring need. So, we've had meaningful successes in the financial institution channel among the 1,300 FIs in just a short six months since closing, so stay tuned. But those are both issuing wins as well as acquiring wins. In my opinion, undoubtedly, the company is better positioned by having both legs to the stool versus what either one of us had stand-alone prior to partnership.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay. All right. Let's shift gears now just in terms of when we think about TSYS and Global together, obviously the whole concept of the acquirer under one roof with the issuer processor, which kind of carries forward from the TSYS cross-sell, obviously you guys should be able to offer more when it comes to something like a 3D Secure 2.0, right? You should be able to step in and provide your own solutions to help with – to factor authentication, for instance. I mean, any examples you can give us on how that's really helping you in terms of cross-sell or maybe data analytics opportunities or authorization rates?

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. Absolutely right. So, as you know, and you said, PSD2 and especially SCA or a Strong Customer Authentication have a [indiscernible] (29:32) in Europe. It's being rolled out over the next 12 months depending on the country that you're in. We're actively working on the use case, the one that you just described, which means that we can validate that transaction, given our market share, within the four walls of Global Payments at a reduced or lower price than you can by going to a third party. So I absolutely think that's part of the value chain that we can offer.

But the second thing I want to mention is what we call transaction optimization. So, I think if you think about Apple Pay, if you think about Amazon Pay, I think we have an ability to create new payment types by matching digital wallets on the issuing [ph] sites (30:08) with our position on the acceptance [ph] site (30:10) by matching those together for some of the largest brands overseas as well as in the United States, and effectively make them their own digital wallet provider, the way Apple is with Apple Pay or Amazon is with Amazon Pay. By combining both the issuing side of the equation with TSYS as well the acquiring side of the equation with Global Payments, we can provide tailored coupons, we can provide better consumer experiences, we can provide higher authorization rates, and I would say stay tuned.

We're hopeful we have a lot of – a number of live success stories that by the time of our next Investor Day we will be prepared to walk through with you and everybody else. But we're very excited about that. That is something that legacy TSYS and legacy Global could not have done individually. And I think what's different about us versus some of the deals that happened is that we really have that presence globally. Nobody else has, I think, the issuing worldwide presence and share that TSYS does, coupled with the worldwide presence and share globally that legacy Global acquiring does. So I think...

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

...it puts us in a very distinct series of groups of folks who can actually do what I'm describing.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay. Thanks. Just a quick one on Netspend, Jeff, an area that obviously I know you've said you should be able to cross-sell and execute on, but at the same time you'd be open minded around strategic alternatives if it came up. Curious where your head is on that now.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

So, we have a differentiated strategy there. You saw – you can say this is a synergy, Darrin, although we didn't spend money to do it. But the acquisition of MoneyToPay, which we announced last month in February with Caixa, another joint venture which has been fantastically successful. With Caixa, I think we've got three already going with Caixa today. We couldn't be more excited about bringing the Netspend business into lesser penetrated markets like Continental Europe. So, stay tuned there.

Secondly, we think we're differentiated in bringing B2B, especially Paycard solutions, to combine Netspend and Global. We just signed up a top-25 bank for Paycard. We think there are use cases in our gaming business and in our restaurant business in terms of cashing out waiters and waitresses the tips at the end of their shifts. So, we think there's a lot we can do there.

Now, like every business that we have, all these businesses have to perform. So, as you all know, we're very focused on shareholder value creation at the end of the day and therefore it's super important to us to make sure that we're maximizing the value. So, if there comes a time in any of our businesses, including Netspend, where we don't think we're the better owner, then obviously we will assess it. But we're not at that point now, and we think we have a differentiated strategy, and this is something that we'll continue to assess as time goes on.

Darrin Peller
Analyst, Wolfe Research LLC

Q

All right. That's helpful. Guys, we're almost out of time. So I'm going to tell the audience now if you have any questions you want to ask, you can take them into your question box on your screen at this point.

But just last question while we're wrapping up, Jeff, on the cost synergy outlook, clearly been raising expectations given what we've seen so far. What were the key drivers of the increases last two quarters? And then just talk about if there's any more room on the cost side, considering that you also need to reinvest or you've expressed a real interest in similar levels, if not higher levels, of reinvestment.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. So I'd say we're already doing the reinvestment. This is not at the cost of it, Darrin. So, Paul guided to $500 million to $600 million of CapEx. And I would say, if you go back to even pre-Heartland days, I think we've probably doubled to tripled CapEx on a pro forma basis prior to Heartland. So, we're not sort of changing any investment to do any of these things.

I think the answer to your question is we generally like to under-promise and over-deliver. But putting that aside, I think you make a bunch of assumptions when you announce these deals, and we announced at the end of the third quarter into the fourth quarter that we've already taken action on savings that will run rate about $100 million annually. That was at the end of last year and obviously we expect to ramp over time.

Now that we've got a full quarter under our belt, on a combined basis, we've been able to identify and make additional progress in go-forward target architecture and target operating model. So, when we do these things, we make an assumption, okay, what's the architecture we're going to use, what's the operating model that we're going to use. Those are generally not in the initial estimates because, to be candid, in May of 2019 we don't really know what those are. We know we have to address them. But we've had enough time. We started the integration plan August 1 of last year. We've had enough time now to come to a conclusion about what the target architecture model and the operating models ought to be. And that's part of the explanation of why the synergies have gone higher.

The other thing I'll say is just the company is operating at a very high level. So – and execution is very good. So, when you do that, that just gives you a lot more confidence that you can stretch to achieve goals that you might have thought you needed if the business wasn't operating in such a good form. So we're very confident, I mentioned a few minutes ago, that I think the entirety of the business, notwithstanding the macro, is operating at a very good place. We're firing on all cylinders and I think we have a lot of levers that we can pull to do what we need to do to perform.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay. That's helpful. I mean, we have a few questions. Maybe I'll take one just because we're just about out of time, Jeff. The question is, Jeff, given the momentum and revenue acceleration in the back half of 2020, is there any reason why EPS growth couldn't accelerate into 2021? I mean, they're getting more specific on like 2020...

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah...

Darrin Peller
Analyst, Wolfe Research LLC

Q

...but I would just leave it at higher level because I know there's always so much you guys...

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. Listen, the answer is I certainly hope so. As we said on the call last month that the synergies will, as of course they should, the synergies will grow over time, the more actions we take, go into the run rate. So, therefore, my expectation is that number gets bigger as the year goes on.

Just look at 2019, we exited 2019 the highest rate of earnings growth, 22% that we had, all year-to-year it was 20%, but we exited at 22%. Our guidance this year which we're reaffirming today at 20% to 23%. I think we said this on the call last month, it implies that we will accelerate as the year goes on. I expect the fourth quarter, everything else being equal, to be probably the best quarter that we have all year for all the reasons that we've talked on this call. By definition, I think that means we'll be in a very healthy place exiting the year, heading into 2021. So, I feel very good about where we are and I expect to see continued progress as the year goes on.

Darrin Peller

Analyst, Wolfe Research LLC

Okay. Jeff, Winnie, I want to thank you guys very much for joining us today. This is extremely informative. For everyone on the call, we have Mastercard's CFO up next at 2:15 for the next webcast and conference call.

Jeff, thank you, again. Really appreciate the time. And good luck to you and to the whole company in this crazy time we're in. But, again, all the best.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Darrin.