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Global Payments, Inc. (GPN)

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CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

Darrin Peller
Analyst, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Darrin Peller
Analyst, Wolfe Research LLC

Jeff, thank you again for joining us. First of all, it's really great to have you on for – I don't know how many years in a row we've had you for our conference. I really do appreciate you being with us.

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

Thanks for having me, Darrin.

QUESTION AND ANSWER SECTION

Darrin Peller
Analyst, Wolfe Research LLC

Q

Let me start off. Before we get into some of the recent trends, which I know everyone's going to want to talk about and some of the noise and the craziness in the world today, I just want to talk a little bit about where you see the business today, bigger picture: A, as the CEO, where are you spending most of your time and priorities; B, when you think of what you want Global Payments to be, where do you see the business position now? What are some of the data points that we could expect in 2022 that shows some of the momentum from some of the investments you've made over the last year or two?

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

A

Well, Darrin, my priorities in the areas we focus on as a company at Global Payments really have been consistent for most of the last decade. We've really had a unique strategy, as you know, that's driven the rates of growth that you've seen from us for many years and our expectations for the future, including, in particular, 2022. And that strategy really has all been centered around digitization, which is a process that we began when we started running the company 8.5 years ago.

Specifically, for us, we focus on four key pillars to our strategy. And those are: software, both owned and partnered; omnichannel dominance; exposure to faster growth markets; and now, of course, we announced in September of last year at our Investor Conference, B2B, which is our newest strategic pillar. We talked a lot about each one of these things at our September Investor Conference, so I encourage anybody, who's not had a chance, to review our 70-plus page slide show from last fall, to go ahead and do so. But I want to emphasize here, Darrin, that last year, in the middle of the year, we crossed the threshold of our business that comes from technology enablement or digitization to over 60% of our business. And, of course, that's something that we target now to be three quarters of our business over the next cycle, which I think addresses one of the questions you asked about kind of where we are and where we're heading.

You know, really, in short, we raised our cycle guide last fall. Our growth has accelerated. We're selling more market-leading technologies today through more distinctive and defensible distribution channels than we ever had previously. And, of course, we've announced marquee deals with two of the largest technology companies, Amazon AWS and Google, to extend our lead and deepen our moat.

That's resulted, Darrin, in record new bookings that we've announced in Merchant for any number of quarters since the pandemic began, plus marquee wins in issuer, like Truist and Caixa, despite all the challenges that we've had thrown at us. So really, I think today, in sum, we view ourselves as a top quartile SaaS company, leading omnichannel acquirer across virtual and physical markets, and a leading B2B player already at scale across developed and emerging markets.

And then, finally, all those things drove the guidance, Darrin, that we provided just about a month ago on our year-end call and, specifically, for: 10% to 11% constant currency revenue growth this year in 2022; up to 150 basis points of margin expansion, excluding acquisitions; and 17% to 20% earnings per share growth. To answer your question, that's what I'm focused on, on delivering and driving the business towards.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay, that's really helpful, Jeff. Let's take it a step back and just run through a quick reminder on fourth quarter trends and then really what you're seeing, as much as you can comment, even qualitatively on, so far through first quarter. Maybe if you can also touch on coming out of Omicron and what that looks like, as well as, unfortunately, the events in the war in Ukraine. And maybe if there's – if you could just touch on what you're seeing around that, if anything, if there's any implications we can talk about.

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

A

Yeah. Sure, Darrin. So we delivered record fourth quarter and record full-year 2021 results that exceeded our expectations. We also achieved record transactions across the business in the fourth quarter, including a new peak during the holidays, despite the impact of incremental COVID-19 variants throughout. Plus, we delivered record free cash flow. And really we expect, Darrin, more of the same for calendar 2022. Our merchant volumes, which, as you know, Darrin, we've now disclosed quarterly going back three years, continue to meaningfully outperform the credit volume trends, as reported by the networks. And our outperformance relative to the market's been consistent really throughout the pandemic, highlighting our continued share gains.

As relates to your question, Darrin, about kind of current events, I'm really happy to report that the recovery in volumes post-Omicron toward the end of January continued into February. We've seen sequential improvement from January to February, consistent with the data disclosed by Visa in the last week and also consistent with our expectations. So we're super-pleased with our performance so far in 2022.

Looking at the bookings and sales trends for full-year 2021, as you know, the global merchant bookings increased 20% relative to 2020. And, as you mentioned in your note, Darrin, after the quarter, our MID counts were up 16% versus 2019. And in the fourth quarter, both our integrated business and our US payments and payroll businesses delivered 20% growth versus the fourth quarter of 2020.

And our bookings trends also remain strong in many of our vertical markets businesses. So, for example, AdvancedMD and healthcare delivered booking growth of 40% in the fourth quarter and 26% for the full year. Our enterprise quick service restaurant cloud point-of-sale software business grew bookings 50% in 2021. And the recent acquisitions that we made in vertical markets, in particular, had a great year as well, with Zego's bookings in real estate up 20% and MineralTree in B2B up 19%. And finally, our e-comm omnichannel businesses grew 20% year-over-year and quarter-over-quarter.

As for how that translates into revenue, Darrin, I'd say that these trends give us a lot of confidence in our outlook for 2022 for merchant revenue to be up in the low double digits, assuming we remain on a path toward recovery for the rest of the year.

