Corrected Transcript

31-Aug-2022

Global Payments, Inc. (GPN)

Deutsche Bank Technology Conference

CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Okay. I think we'll get started. My name's Bryan Keane. I cover the Payments and IT Services Group here. And we are excited to have Jeff Sloan, the CEO of GPN. We are going to beam in. Jeff, there you are. How are you doing?

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

Hey, Bryan. Thanks for having me.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Sure. Thanks for doing this.

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

Sure.

QUESTION AND ANSWER SECTION

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Jeff, I just wanted to start and kind of starting with the same question just about for everybody is just thinking about the macro and how GPN is positioned around the globe, thinking about processing volumes and what you're seeing in different regions around the world. Obviously, Visa came out with its recent data yesterday. So just be interested in your point of view around the world.

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

A

Well, thanks, Bryan, again, for having us. So we said in our August 1st second quarter call that July trends were relatively consistent with June, and that our guidance assumed a stable macroeconomic environment and continuing recovery from the pandemic. And we also provided on August 1st the currency outlook for the third and fourth quarter and the remainder of the year. Pleased report that August trends to date have been consistent with July, in line with our expectations and the market results; and the consumer remains, in our experience, in a relatively healthy place.

I think we're still in a period where there's been a lot of activity, pent-up demand during the summer months. I've been traveling a ton on the road for business over the last 2, 2.5 months, and not to bore you to tears, but I've been all over the US, Canada, actually in the UK twice, Dublin and Prague; and the airports, the restaurants, the hotels, the streets are all packed. So people are out traveling and spending. And my own opinion is that I think we're certainly fine through the third quarter. We'll see how those trends play out through the balance of the year, given the overall environment, but we continue to be comfortable with how we see volumes progressing through July and August relative to what we expect.

If you go a little bit more granular, to your question, from a regional point of view, we're seeing positive trends across most of our geographies. I'd say the one area where there's still some lingering pandemic impact is in Greater China itself. But as we said on August 1st, on a constant currency basis, the Asia Pacific region in the aggregate for us grew double-digits in the second quarter. So, really that impact of Greater China for us has been muted. And as I think you know, Bryan, Asia Pacific in aggregate is like 3% to 4% of the company. So, it's a relatively small piece of the company.

But the other piece, the good news is that our vertical markets businesses that were more impacted in 2020, including our ACTIVE and K-12 businesses are back to contributing to growth as a tailwind, and that portfolio is turned into the tailwind that we said it would, really, all along. So, overall, just to go back to where you started, I think we're in a really good place from an operating point of view. And, again, our trends, volumes and the like, are tracking in line with our expectations. And as you know, the last three quarters that we've reported have all been records for Global Payments. So we feel pretty good about where we are.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Wanted to ask just real quick on the UK, because your results seem to be doing a little bit better than some are pointing out UK weakness. Can you just talk a little bit about what you're seeing in that region in particular?

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

Yeah. So, we've seen real strength in the UK. I'd say our numbers there were well into double-digit growth year-over-year. I think it's important to highlight, Bryan, that as we've said all along, pre- and then certainly during and now post-pandemic, we have relatively little cross-border travel in the company as a whole and, in particular, relative to at least one of our public comps. So, really not in the cross-border kind of consumer commercial travel business away from Issuer, of course, but especially to these purposes into the UK.

So, we really haven't seen that. We've had very good traction in the UK. And if you back up a little bit further, Bryan, our European business is doing fantastically well. I think we've called out Spain in our last call, which I think the growth was like in the 50% range in the second quarter and we're really pleased with their performance. I think we are very pleased with the trends we've seen so far out of Europe. And then UK obviously for us is an important part of that. So, we're reasonably optimistic from where we sit today in the third quarter for the UK.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.
Q

How about FX, Jeff? I know FX was a headwind. And then there still – it's a dynamic environment out there. So just thinking about FX guidance versus constant currency, and any change in kind of that you're seeing in the rates.

