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Global Payments, Inc. (GPN)

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CORPORATE PARTICIPANTS

Jeffrey S. Sloan
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Lisa Ellis
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MANAGEMENT DISCUSSION SECTION

Lisa Ellis

Analyst, MoffettNathanson LLC

All right. I think we're going to get started. I think they're getting the doors for us in the back. All right. Terrific. Welcome. Thanks, everyone, for joining our 11:00 AM session, part of our payments track of the day, the best part of MoffettNathanson's conference. No, for our next fireside chat, I am delighted to be joined by Jeff Sloan, the CEO of Global Payments. Jeff, thanks for being here with us.

So before we dive in, just any opening comments that you'd like to make?

Jeffrey S. Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Sure. Well, thanks, Lisa, for having us. I took your reference to most exciting part mean Global Payments. And so we're pleased to be here with you today in New York.

Yeah. I would say we're just coming off of one of the best quarters we've delivered, certainly since prior to the pandemic in the last four years, and also our first beat and raise really in 18 months. So we're really pleased with where the business is.

The other thing I would say is, we've been working on those three strategic transactions, as you noted in your note after the call, probably for the last 18 months. So they took an extended time to close. One of them we actually had to go to all 50 states, plus the federal government, plus one of the states twice, whatever, bizarre. I think it just took too long. So 52 approvals there. And then, obviously, a bunch of foreign countries in the case of EVO.

So we're pleased to have turned the page on those strategic transactions. And I think the business is in a very healthy place financially, operationally, and really, strategically. So it's great to be here today and it's great to see the momentum coming out of the first quarter.

QUESTION AND ANSWER SECTION

Lisa Ellis
Analyst, MoffettNathanson LLC
Q

All right. Well, in news that saddened many of us, you recently announced that you're going to be transitioning out of the CEO role, transitioning it over to Cameron Bready, who has been your partner in crime for many years. So – but you have led Global Payments for the last decade. So why now? Why did you and the board decide that now was the time to do this transition?

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

So, first of all, I want to thank Cameron for putting up with me for nine years. I'm sure it's probably too late from his point of view. But some of it ties to what we started out with this morning, which is to say the business has been very healthy, financial, operating and strategic place. I'd also say client retention is at a very high level, certainly even higher than pre-pandemic and employee retention as well is at a five-year – a five-year high.

So I think having completed these transactions, having delivered a really good first quarter, having raised our guide for the rest of the year. I think this is the best time in the last three and half years, really going back to the completion of the merger with TSYS in the fall of 2019 for us to consider something like this.

To be candid, we meet with the board every July and October on succession. I met with the board again in January to talk about the same thing. Cameron's been recommended by me successor for the last 18 months. I'm really pleased that it worked out for him and that the board took my recommendation.

And I think it's important, I certainly thought about this over the last number of years, but I felt like if you go back to kind of 2022 and 2021, COVID was still substantially impacting both our people as well as our customers in our business. And I really feel like the right thing to do was to ride it out, get through this first quarter, deliver the results we did, get these deals done that were really in the hopper since November of 2021 and put the business in the best position going forward.

So I'm really pleased that it worked out the way it did and that the business is in as good a position as it is in today.

Lisa Ellis
Analyst, MoffettNathanson LLC
Q

Good. And I've realized I forgot to mention to folks, again, remember, if you'd like to ask questions, scan the QR code that's on the screens and they will pop up on the screen next to me. It actually works extremely well. And we've had a number of questions in our other sessions. So feel free to do that.

I'd like to start out. This is a strategic conference. And so sort of frame the discussion with a bigger picture question, strategic question. As you look out for Global Payments, now, as you said, kind of things are settling down post pandemic, given where you are with Global Payments portfolio of businesses, where the industry is, what do you see as the most significant growth opportunities for Global over the next several years?

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

It's a great question. So we tried to lay out in our investor conference about 18 months ago, what we thought the drivers of growth would be for the next three to five years. And to be honest, I think a lot of those have come to pass. So the first thing that we think is important for future growth is our software businesses and there we partner as well as own.

So in the partner business, our Integrated business is about $1.1 billion, $1.2 billion of revenue. That just grew organically mid-teens. Again, interestingly, I'm going to date myself a little bit here just on the way out. But we've owned that business for 11 years now. And when we bought that business in 2012, it was $100 million of revenue, probably compounding at mid-teens. Well, I'll tell you it's $1.2 billion of revenue, compounding at mid-teens organic. So couldn't be more pleased with how that business has trended over time. That's actually one of the businesses that's accelerated coming out of the pandemic as people really pivoted to more omni-channel type solutions.

The second thing, of course, on software is our owned software businesses. And I'm really excited to be able to report that those businesses grew low double digits in the first quarter of 2023. Our expectation for this year, and this excludes Gaming, which we, of course, sold in April. Our expectation for this year is 12% or 13% growth across all of our vertical markets, software businesses, and again, that's like another $1.1 billion of revenue, and that 12% to 13% is itself an acceleration off the low double digits, call it, 10%, that we had last year.

So two of our biggest growth drivers in software, our Integrated business at mid-teens and our owned software business at 12% to 13% are both the same or better really than they were last year. The second piece of our business that we talked about at the Investor Day was our omni-channel. It used to be like e-comm omni. And as you know, coming out of pandemic, the distinction between the virtual and the physical world, I know you've written about this, has really blurred. Today, that's 30% of our Merchant revenue, so call it, this year, about $1.8 billion run rate. I'm most excited, that's like $2 billion next year run rate, which really was one of my goals, to be honest, to kind of get the thing to $2 billion. That just grew last quarter at 17% organic. So we're super pleased about that performance.

And of course, lastly, in addition to our faster growth markets is our B2B. So I think where B2B is today is where e-commerce and our industry was at least in the late 1990s. So I think B2B is a seminal opportunity for logarithmic growth of the next 5 to 10 years in our business. Post-EVO, that's, call it, $125 million, $120 million, $150 million of revenue, growing organically double digits. There are parts of that business, like our MineralTree, cloud SaaS on payables that we said grew 20% in their first quarter, and our budget for this year for MineralTree is near 30%.

So those are the pieces. But I think if you had to just kind of pick one that I'm most excited about, I think the pivot toward B2B, I think, really is a kind of career-defining opportunity in our business.

Lisa Ellis
Analyst, MoffettNathanson LLC
Q

All right. Let's jump into the Merchant business in more detail. The Merchant business is post the transactions, as you said, you just closed, is now about 70% of revenues, a little over 70% of Global Payments' revenue. So let's start, just to frame on the competitive side, right. There's a lot of discussion and debate about the merchant acquiring market. It's a very dynamic and competitive industry. How is Global Payments very uniquely positioned competitively?

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

Well, I think the key thing to understand about us, Lisa, is that we really lead with technology. That means software ownership and partnership. That means dominance in our omni-channel, our e-comm and omni-channel business, and that means investing in things like B2B and faster growth markets that we got into with EVO, like Poland, like being bigger in Mexico, like face-to-face in Ireland, that we think are growth levers for the next number of years. So let's kind of just take those in pieces.

So what we said about our software business, and in particular, our owned software business is that the drivers of growth in the first quarter were our Xenial restaurant business, which is really enterprise quick-service restaurant. I think we have something like 20 of the top 25 brands in North America using some element of our hardware software payments, point-of-sale, cloud point-of-sale capacity and enterprise QSR.

The other thing we pointed out was our Zego real estate business. So this is something we bought almost two years ago now. I think it was May of 2021 to the day. That business is growing well into the double digits. And if you think about the trends coming out of the pandemic, both in restaurants as well as in real estate, these things were probably going to happen anyway, but people want their food delivered the way they want it, order with your phone, pay with your face or your thumb, have Uber Eats or DoorDash deliver it, and we facilitate all those things, both in the physical location as well as remotely.

The same thing is true kind of in the real estate market. So if you think about in the – I'm going to date myself a little bit by saying the old days, but no one wants to write a check anymore and kind of show up at the landlord's office. When you're applying to rent some place, no one wants to fill out the paperwork. When there's a problem with your air conditioning, no one wants to actually go down to the superintendent's office and like fill out a slip. When you go to get your car, no one actually wants to wait in the valet line. All those things actually play to our advantages.

Every one of those things I described is something that we do digitally. So we do the payments, we do the software, we do the services for something like a 11 million or 12 million residential real estate locations, condos, here in the United States. So that's kind of the second avenue that we called out.

The last thing I'll say, and it's a derivative on software of our Xenial enterprise restaurant business, is our sports and entertainment business. These kind of stadiums that we've been announcing. So one of my – one of the things I was really waiting for in terms of me kind of moving on was, I'm proud to say that we now have 100% market share of all the professional sports teams in Georgia, which is kind of where I live. So we've got the Mercedes-Benz Stadium with the Falcons and the United. We just announced that we went live on opening day, April 6, with the Truist Park with the Braves, and we also announced the signing of the Atlanta Hawks at State Farm Arena.

But what we're selling in there and the purpose of this is really our enterprise software that we use in our Xenial environment. And that's a decision we made probably three or four years ago as to what to go with. And so the existing teams are really ripping out the existing infrastructure and putting our stuff in. And I would just say that what's driving that is fan expectations around digital engagement were always changing, but have completely changed in light of COVID and the pandemic.

So think about it, who wants a paper ticket today to go to a game that's not on your phone? Who wants a paper parking pass that's not a QR code, that's also not in your phone? Who wants to wait in line to get the food versus have it delivered or pick it up at a kiosk? We also manage all the internal workings. The sports environments, like we know in french fries, like our running light or Diet Coke. So I'm from Georgia, just ask me a Coke. I might even go with that Pepsi reference. But we know that Coke is kind of running light in one of the areas.

All of our systems, our data analytics for these purposes, generally resident in the AWS cloud, all that stuff is that we provide as one vendor or one throat to choke, as it relates to our sports and entertainment business. And those are the kinds of things, to answer your question, that I think are really propelling our business forward in terms of market share and in terms of sustainability of our Merchant business.

If we add on top of that, our physical as well as our virtual footprint, so you see a lot of the guys who were kind of e-comm-only – and by the way, PayPal is a terrific partner of ours. But you see folks who are mostly e-comm trying to come in, PayPal being example, trying to come in to kind of the physical world environment, we've been in both the virtual and the physical worlds for 50 years. So it's taken half a century for us to build up a physical presence in the 40 countries that we're in, which means that we're local with people on the ground. It means that we speak the language. It means that we have customer service. It generally means that we're a direct member of Visa and MasterCard. We don't need a clearing bank to do what we're doing. So we can make our own decisions on credit and underwriting. For example, it means we're regulated by the regulator in those – most of those 40 markets.