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

Well, Bryan, you're certainly right to call out that currencies remain a headwind to reported results, and that those have actually worsened as you know since our August 1st call. It should be self-evident, but I'll just point out specifically that the British pound is off 5%, the euro is off 3%, and the Canadian dollar is off 2%, all less than a month. Last time I checked them, Bryan, we're actually still in August. So, the month isn't over yet. So, in total, relative to August 1st, these currency movements would represent a roughly $0.05 earnings per share impact to us for Q3, really, since August 1st, assuming no further worsening for the rest of the period.

And as you mentioned, we've already moved to constant currency reporting in Q2. So, there's no impact, of course, to our constant currency results. And as we did on August 1st, we'll obviously show both. But of course, the foreign currencies obviously have moved and there's a lot of volatility in those markets.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.
Q

Right. Right. Got it. Jeff, you and I have been doing this for a long time covering this sector. Can you can you just talk a little bit about – obviously, everybody's assuming we're going to be in some kind of an economic slowdown, maybe a recession, probably a recession. How do you feel the models hold up, in particular, GPN's model holds up in an economic slowdown versus peers or versus other sectors?

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

Well, I think you just said in a nice way, Bryan, that I'm pretty old. So, that is a nice way of putting it. I appreciate you being gentle and how you segued into that. So, I'll take that I guess as [indiscernible] (06:39)...

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Well, we're both old because I threw myself in there.

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

A

Well, I avoided referring to you [ph] as part of it (06:45), just referred to me. So, let's take it into a couple of pieces, really, the business and our history here, and I think it'll address the question. The first thing I'd say is we have a long history, both at Global and TSYS, of operating – let's start first in an inflationary cycle, and then we'll go to kind of what a recessionary cycle looks like. And our Merchant segment first has in part a volume-based revenue model. So, if prices rise at a modest pace and don't really affect the underlying economy, that actually benefits a portion and it's really a portion of our revenue and profits as long as the economy remains stable, which as I just said a minute ago, kind of is today.

In our Issuer business, revenue there is mostly driven by transactions, accounts on file, transaction-related initiatives. So, inflation doesn't really have a significant impact in the Issuer business, again, as long as the economy remains stable. As I mentioned a minute ago, Bryan, in both Merchant and Issuer, we've got a really long history on both sides at Global and TSYS of operating in an inflationary economy. So, in the case of Global Payments, think Mexico; in the case of TSYS, think Brazil. So, really, inflation, as its own size, really nothing new to us. But I would say, as you've seen with our margin expansion and our guide, we're in a reasonably good place there from a growth point of view.

It's also important to point out, as we did, Bryan, last September at our last investor conference that we sell about $3 billion of software today, mostly on a cloud SaaS basis. So, we're now a top-quartile US SaaS company. We have a lot of revenue visibility in the software and a lot of resiliency, which I think we demonstrated to be candid throughout the pandemic.

If you go to the second part of your question, which is what happens in the context of an economic slowdown more broadly, let's break it into two pieces again. Let's just start with the building blocks over at Merchant, which post the Netspend divestiture that we announced on August 1, will be about three-quarters of the revenue of the company. Of the roughly 10% low-double-digits target we have for Merchant, I think it's like 10% to 12% or whatever we said in September, we estimate, Bryan, that roughly 300 to 400 basis points, call it, of that low double-digits number is driven by same-store sales growth, and that's kind of the key building block for that business.

So, certainly in a recession, you could see that 300 to 400 points of that 10%, 11%, 12% go to zero. And, actually, we didn't own Heartland back in the great financial crisis in 2008, 2009, 2010, that kind of thing. You could certainly see in those kind of markets, and I think Heartland did see, before we owned it, in the great financial crisis, you could see same-store sales kind of turning negative.

But you're still left with a business that's mid- to high single-digits of growth rather than 10%, 11%, 12%. And the balance of that growth, Bryan, is really driven by digitization or the displacement of cash and check by electronic means, new markets that we enter, new TAMs, new sales, new products, those are all fairly stable. We've been announcing, I don't know, seven quarters in a row now, kind of, record bookings coming out of our US payments business in our vertical markets in particular. And those things are fairly stable, as we've been saying, throughout the pandemic.

In the Issuer business and, again, we didn't own TSYS back in the great financial crisis, but if you look at the Issuer business, that business also grew in the great financial crisis in revenue, if you adjust for the large bank insolvencies. And I think they had a couple customers that actually went insolvent during that period. So, fundamentally, that business grew right through the great financial crisis.

And then the last thing I'd say on this topic is on operating income. So, we have revenue growth in both segments almost regardless of the environment. And then on the operating income side, I think we demonstrated, Bryan, at the beginning of the pandemic that we can very quickly take out expenses in a challenging environment. And remember, back in March of 2020, we took $400 million annualized incrementally of expense out of our business in two weeks, of which half, $200 million, was a permanent reduction.

And even in 2020, with a mass shutdown globally, concurrently, we grew earnings in that year year-over-year, and we generated a then record $2 billion of free cash flow in the midst of a once-in-a-century crisis. So, look, I think we're in a relatively good position, as I mentioned a minute ago. We don't really see any evidence of that today. But if we were to see it, I still think we'd be in a very attractive financial and operating position.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Let's talk about the EVO Payments acquisition. EVO's assets seem clearly complementary to those that you already have and it brings you new outsized exposure to some of the different geographies. Poland, Mexico obviously GPN's in, but they're big in Mexico and Chile and Greece. So, I guess, thinking big picture here, can you tell us how you see EVO adding to your cycle guidance of organic growth in the low-double digits and EPS, I think, the 17% and 20% growth?

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

A

Yeah. It's a great question. So as we discussed on the August 1 call, the EVO acquisition really in combination also with the sale of Netspend's consumer assets, gives us enhanced confidence in the cycle guides, which of course we raised last September to the numbers that you just outlined. Look, as you know, you've known us for a long time, as has always been the case while we've been running the company almost nine years now, capital deployment, so call it share repurchase and balance sheet management, but also M&A, has always been a part of our cycle guidance for the last nine years.

So, really, it's part of the 10% to 12% revenue expectation and 17% to 20% compounded earnings expectation. And in any given year, Bryan, that could be a point or two. I would say in the last two, three years, post-TSYS, it's been like 50 basis points or less. So, it's been a pretty small number in our growth over the last number of years.

Now, turning to EVO kind of specifically, that's really the Global Payments kind of model, EVO does a few things. First, it expands our presence in new geographies. You listed some of them with fantastic secular growth trends, including Poland, Greece, and Chile. But it also increases our scale in a number of our existing markets, including the US, Mexico, and the UK, Spain, and the Czech Republic.

One thing it does in Ireland, which is important to note, which is a distinction that I don't think we've talked much about, is we're in the e-com card-not-present Irish market today with Global Payments e-com which is the old Realex which I think we did in like 2014, 2015, 2016. It's kind of vintage. And this gives us a card presence business with one of the three large banks, Bank of Ireland, by way of JV over in Ireland. So, really rounds out something we've really wanted to do for a long time.

The second thing it does is it really adds substantially to our integrated payments leadership worldwide of over 1,500 tech partners at EVO. And of course that's a really big piece. 20% of our merchant business today is partnered software, which is what that is. And then lastly and very important strategically, EVO augments our B2B software and payment solutions by adding accounts receivable software, in particular, with broad third-party acceptance, with ERP solutions to what EVO calls its PayFabric platform, which includes in particular by name, SAP, Microsoft, Oracle, Acumatica, and Sage.