So it's an enormous competitive advantage. And we've said publicly, that's how we took Uber and Uber Eats from Adyen in Asia and some of these other markets. And I think that really differentiates how we go to market, selling the technology that we're selling, but coupling that with the physical footprint in pretty much every geography that you would really care about from a payment flows point of view.

Lisa Ellis
Analyst, MoffettNathanson LLC
Q

You've highlighted a couple times the vertical-specific strategy that you have both owned software as well as partnered. And interestingly, looking across the world of payments, many providers are more horizontal in nature and you've been very successful at Global Payments with this vertical strategy. One, how do you make that successful? And then also just looking forward, what are the next verticals that you're eyeing?

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

Yeah. So I think my thesis on life, and I was in banking for 20 years before, and Global was one my clients before I came into Global Payments 13 years ago is, it's kind of like when you're banking like, everyone knows how to do an IPO, right? So in the case of payments, everyone really knows how to take credit card payments. So there's not a lot that's distinctive other than competing on price, if those are the things that you do, which is not where we want to be, right. We want to add more value-added services and drive differentiated technologies, but also differentiated distribution. And if you want to do that, and like, if you're a doctor, it's fine to have internist, but you really want the cardiovascular surgeon, right, if there's something that's wrong with you. And our philosophy, I think, is the same.

So at the end of the day, providing value for value-added services is really where we want to be. So I think that's a successful strategy in medicine. I think it's been successful in banking, although it was a long time ago for me, but when I was there, and it's been very successful at our company. So having the vertical fluency, so having the software, having the salespeople, having the support that speaks to an auto dealer for auto services, which is one of our big markets, or speaks to a restaurant, including the most complicated and worldwide quick-service restaurant brands, is critically important to us winning that business rather than just competing on price, for example.

So we're very pleased with where we are. I think we said in our investor conference, we're in markets in owned and partnered software that represents something like 50% of US GDP. We'd obviously like to be bigger in some of them. We're most proud of all of our businesses, but for these purposes, in particular, our AdvancedMD healthcare business, Winnie will have to correct me because I always get the math wrong. But like, pre-pandemic, I think we did something like 20,000 she's saying 25,000 – 20,000 Teladoc visits where you kind of went to see a therapist or whatever in your phone. And last year, I think we did, what, a couple hundred thousand or something like that. And the same thing is true in our enterprise quick-service restaurant business. Pre-pandemic, we probably did something like 50,000 remote orders and deliveries and I think we did millions, I want to say, last year.

So I think consumer expectations, whether it's in the medical world, whether it's in real estate, whether it's an enterprise quick-service, whether it's in sports entertainment, consumer expectations have changed and digitization is the tailwind that's changing them. So I think playing it to that theme is really where we want to be.

In terms of additional verticals, I think we're very happy with what we have currently. Certainly, in the past, we've talked about government. So government services is something that we think makes a lot of sense. A lot of that has gone digital. The other area we talk about beyond government is field services. Now, we do field services a little bit today, and by that, I mean landscaping, plumbing, like people painting, people coming in your house. The reason I think that's such an attractive area on the payment side is it dovetails really nicely with our B2B strategy. So when you think about paying the payables and then sending out bills after EVO on the receivable side, field services is an area that's absolutely ripe for you to send out your invoices.

I'm not sure here in New York. I live – I used to work here for a long time, but I live in Georgia. And I can tell you, like my landscape people, yeah, they e-mail me the bill, right. That's kind of how I get the bill and I pay it. And it's integrated in the case of my landscaper into their Intuit QuickBooks stuff. And I think that really plays to our competitive advantage being both on the payable side as well as the receivable side.

So field services is kind of an obvious one and so is government. But I would say, sitting here today, we're very pleased with where we are in the vertical markets that we're in and representing half of US GDP that way of exposure is a good place to be.

Lisa Ellis Q
Analyst, MoffettNathanson LLC

All right. I'm going to give you an opportunity to address one of the questions that we get asked and many investors ask a lot about Global Payments, which is you compete in the US SMB market. You're one of the leaders in that space, in particular, where we have seen other players that own their own sort of hardware systems, right, like a Square and Clover in that system.

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

Right.

Lisa Ellis Q
Analyst, MoffettNathanson LLC

And you have always had solutions at Global Payments, industry-specific solutions, but have opted not to necessarily own that own hardware. So how do you just address that question for folks, right? The question of strategically, how do you position yourself relative to those horizontal, more hardware-led platforms?

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

A

So we own the hardware where it's an important part of the means of distribution. So as I said a minute ago, like in the enterprise quick-service restaurant space, in the sports entertainment arena, that Xenial Cloud point of sale is our actual physical point of sale as well as the software and as well as the payments and everything else. So in those markets where we think it makes a difference, we actually own the hardware as well. But we don't think at the end of the day, the point of differentiation is really the device. A really good example of this is the tap on glass and the stuff you see coming out of Apple and everybody else, which we do globally, almost by definition, that piece is kind of a commodity. Obviously, the margins are lower in hardware than they are in software and in our payments business. And there's plenty of providers who provide that type of hardware in all of our markets.

One of the things that we've been able to do very successfully, for example, coming out of the TSYS merger is take their Vital product. So Vital is kind of a slimmed-down product that we sell into our ISOs and we sell, I think, in half a dozen countries now, which is our own proprietary branded point of sale. But we don't think at the end of the day, to your point, that the piece of hardware is really the point of distinction, except in markets like restaurants and in sports entertainment, where it's super important to the ecosystem, rather, we think it's the software, which is what we call commerce enablement. So we think we're really delivering a solution.

As a result of that today, we think we're a top quartile public software-as-a-service company. We'll sell $3 billion, for example, of software this year, both in our merchant as well as our issuing business. And we think that builds a nice moat around – competitively around what we've done. And we also think that provides some kind of resilience in the context of choppier economic environment.

So if you look at how our software businesses have grown, both partnered as well as owned, the mid-teens kind of compounding that we've seen for more than a decade now, 11 years in the case of our Integrated businesses and probably back to 2016, so seven years in the case of our own software businesses, I think that's telling us that that's really working. And where it's important, like at Xenial and like at Vital, we have our own proprietary solutions.

If you back up further and you say, well, how do you really compete against Square and kind of Clover in that area, my own view of that stuff is those are really Verifone replacements, right? So that could be good or bad. But at the end of the day, that's really what they're selling. What we're really selling is a complete ecosystem.

I think Toast, for example, does a really good job with their hardware and software and making an ecosystem, but our restaurant business is slightly different than Toast's. Half of that is the enterprise stuff that I've been describing. The other half is what we call Heartland restaurant, and there we do have our own hardware, because that's the mode of competition relative to Toast.

So where it matters, we actually have it. In the vast majority of cases for us where it doesn't matter, we lead with software in an ecosystem. And if the question to us is, do you want to own a Verifone or a PAX like or Ingenico like kind of just replacement that's not tied into your own particular software offering, generally, the answer has been no. And yet, our results, like I think relative to last quarter, our results are at least is in line – at least in line with the growth of Visa and MasterCard and certainly over the last 13 quarters well in excess of many of our peers.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

You mentioned your unified commerce platform, UCP, as we all refer to it, is UCP as being one of the key growth areas and that's from our perspective as well, one of the key growth areas going forward. Can you help us position UCP in the market? Meaning what customers, in particular, and what regions, what size of merchant exactly is UCP particularly winning in?

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

A

So we started investing in our unified commerce platform, which is really for everybody in the room, which is our e-comm omni-channel offering multi-nationally. We started investing in that probably seven years ago, eight years ago, organically. Here's a really good example. I mean I don't have the exact numbers, Lisa, but we've put tens of millions of dollars of capital over the last seven or eight years organically into that business.

As I mentioned it at the top of our discussion this morning, I expect that business to do near $1.8 billion of revenue this year. As I've gotten older, I kind of forgot what it did like last decade. But if I had to go back, pre-TSYS, it was probably, what, $600 million, $700 million, I mean, whatever the math was, and it just grew 17% organic in the most recent quarter. And actually, that's a business that has accelerated coming out of the pandemic. I think it was like low to mid-teens in 2019. And since the pandemic, it's been mid- to high teens every quarter. And I think for the last five years, we've been disclosing the numbers by quarter and it's up to 30% of our Merchant business.

By the way, according to the – I think it's a census bureau, not the commerce department, but as a percentage of retail sales in the United States, e-comm is like 22%. So we're at 30%. So we view ourselves generally as overweighted toward e-comm omni relative to the rest of the market.

So I think there's two elements in terms of how we target – segment the markets that you asked about. The first thing is multinationals, particularly in a difficult to serve market, a great example and these are actually our customers. A great example is like Louis Vuitton, Cartier, Mandarin, Four Seasons, Shangri La, like those types of multinational customers, generally RFPs that come in on 8 to 10 countries in Europe or half a dozen countries in Asia. And I would tell you, in my experience, Lisa, I can't think of a time that we didn't end up in the final one or two, kind of, of the group because very few people can seamlessly match the virtual as well as the physical world.

So for example, if you want to buy a handbag online, you get it delivered. You don't like the color. You bring it back to the store. You change it. All that stuff has to be seamless and integrated to the consumer. There aren't a lot of people in the planet who can do that in all those markets that we're in today. So the first segment of the market is the multinationals and hard-to-serve markets. That's also how we took Uber and Uber Eats from Adyen in markets in Asia.

The second part is enabling, and this is more true post-pandemic, enabling the small to midsized business to go online in its own market, it's going to sound pretty pedantic to say this, but like the pizza parlor, right. So pre-pandemic, like, the pizza guy, like maybe he had a menu, he has one or two stores, maybe he put a menu online, maybe you can order there and go pick up. But as part of the pandemic, that became table stakes. Like, you have to be able to have complete omni-channel access. The same thing was true for Burger King, one of our big customers, Popeyes, Taco Bell kind of go through, Whataburger, Bojangles, all of our customers here in North America.

So the idea of being able to take a small to midsized merchant, putting that person online, put the menu online, the ability to order remotely, get the thing delivered with Uber Eats or DoorDash, and I always forget the p one. What's it? What is it? [indiscernible] (00:24:26) Anyway. There's another delivery service in their somewhere. But I think at the end of the day, we'd be able to facilitate that stuff seamlessly. It's super important to our business. And that's the second piece. So it's the SMB going online in that small businesses, home market or cross-border like into Canada.

But the first piece in the majority is the enterprise customer and that's what's driving the growth in that business. And as people have returned to physical environments and now there's no distinction between virtual and physical, that really plays to our benefit and has provided an enormous tailwind for that business.

Lisa Ellis

Analyst, MoffettNathanson LLC

Q

So Global Payments has been a leader in the integration of payments with software, as you highlighted, for many years. That's been a big part of your strategy at Global Payments. And now in payments, the hot topic is embedded finance. So embedding additional financial products besides simply payments into that same technology environment. This might be things like bank accounts or lending products, et cetera. What's your strategy around embedded finance at Global?