That's not something that Global Payments had, Bryan, so that's truly additive to what we do obviously with MineralTree. As we announced last September, we expanded into B2B with our other assets. But MineralTree is really on the cloud SaaS payable side. We don't really have any businesses on the receivable side, so we're pretty good at the money out, which is paying people on bills. We weren't really great as a cloud SaaS native matter on the money in. So, we think it's moved the ball pretty far down the field. And to put the two together, we're in that 75/25 mix between Merchant/Issuer in B2B. And we expect both of those deals to close in the first quarter of 2023.

So going back to the beginning, it really makes us feel very confident about the 10%, 11%, 12% growth, about the 17% to 20% earnings growth, about the margin enhancement at 50 to 75 basis points. Obviously, we're well exceeding that this year. So, really, reinforces our confidence in the model that we increased last September.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

And you guys have made a point to get into B2B in a bigger way, obviously with MineralTree and now with EVO. How do you see yourself competing in the market, and what is the kind of growth rate you think that the B2B business can do now that you have these combined assets?

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

A

It's a great question. So, look, that market is really fragmented, very large. I think Mastercard, and we put this in our deck, Bryan, like 70 pages, if you can bore yourself [indiscernible] (15:24) going through, we put it in our slideshow from last September, it's like $125 trillion TAM per Mastercard. We think half that market is really just check and ACH and no virtual cards. So, I think there's a tremendous opportunity for growth across the entirety of market, really, for everybody. And we think the market obviously is really in the early innings and we should all experience hyper-growth in that market going forward.

If you break it down more detail to kind of what you just said, if you look at the assets that we bring to the table, particularly post-EVO, we really bring a fantastic commercial card business, coming of course from TSYS for example, in the spring of 2022, we announced an eight-year extension with Citibank of that business through 2029 or whatever it was that we said – actually last fall; at the time, obviously, one of the largest commercial card issuers on the planet. Obviously, very sophisticated in terms of technology.

We bring something like 50 million virtual card issuances a year with some like $30 billion of receivables of volume on those virtual cards, so really a leading virtual card issuer. We bring fantastic distribution, long-standing, decades-long partnerships on the TSYS issuing side with many of the largest banks, which is where money flows are in payables and receivables, data analytics.

We have a great payroll business in the context of Heartland, just well into the nine figures growing organically in the mid-teens. And of course access globally to non-card based rails. Take a look at what we announced with Virgin Money. We've got our TouchNet business in universities, which is mostly ACH and non-bank card centric.

And of course MineralTree brought us that cloud SaaS native technology for accounts payable. EVO brings us the receivable equivalent to that with the integrations I mentioned a minute ago.

As we mentioned our call on August 1st, Bryan, in the second quarter, MineralTree grew something like 30% and actually in the month of June achieved EBITDA breakeven ahead of our estimates. But we think that market should grow, Bryan, to answer your question on market rate growth when you look at the big market. We think that market should grow 20% to 30% on a compounded basis organically over time.

As I mentioned a minute ago we certainly saw that kind of growth at the wide end of that at 30% for MineralTree in the second quarter. So, we think there is tremendous opportunities to augment growth. And now we've moved or we're moving, we did as of July 1, moving into the Issuer segment Netspend B2B pay card, EWA and the like type of businesses. And as we said in our call a month ago, those businesses grew mid-teens.

So, I think we're poised for accelerated growth. That's part of the reason, Bryan, we upped our outlook for our Issuer segment in mid to high single-digits for the rest of this year in terms of its rate of revenue growth. And obviously that's pre-EVO. So, we think it's a very fragmented market, highly competitive, no one's got a big share, a lot of check and ACH, which is like just what we like, a lot of virtual card growth. I think I said on the August 1st call that virtual card issuance in MineralTree grew 60% year-over-year or something like that. So, we think that, plus the Netspend assets, which – will put us a really good place for sustained future growth over the cycle.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Do you need anything else there? Like, is M&A a possibility there, or is it a scale game that – or is it different niche verticals that you can get into, or do you have what you need?