Jeffrey S. Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

So we're doing that today. So we white labeled digital wallets around the world. A really good example of this is the deal we announced with Virgin Money in the UK, the UK bank, that's actually going live this year. We announced it at our investor conference. So building the digital wallet on a white label basis, so it's Virgin Money's digital wallet, but it's our technology powering it.

By the way, as an aside, it's less sexy than the financial services products, but we do that for Burger King. We do it for Taco Bell. We do it for Whataburger. Those are generally our digital wallets that they're white-labeling.

But for purposes of embedded finance, we're doing that for Virgin Money. Now, what does that mean? That means we have the ability to take Virgin Money and essentially make it into Apple Pay or Amazon Pay. So you can now go to – if you're a Virgin Money digital wallet holder or app holder, you can now go to a Virgin Money merchant, scan the QR code, and there's no reason to route that through the networks. Instead, that stays within the four walls of Virgin Money.

And it's no different in that context than an Alipay or a WeChat Pay in Asia just ported over to Europe [ph] for purposes (00:26:33) examples. That also means that we have BNPL in that wallet, to answer your question on financial services. We also have loyalty points. We have better data and analytics. You can cross-sell into the other 30 million Virgin companies. So if you want to be on a cruise or Virgin cruise or on the airlines and everything else, it's all tied into the linchpin, which is the smartphone and the digital wallet, which in the case of wallet we're actually providing.

So I think our ability to match the issuing side through the TSYS relationship with the acquiring side in our Merchant business, I think, uniquely positions us to actually offer products and services, like you're referring to, in embedded finance in a way that makes people much more competitive relative to the Ali's and the WeChat's, [ph] and to be honest (00:27:15), relative to the networks and provides additional avenues for growth.

So we see a lot of demand for that business here in the United States. You're seeing a bunch of the big banks talk about that in the context of Zelle and some of the things that they're doing. So I think there's a lot of demand for those products and I think we'll continue to see that grow going forward.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

All right. You mentioned earlier, you recently closed the acquisition of EVO Payments, a smaller publicly listed payments player. Just can you highlight, especially now that the transaction is closed, where do you see the most significant revenue synergy opportunities with EVO?

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

A

So EVO really brings us three things as a company. The first thing is additional exposure to faster growth geographies. I mentioned before that was kind of one of the four linchpins to what's driving our strategy for accelerated growth over the next three to five years. In particular, it brings us access to Poland, which is a market we've coveted for a long time. Access to Mexico, we're in Mexico with HSBC, but it's like $25 million in revenue. And in the case of EVO, they have the 800-pound gorilla, which is Banamex, right, which is the Citibanamex business. And that business is growing very nicely, including through the last few years.

So the first is exposure to faster growth markets. So what are we doing on the revenue side there? Well, we sell a bunch of products and services into those markets that EVO doesn't sell. The first one you actually asked about, which is the terminals. So EVO's out there buying VeriFone Ingenico terminals. We're taking our Vital terminal, which, to answer your previous question, is something we actually have developed and owned. And we're selling it into the Polish market, just like we're selling it into half a dozen markets in Europe and in North America today.

So I think synergy number one is we have the hardware to be able to sell it into those markets. Synergy number two is our e-comm omni business. So as part of being the 800-pound gorilla in some of these markets, like Mexico and like Poland, where they're partnered with the biggest bank in Poland, not surprisingly, they have McDonald's and a bunch of really big customers because they're the big banking partner in those countries, but they don't have an e-comm omni solution the way UCP, that you referred to, is for us, right.

So part of the value there is bringing better technology, better products and services into those markets where EVO has terrific market share. So we're bringing our UCP product into Poland, into Mexico, and we'll be cross-selling with EVO into those markets.

The third area of revenue synergy is really EVO and to us and that's B2B. So as you know from our prior discussion, post the acquisition of MineralTree and post TSYS and the like, we have a very big accounts payable business. TSYS is also one of the biggest manufacturers of virtual cards, selling into financial institutions globally. I think we said something like 50 million cards and $30 billion of receivables coming from TSYS and MineralTree this year will do $30-odd-million of revenue compounding at 30%. So growing at a really nice clip.

But that's all on the payable side. What we're getting from EVO is receivables capabilities. So that's my example about the landscaper, kind of sending me a bill and everything else. And EVO has spent the last five or six years building proprietary API-centric integrations with people like Acumatica, like Intuit, Sage, like Oracle, like SAP, on the receivables side, which is something we've coveted for a long time over at Global.

So I think when we're done with the integration, Lisa, we'll have one of the few combined payables, receivables platforms of anybody in the market. And I think critically important for people to understand relative to kind of the

Bill.com or some of the other guys is, ours is really mid-market and enterprise centric. At the end of the day, that's what we think the most attractive target addressable market is in B2B and that's squarely where we're pointed with MineralTree and TSYS.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

Got it. All right. I'm going to jump over to your investment strategy as I have a couple of questions about this as well. So question that came in from the audience is, one, common critique of Global Payments is that you have focused extensively on M&A as building out of the business relative to organic investment. So what is your philosophy and point of view around the trade-off between acquisitions versus organic R&D?

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

A

Well, we've actually done, I think, a pretty good job of balancing both. We're coming off a period where we've obviously done a lot. So, it's kind of hard to say that sitting here today because [ph] it's down to three things (00:31:40), right? They'll happen to close at the same time, which is why I kind of say that.

But I think if you look back at the company, let's just take 2022, like last year, the calendar year, for example, we didn't do any deals in 2022. Now we did deals that closed in 2023. But in terms of our financial results, I think it was like 50 basis points of our 10% or 11% growth from the year came from inorganic methods. So the vast majority of what we've done in 2022 was organic.

The second thing I would say is if you look at our inorganic activities this year, given the stuff that's closed, acquisitions and dispositions to position the business best for future growth, I don't envision us doing large deals anytime soon, right. So I think we did those to best position the business for organic growth going forward. Those are now complete. So those are behind us. And I fully expect in the next period of time, based on where the markets are and the things that we've accomplished for our growth to be like it was last year, 95% organic, yeah, that sounds like 50 basis points on 10%, so 95% organic.

I'd also say we have a long history, to answer your question about R&D, of organic investment in growth. So like our conversation about Xenial and investments in our enterprise quick-service restaurant space, we bought the predecessor of the business five years ago. In the last five years, everything we've done in enterprise quick-service restaurant and in sports entertainment has been organic growth.

Our UCP, e-comm omni platform, we've put tens of millions of dollars in organic investment. That's not an acquired business. That's been all organic. And I think as we said, we probably doubled or tripled revenue in that business. In the last five years, it just grew 17% organic and that kind of thing.

So – and then lastly, I would say, as we said at our Investor Day, our data and analytics business, we grew organically, coming out of Heartland in 2016, I think it was essentially zero. That bigger – that business did mid-nine figures of revenue last year in terms of data and analytics resales based on information that's in the cloud, largely within Google, all organic.

So I think we've done a good job balancing those two. The last thing I'll say to sum it up is, last year, even though we agreed to do deals this year, last year, we bought back 8% of the flow of the company. So when we think about kind of capital allocation, we bought back $3 billion of the stock last year, realizing that this year we'll be more constrained because of the deals that we've announced and that have now closed. But I think the ability to invest $4 billion in deals, where you're buying back $3 billion of your stock more or less kind of concurrently, yet keeping a very good leverage point and investment grade status, I think is a nice example of us being able to balance investment in the business with efficient return of capital to our shareholders. And I expect those kinds of things to continue.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

So you operate in a very dynamic and competitive space, a lot of new entrants, a lot of fintechs and stuff moving up. How do you, at Global Payments, ensure that you're maintaining the competitive edge from a technology perspective and investment perspective, and sort of staying out there, both from talent as well as technology?

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

A

So we've been investing very heavily in tech for a really long time. So one of things I'm most pleased about is our ability to invest early and I think generally kind of get it right. By the way, it also means [ph] just spending (00:34:51) a lot of time at night like worrying about not getting it right, right? So that's one of the biggest risks, I think, for us is not investing in something that I think is the next leg of growth and that's why we're so focused on B2B.

But if you think about the composition of our P&L, Lisa, we spend about $2 billion a year in OpEx and CapEx in our technology environments. That's by far our biggest single OpEx CapEx investment in the company. By way of comparison, comp is like $1.8 billion. I'm not saying $1.8 billion is not a lot of money, but compared to $2 billion, right, you know where a lot of the cost structure is within the business.

So, I think it's important for us to maintain that rate of investment and that rate of growth. And that's why I think you've seen free cash flow as a percentage of adjusted cash EPS for us, by and large, be consistent with some variations around the tax credit, some of these other things as a federal matter because we've been investing that way very significantly.

The other thing I want to say is, and I think I mentioned this a minute ago, but one of things I'm very proud of is our retention, both of our employees as well as our customers. I think I mentioned at the outset that retention of our employees, and by the way, we have 6,000 people in technology of our 27,000 people team members in the company, just hit the third record month in a row. So February, March, and April were all record retention months for employees in our business. And I would say our customer retention is also extremely high.

So I think our Integrated business hit high 80s, 90%, whatever the math is, retention, and some of our businesses, particularly, of course, in vertical market software, have gross levels of retention at like 98%, 99% and net well past 100%.

So I think what that tells you is, in our most competitive technology-driven businesses, we've been able to grow and accelerate bookings, retain customers, and certainly retain and attract new employee talent. Those are all things we look at. And I think that's because for many years, we've invested billions in our technology environment.

And then lastly, I would just add that our unique partnerships with AWS on the issuing side, both in terms of tech modernization, but also go to market. The same thing is true in Merchant with Google, I think really position us well in terms of technology partnerships, and I think are kind of distinctive for us in our markets and have really been very fruitful for us over the last number of years since we've announced them.

Lisa Ellis
Analyst, MoffettNathanson LLC
Q

Well, you mentioned the free cash flow in there. And so, why don't we kind of come back to that because with the acquisitions and divestitures in those last couple of years, the free cash flow and sort of GAAP versus non-GAAP earnings profile of Global Payments has taken a little bit of a hit.

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

Yeah.

Lisa Ellis
Analyst, MoffettNathanson LLC
Q

So as we look forward, what is your outlook or how do you think about the role of improving those two measures?

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

Yeah, I think we're very focused on it. And let me just start with how I think about it, which is the most important thing I think to start with is what's our GAAP revenue growth. That hasn't changed, right. So if you look at, our performance on GAAP revenue growth as well as our guide, which we obviously give every quarter, our guide's the same or better on GAAP revenue growth as our non-GAAP, right. So it's actually a bigger number growing at the same or faster rate. So our non-GAAP is actually a decrement, right, both in terms of absolute dollars and generally in terms of percentages versus our GAAP revenue.