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

A

No, I think it's what you touched on. I mean, I think there's a lot of room for organic growth, just to be clear. But I mean, if you look at Avid's strategy and the like, it is a world of vertical markets just like it is in the context of our owned and partnered software business. In a world of increasingly specialized and segmented by vertical, B2B is no different. So MineralTree, for example, adds particular strength vertically in healthcare just to pick one. That's also a vertical that are partnered in chiropractic and owned and AdvancedMD software businesses also have.

So I think Avid's got it right. I think it's one of the things where you will add additional verticals either de novo or inorganically through M&A. So, I certainly think there's room for more deals there. And I think there's room to add, no doubt, additional vertical markets because customers want software that's fluent in their vertical market-specific areas, which is exactly what we see in the rest of our businesses.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Wanted to ask one more thing on EVO and the combination of assets. I know you guys specifically called out Vital point-of-sale software solutions and Unified Commerce Platform as good cross-sell synergies. Can you just highlight those two areas and why those stand out?

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

A

Yeah. I think if you back off and you say, okay, what are the areas of opportunity more generally before we go into the detail, what you'd say is, it's combining EVO with our technology, which at Global Payments is predominantly cloud-native, in the Google Cloud with GCP and Merchant, it's combining that with their distribution and our distribution and bringing more product into those distribution chains which leads to distribution as well as technology. I think that's the thesis.

And if you look at two of the better use cases, you touched on them, but on Vital specifically, we're already – at Global Payments, independent of EVO, we're already bringing in our Vital point-of-sale solutions to key international markets this year, including the UK, Spain, and Central Europe. And that's now – between now and the end of the year. A number of those markets are where EVO already sit and EVO has no real equivalent product. So, our ability to bring in Vital, I think, at the point-of-sale is a true add to what EVO is doing.

The second thing I'd point out, which we're very excited about, is in our e-com omni business, which we call Unified Commerce, or UCP, we'll be able to capitalize on the unique capabilities what we have, with EVO's large enterprise customers. What's most exciting about that, Bryan, is that EVO is in certain markets like Mexico with Banamex and Chile with Bci that are underpenetrated generally, but they're really underpenetrated as it relates to e-com.

So, our ability to bring in our multinational platform for omni-channel acceptance, physical as well as virtual, with UCP, in some markets that EVO has, like Mexico, where their partnership with Banamex is fantastic, as well as into markets like Chile with Bci, I think really position us very well to accelerate organic, really, revenue growth opportunities as part of the combined company.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

I'm just thinking out loud here, Jeff, but how have the conversations gone with a lot of the bank partners that EVO has; Banamex in Mexico and obviously they have a lot of alliances? So now that the deal was announced, I'm sure you've reached out to all those banks and talked to them. How have those conversations gone?

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

A

Well, really, Jim has in particular. It's still his company until we close. But, listen, those conversations have gone fantastically well. I mean, I would say one of the key selling points, I think, for both of us, for both EVO and Global Payments as part of the merger is that, not surprisingly, we know each other real well and we have a very similar strategy, which is outside the United States in particular, focused not just on technology enablement and software, but also on FI-centric distribution and kind of enter new markets.

So, look, Global Payments and TSYS in particular, we have something like 1,300 financial institution partners around the globe, and we're physically present in 38 countries with local licensing, support, ops, customer service, and the like. EVO brings more than a dozen – I think it's 15, Bryan – new large financial institution partnerships to the table. Think about PKO in Poland, for example. Think about Bank of Ireland [indiscernible] (23:13) Merchant side in Ireland. Think obviously about Banamex-Citi in Mexico.

So, listen, I think we all, Jim and I both, take a lot of comfort knowing that we have a very similar strategy. We have decades-long, literally decades-long, I think HSBC is like 50 years old partnerships with some of these financial institutions. And I think that the banks and we each take comfort in the length and durability, which I think is distinctive of those relationships over long periods of time.

So, the conversations have gone really well. I know Jim feels that way. I certainly feel that way. And much like we've done with Caixa in the context of our issuing business post the TSYS merger, we announced as you know a letter of intent with Caixa for its issuing business. That's our largest win since Bank of America in the United States in 2013. We expect that to go live at the end of next year in Spain.