So that's one of the first things I look at is where's revenue, where's GAAP revenue? And our business expenses are generally a derivative really of revenue. So if I know the revenue, it's like banking. I kind of know the revenue, I know the expense, I know what the earnings are.

So the first thing I'd say is GAAP revenue is something I look very intensely at. The second thing I'd say is, it's not really a surprise when you're buying and selling things, right, that things are moving around. This year, as we guided to about 40%, 45% of the earnings are going to be GAAP earnings. I expect that to continue to trend up because we don't expect to do meaningful deals in the immediate term. And that reflects the three things that we announced last year that just closed this year. So, that's up the 40% to 45% on earnings is up a lot from where it was last year and I expect that to continue to accelerate the rest of the year really heading into – really heading into next year. And I expect the vast majority next year would be kind of GAAP earnings. But I would start by looking at GAAP revenue and kind of what that looks like. And I think that's a very solid story, and that really hasn't changed for quite a long period.

Lisa Ellis
Analyst, MoffettNathanson LLC
Q

All right. And then you just commented, like you said just closed the three transactions. And over the years, Global has made many very additive transactions to the business. Going forward, just update us on sort of now that these transactions have closed, looking forward, what's your perspective on the role of M&A, either big or small?

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

Well, I think – Lisa, it's a great question. I would say that, sitting here today, I think we have all the elements of what we need to have a successful business. I think our focus and I think Cameron's focus, too, because it's probably a little bit even more in his background than mine is, product centricity. So we've released more new products into our ecosystem in the last three and a half years despite the turmoil in the macroeconomic environment than we kind of ever have, which is something we're super pleased. But I think you see in the bookings trends that we kind of talk about by segment every quarter. I think you see an acceleration that you've seen in the Issuer business, which just posted its best quarter in five years.

So I think I would look for us to do more product-centric releases than more whole company deals. Obviously, that ebbs and flows with kind of where the world is. I would say the one exception to that might be B2B. I do think we're in a bit of a land grab in the B2B environment. Today, we have something like 30 full-time commission people, salary and commission people, selling B2B exclusively. When I got to the company, we probably had something like 150 salespeople in the United States and today, we have 1,500 selling things exclusively for us and our P&L. That 30 needs to be 300, in my opinion.

So I said before, I think B2B is today where e-comm was in the late 90s in our business. And one of the things I thought about in terms of my own personal timing was, look, Jeff wasn't going to be here when we take the sales force and B2B up 10 times. That's going to take a period of time. That's not going to happen next quarter or two.

So I think at the end of the day, taking that number from $125 million, $150 million of revenue, whatever it is today, on a narrow B2B basis, up to $1.5 billion is kind of what I would do. And I think that's where Cameron's focused. So I do think B2B is a function of both organic mix and growing it as we are. And those businesses are compounding like MineralTree at 30%. But you've got to augment that with getting additional scale in those businesses. And that would probably be one thing that I would look at more closely on the M&A side.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

Yeah.

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

A

But I think product centricity and developing more products the way we've done and some of the other things that we've described is probably where the focus will be in the near-term.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

All right. So at your Investor Day about 18 months ago, as you highlighted, Global Payments established medium-term cycle guidance or sort of growth – medium-term guidance of low double-digit revenue growth and then the high-teens to 20% EPS growth. What are the building blocks? How should investors think about now that you've completed the transactions, you're – we're off the pandemic, like what are the building blocks to delivering on that cycle guidance?

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

A

So the first thing I'll say is I'll declare victory by saying we actually hit that guidance last year in 2022 at constant currency, right, because we don't assume the FX is all over the place. And we, by and large, expect to hit that guidance this year, ex-selling Netspend, which is we said is like 4 to 5 points. So if you put that in there, I think we put in our press release, earnings are growing at 16%, 17%. It was our expectation this year and revenues high single digits, again, not fully including EVO and stuff like that, ex- Netspend for this year. So I think we're in a good place.

When you think about the building blocks, post these acquisitions and dispositions, Merchant's three-quarters of the company and Issuer B2B is 25% of the company. So thinking about the simple mathematics on how you get to kind of 10% and 20%, there's a few things. The first thing is Merchant should grow at 10%, 11%, 12%. This year it's going to be close to 16% is what we said because we've got the EVO thing coming in, but EVO's growing on its own organically low-double digits, right. So you've got a business itself. What we said on our call a couple weeks ago is our own business grew 9% to 10% kind of in the first quarter. EVO obviously is growing low-double digits. So we're kind of set up in the Merchant business. Three-quarters of the company should be 10%, 11%, 12% on a normal kind of basis.

And then, if you look at the Issuer business, we just did 8.4% last quarter in core Issuer. Total Issuer including pay card and stuff grew 7%, 7.2% for the quarter. So if you have just mathematically, if you have three-quarters of the company growing 10%, 11%, 12%, but you have a quarter of the company, as we get more B2B exposure, growing 7%, 8%, 9%, which we just did, 7%, 8%, [ph] it's what I said (00:43:29) 7.2% to 8.4% is what I was saying, mathematically, [ph] you even (00:43:32) get to 10%, right. And that's essentially how we think about the composition of the business.