One of the first examples of a large European institution going straight from on-prem to cloud and AWS. I personally think we would never have won that had it not been for the combination of TSYS and Global Payments, and certainly the investments we're making in the cloud. I think Jim and [ph] me, we (24:20) feel the same way about some of his bank partners. So, the best is really yet to come.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.
Q

I want to ask you about the high level – and I'm sure you know this, Jeff, but everybody is focused on acquiring share and looking at the market share data. And it's been a little bit frustrating that the stock has lost a little bit of its multiple, and there's all this concern about these new entrants entering the merchant acquiring sector. Just love to get your thoughts on share gains, share losses, and how GPN stands up.

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

Yeah. I think, Bryan, it's important to start by saying there's really no fundamental change in that get better of an environment. As we said last September, the market's always been hyper competitive, and that continues to be the case today and I believe that will be the case tomorrow. As we said last September, we've been competing against many of these new entrants, and they're really not new. They may be new to public markets, but not new to us for more than a decade. Yet really through the third quarter of last year with the investor conference all the way through to June of 2022, we've enjoyed the best performance in our history over the period at issue. And we just delivered, really, a record first half of 2022 as well and expect to be a record third quarter.

So, the point of view that somehow the landscape has changed is really self-serving for those folks who are trying to sell equities, many of which are companies of which had tried to go public for years but really couldn't until the SPAC and direct listing boom last year. And, look, there's only one Amazon and the graveyard of SPACs that we're all looking at today will tell you. So, you don't need me to tell you how those guys are trading. Many of them are substantially below their all-time highs and almost all of them are below their IPO prices. So, I think the market has kind of voted on that.

If you think about how we're doing, we've now reported volume and revenue trends at Global Payments for the last 14 quarters. I think the results are really self-evident and I think we could probably all stop tilting at windmills as we think about things that may be that haven't happened. I also think it's worth pointing out that particularly in the last two quarters of 2022, that we have literally doubled, I mean, doubled, the rate of volume growth of our more traditional peers in the last two quarters of 2022 to the extent that they actually continue to report them, one isn't in recent quarters.

And that most recently and I think most significantly including last night, Bryan, with Visa, that our e-com businesses have grown each of the last two quarters of 2022, literally at rates 4 to 5 times faster than the networks. And you've now seen kind of the newer entrants have their growth slowed pretty dramatically as the world has moved back [ph] you see this from the networks (26:54) as the world moved from like pure e-com back to omni. But I think most interestingly, those folks have now adopted our strategies as their own, meaning a blending of the physical and virtual environment, validating what we've been saying, really, for years. And that I think explains why we grew mid-teens constant currency in volume in the second quarter in e-com omni and the Visa, Mastercard numbers were whatever they were.

All these things make us very confident in raising our cycle guide last September. And then lastly, I would say as we announced on August 1st, certainly Silver Lake Partners, the global leader in technology investing, agrees with our view of market share. These guys spend months conducting due diligence on us, and I can tell you they're certainly not interested in a 1% annual return for the next seven years on the largest investment by 50% of its type [ph] they've ever (27:45) done in a public company. And I certainly take a lot of confidence in their confidence in us.

So I think we're in a really good place there and I think that seems to have been yesterday's issue when the cost of capital was zero. And now that it's a positive integer, I think people are in a different place.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Want to ask specifically about SMB exposure, where you guys have significant exposure there, and then verticals like education, ACTIVE, retail, gaming, obviously the school stuff, which we talked about through education, the K-12. That's been on recovery mode. How far are we through recovery or does that continue to show growth here in the second half? And then do we get to some kind of a normalized rate here in 2023?

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

A

Yeah. I mean, our Merchant customers today are healthy and they're benefiting from this strong consumer spending we're seeing across our markets. As I mentioned in response to your first question, that's evident in the volume trends we're seeing relative to our own expectations, relative to what Visa said last night, and also the ongoing record results we're reporting.