I think we need to do more investing in B2B to continue to shift that mix because what we said a couple quarters ago was B2B is just not big enough. If Issuer is $2 billion growing at 5% to 6%, which is what we just said for this year, and B2B is, I don't know, $125 million, $150 million, growing double digits, yet it's like 50 bps, but it kind of doesn't move you beyond 6%, 6.5%. So I think we need to get Issuer to be more concentrated in B2B. And I think that's something we're working on, which is why I referred to it the way I did in terms of capital allocation.

Then, I think you attack the margin side. And our expectation this year is for up to 120 basis points of margin expansion. Long-term, it's like 50 to 75 basis points. But with deals like EVO and obviously, TSYS historically, we've been able to exceed that. I'm really proud of the margin profile of the company. And the first quarter, we did 200 basis points. If you back out Netspend, it's about 100 basis points a quarter, is kind of what we said for the rest of the year.

So we'll exceed that 50 to 75 basis points today. And that 10% to 12% in the aggregate with that kind of margin expansion, capital allocation, that kind of stuff, gets you to the 17% to 20%. We hit it last year ex-FX and we expect to hit it this year, if you kind of normalize for Netspend and run rate EVO, given the timing of all those things.

So I think we're in a really good place. So those are two pieces. We need to invest more in B2B to get the Issuer growth up, but that's where we'd like to be.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

All right. Well, our yellow light came on over here. So I'll transition to a couple of our closing questions. The first one is, what do you view – you are out with investors all the time. What aspects of Global Payments' story do you think are underappreciated by investors? What frustrates you that you wish they would – yeah, that the investor community would understand better?

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

A

Yeah. I mean, I think the first thing is the size of our e-comm omni business. We started publicly disclosing that really a number of years ago. We spent a lot of time on it at the investor conference. I think that was successful kind of in doing that. I think your notes reflect that, and I think that's terrific. I think people don't appreciate it's 30% of the Merchant business and it's probably 40% or 50% higher than the share of US retail sales coming from e-comm.

So I think the differentiation there relative to Adyen and Stripe and some of the folks that you read about, I think, is generally underappreciated, and a lot of that is because of the physical footprint, the 40 countries we talked about, integrating seamlessly into the virtual environment, I think, is very distinctive to our business.

The second thing I would say is where we are in B2B. So B2B is only, as we've said, 1% to 2% whatever the math is of revenue today. But I do think we have really unique assets in B2B, both pre-EVO and post-EVO. And it's going to take a period of time, just like it did in the context of our software businesses and everything else.

But when you think about the pieces to the puzzle that we have today at Global Payments and B2B, the payables, cloud SaaS with MineralTree, the virtual card issuance with TSYS, to be candid, the 7,000 ISV VAR relationships that we cross-sell that stuff into, the 1,500 FIs that we can cross-sell it into. I think we announced a couple quarters ago that we sold our virtual card product to TSYS into US Bank and the like. We think we're in a very good position to continue to do that.

You think about the thousands of software companies that we do business with and we own, our ability to sell B2B into the enterprise quick-service environment, I think it's distinctive to us. And of course, EVO brings the receivable stuff that we talked about a minute ago, and the integrations into the accounting systems that we didn't have.

So I think like, look, it's a law of small numbers kind of in B2B, but I think shame on us if we're sitting here five – well, I won't be sitting here five years from now, but if the rest of us are sitting here five years from now and we look back and we say, how do we not grow that business 5x to 10x versus where it is today. One of the like the secrets about Global Payments is we bought Heartland in 2016. The pure payments business at Heartland. It was probably two-thirds of $1 billion of revenue. So here we are almost to the day saying closed in April 16, seven years later, it's like $2 billion, right. So – and that's a mix of organic and inorganic.

But I think we need to do the same thing, right, in our B2B businesses and grow them very substantially. And I think, look, we're early days there, but I think appreciating that how that looks like the e-comm omni business a number of years ago is something people want to think about.

Lisa Ellis
Analyst, MoffettNathanson LLC

Q

All right. Well, after you announced that CEO transition at Global Payments, the stock sold off somewhat. So that's flattering and good for the ego, I think, maybe less good for the investment account. But in light of that, just to close us, what would be your elevator pitch for investors to – that this is now the time, right? This is the time to jump in with Global Payments, like looking forward. We've covered a lot of ground. What do you see as very compelling about the path forward for Global Payments?

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

A

Well, it was kind of you to open up that way. I mean, to be honest, I was nervous it would go up, a little bit like the ego thing. I didn't think I was worth $3 billion. I appreciate the market saying that, I guess, although, obviously, it's nice to have that higher rather than lower.

But, look, I think at the end of the day, we just produce – we have all the pieces that we need to be, to be very successful. We just produced with these pieces the best quarter we produced since 2019. We're in the best financial operating strategic product positioning we've had really in years for the business. We don't want to do anything else to kind of capitalize on those things. We just need to execute.

We've got someone who's coming in who has been locked at the hip with me for nine years. He's going to do whatever he's going to do, but I have every confidence in Cameron that he's going to do nothing but accelerate the investments we've been making.

So I feel really good about where the business is positioned and I think the future is very bright. We obviously need to get through whatever macro uncertainty the world has in a given day, but our results are results. And you can see those over the last number of years, and we're very proud of it.

Lisa Ellis
Analyst, MoffettNathanson LLC

Excellent. Well, Jeff, thank you. Thanks so much for joining us and thanks, everyone. You're heading up to the fifth floor for lunch and luncheon keynote right after this. So thank you. Thanks so much.

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

Thanks for having us. Yeah.