I think it's also worth pointing out here how wrong the general premise on SMBs was heading into the pandemic, and how wrong it was that it remain for some time. SMBs emerged far healthier than most predicted, and our retention rates in many of our segments are actually higher today at Global Payments than they were pre-pandemic. And I'd also say on that, that Silver Lake's imprimatur and their investment in us provides yet another proof point of what I've been describing.

In the specific verticals, pretty much all of our verticals at this point, Bryan, have recovered relative to 2019. As we said on August 1st, our vertical market software businesses delivered 20% revenue growth in the second quarter compared to the prior year, and booking trends remain strong. And it's a tail-winded growth now, just as we predicted it would be. I think we said that in December, it would be. But just as we predicted it would be at the end of last year and the beginning of this year. So, it'll be a tailwind for this year.

In particular, we continue to see really strong performance in AdvancedMD and TouchNet, the latter of which, our university business reached record new sales for 2022. We've also seen great wins at Xenial. Fantastic bookings momentum there. I think we signed up 2 of the top 25 QSR brands. Most recently, we announced wins with the Winnipeg Jets and Ole Miss University in the events and stadium. I think we currently serve 19 of the top 25 QSR brands.

On the back-to-school stuff that you referenced, we do expect the return of school lunches for pay in most states. Now, that the federal overlay is gone, it'd be a nice tailwind for our school solutions business in the back half of this year. And just to give you a bit of an update, Bryan, that's what we've seen to date through August, although obviously depending on where you live in the United States is still kind of early, but we've seen very good recovery and good volume growth there.

And our ACTIVE business just produced its seventh consecutive quarter of bookings growth, which is another tailwind for our businesses. So, I think if you put all the things together with our integrated business that really grew right through the pandemic and compounded revenue growth in the mid-teens over the last 2.5 years, which was an acceleration by 20% of kind of where they were in the low double-digits pre-pandemic, and we continue to feel really confident about the tailwinds in our business heading into the balance of the year.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.
Q

Some of the peers have talked, or it feels a little bit, that integrated payments has slowed a little bit. How does the outlook look for you guys? It feels like it's more on an accelerated path still, or still an elevated growth rate at least.

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

Yeah, we feel great about it. I mean, look, we – as I say, we just reported another mid-teens growth rate. We've probably been doing that, I don't know the exact number, for the vast bulk of the periods since March of 2020 kind of started, more or less. And retention is very high. Bookings are very good. We continue to have confidence in signing significant new partners.

So, we really haven't seen that, Bryan. At the end of the day, I think we've got a terrific ecosystem. We've owned that business for, believe it or not, in about a month it'll be like 10 years to the day. It was sometime in October or something of 2012 when we bought the old APT. So if anything, I would say the growth has accelerated and it seems to be sustained at that mid-teens level. So, much like our e-com omni business, we really haven't seen any diminishing growth in the integrated business.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.
Q

I want to turn to the Issuer business. It's now going to – it's basically the 25% a quarter of the go-forward of GPN. As we head to the second half of this year, there is an accelerated growth and you talked a little bit about that. But just trying to think, get our heads around now what the right growth rate is there in some of the contracts and business that's ramping up that's pushing accelerated growth in Issuer.

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

Yeah. I would say, as you said, starting with the second quarter, our Issuer business delivered 6% growth on a constant currency basis, which is consistent with our long-term targets. And importantly, that was 400 basis points sequentially better than the first quarter of 2022, exactly as we predicted it would be. I think the key thing to think about there is a few.

Number one, commercial card continues to recover. So, obviously, with the pandemic for a while, we had a bunch of headwinds in that business. I think we reported, Bryan, in the second quarter, like 35% volume growth or transactions or something like that in commercial card. And I think we're kind of locked at the head with Visa, Mastercard and what they've been saying about back-half recoveries in cross-border travel and the like in their commercial markets. So, we expect continuing growth in commercial card throughout 2022, with tailwinds really heading into 2023.

The second thing I would highlight is we have a record conversion pipeline with a number of marquee wins. Obviously, we've been talking about Caixa, Truist in part goes live in – which we announced a few years ago was live in the first part of 2023. I think we announced Scotiabank in Chile earlier this year. That's another fantastic win that was previously in-sourced. So those marquee wins and the opportunities we have with AWS, which is unique to us in terms of collaboration, provides a lot of confidence in growth.

And of course we're going to augment that now with elements of B2B. MineralTree's already in there. Starting with July 1, obviously, Netspend's B2B assets are in there, too, and that's obviously an underpenetrated – a substantially underpenetrated market. So, we feel really good about the tailwinds. That's why we upped our guidance in that segment, Bryan, to mid to high single-digits for the back half of this year. And that's really the two pieces of 4% to 6%, kind of, mid-single digit, plus or minus that I think TSYS has been talking about for a long time in the core Issuer segment. And then with B2B in the MineralTree, Netspend and the like gets us to mid- to high single-digits heading into next year.

I do expect next year to probably be on the higher end of growth as we start to digest and implement the conversions. We did announce that we had started out with Barclays purchase of the Gap portfolio, which I think was in May or June of 2022. Those kinds of customer wins are very good news for our business and provide a lot of confidence in the tailwinds that we're seeing.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.
Q

Maybe as we close here, Jeff, one of the amazing things about GPN is the ability to get operating leverage. And I know you've done an amazing job at that, really, since you've been in charge there. Can you just talk about a little bit – I think it's 150 basis points this year, and guidance is typically the 50 to 75 basis points, which helps get to that high-teens to 20% EPS cycle guidance. A lot of focus on profitability and margins, but you guys seem to continue to scale. Can you just talk about some of the leverage you have there?

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

Yeah. So we just upped that to 150 from 125 basis points for this year. So, obviously, and we had previously upped it really in there after the first quarter. So we obviously feel pretty good about the position we're in. I would say the answer is pretty simple, Bryan. And the technology enabled businesses that are the vast majority of our revenue stream today that we lead with are simply growing more quickly than the overall whole and are inherently higher margin than our average.

Let me give an example. In many of our owned software businesses, we actually operate to the Rule of 50 rather than the Rule of 40. And as we said last September, the pandemic also had the benign effect of accelerating the growth in our higher growth payments businesses. So, for example, our e-com omni business previously was 15%, now it's 20%. I think this most recent quarter was 16% given the comp, but on a compounded basis versus 2019, it's compounding above 20%. That business was 15% pre-pandemic, now it's 20%. Our integrated business was 10% to 12%, now it's 15%. So those businesses are growing more quickly and they're a bigger share of the overall whole.

I'd also say that the pending acquisition of EVO and the announced sale of Netspend are tailwinds to our long-term financial targets. And when you think about the impact on revenue growth, it's additive to the model. When you think about the impact on margin on the 50 to 75 bps, also additive to the model. So, it gives us a lot of confidence that we're able to absorb higher expenses in our model and still generate consistent, which we've done, on margin expansion. So, we feel really good about where we are on the 150 bps this year and the 50 to 75 bps over time.

Our experience, Bryan, is as we consolidate deals like EVO next year assuming it closes in the first quarter of 2023, we tend to see hyper margin and earnings lift coming out of those things as we obviously track the synergies out of those combination. So, it makes us feel really good about where we are the back half of this year and heading into 2023.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

A little different, Jeff, than when you first started and I started looking at GPN and the ISO business was squeezing the – well, it was some accounting, too, but the margins were going down in GPN and then you've completely reversed that trend since you've been there. So, I remember the good old days looking at the margins going down. Now, they always go up. So, congratulations on that and thanks for doing this.

Jeffrey S. Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thank you very much for having me. And thanks, everybody, for your interest in us. Have a great day.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

All right.