And then, finally, in answer to your last question, Darrin, it's worth pointing out that our Russian business was less than 0.5% of our revenue in 2021 and we expect it to be even lower in 2022. So it's immaterial to Global Payments. And just for the record, we have no revenue in Ukraine. So we don't expect either of those things to have any impact on our business.

Darrin Peller
Analyst, Wolfe Research LLC

Q

You know, I thought it was – Jeff, it was very notable to see the volume growth rate you guys disclosed, which is really helpful, by the way, outperformed Visa's credit card volume.

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

Yeah.

Darrin Peller
Analyst, Wolfe Research LLC
Q

And I think it really underscored your positioning, and your market share positioning, strength. When we think about the driving force of that, from your perspective, you know it clearly underscores some of your reach. And from whether it's the sales or some of the verticals, but, frankly, there are still some areas that I think are under 2019 levels still embedded in the business that have room to rebound, right? Can you just touch on that for a minute in terms of what areas you think still have some room to go and then maybe thinking about yields that can come with that?

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

Yeah, it's a great question. So let me just go through kind of the litany of stuff. I'll start with what you just asked about some of our markets. So I would say in the aggregate, a number of our merchant businesses, Darrin, are actually back at or ahead of the number they would have been at despite COVID-19, as we said in the last couple of calls. So I would say the vast majority of our business, particularly in merchant, is ahead of where we always would have expected to be, going back to January and February of 2020.

Regarding businesses, to your question, that have not fully recovered to 2019 levels at this point, really that's very limited to just a few of our vertical markets businesses and some specific geographic locations. But the nice thing about where we are, Darrin, as we said on our call last month, is as of the fourth quarter of last year, on a year-over-year basis, our vertical markets businesses, in the aggregate, performed in line with the broader merchant business. And in this year, in 2022, we expect our vertical markets businesses to collectively be a tailwind to growth, in the aggregate, as these markets continue to recover. So, Darrin, the nice thing about where we are is I think we're kind of beyond that. And that stuff is actually going to be a tailwind as a point of inflection for growth, starting obviously this past January as we entered into 2022.

The other thing I want to highlight, because I think it's embedded in your question is, we don't expect the recovery to be perfectly linear.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Sure.

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

And we don't need perfection and we don't assume it to hit the high end of our ranges. So, our 17% to 20% target earnings per share growth for this year on a constant currency basis is right in line with the raised cycle guidance, Darrin, that we gave at our September Investor Conference, despite a worsening of the macro environment since last September. And we also continue to expect 100% free cash flow for conversion. And to break it down further by segment, Darrin, this includes mid-teens growth for our integrated business, roughly 20% growth assumption for our e-comm omnichannel solutions and double-digit growth for our vertical markets businesses.

I'd also say that we expect Visa's recent announcement – I think it was last week, Darrin, – of a 10 basis points rollback in interchange in the US for SMBs, to be a tailwind to our performance. So, lowering costs for our customers is always a good thing. If you know what Visa said, Darrin, which is that $250,000 Visa volume for just Visa cards in the US, that's really right in our wheelhouse, Darrin. It is our sweet spot.

Darrin Peller Q
Analyst, Wolfe Research LLC

Yeah.

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

For our merchant business here in the US, where average merchant's probably $500,000, $600,000 of card volume. So it's right in the sweet spot in our wheelhouse.

Darrin Peller Q
Analyst, Wolfe Research LLC

Right, but this has to be credit card volume that's below $250,000 if I remember correctly, right?

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

Yeah, that's correct. That's right in the sweet spot for us.

As it relates to our issuer business, again, our outlook is consistent with the cycle guide that we outlined in September, again, despite a more challenging macro since then. And we do expect – and I think Visa and Mastercard, Darrin, said the same thing. We do expect our commercial card business to recover as the year progresses, which is what Visa and Mastercard also talked about for travel and will also benefit an issuer from our robust conversion pipeline, particularly in the second half. What we said, Darrin, in our call last month was we have something like 22 million cards in the conversion pipeline for issuer in the back half of this year, 30 million total. And that does not include the Caixa win, which is another 30 million, Darrin, and actually doubles our conversion pipeline.

Darrin Peller Q
Analyst, Wolfe Research LLC

Wow. Yeah.

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

So it puts us in a really good position. And finally, we'll talk more about this, I know in a little bit, but our business and consumer portfolio does face a tough revenue comparison in the first quarter, because we're growing over two consecutive years of stimulus in the first quarter of 2021. You know, it's something that you commented on publicly in your notes.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah.

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

A

But we then do expect to deliver growth in the mid to high single-digit range for the balance of this year, once we get through the first quarter, which, again, is consistent with our long-term expectations. But as you know, we did announce a strategic review of our Netspend consumer piece, which is about 85% of that business, to sharpen our focus on our B2B assets. So I think the business is in a really good place. I think despite the macro overlay, Darrin, what we think over here is really is a financial and operating manner. I don't think our businesses have really been in a better position than they are sitting here today.

Darrin Peller
Analyst, Wolfe Research LLC

Q

That's great to hear, Jeff. Let me follow up on the merchant point. I mean, I think the 16% growth in MIDs over the last couple of years is a pretty big deal, actually. And when you consider that on top of the 50% growth we've seen in the software side, I mean, clearly you're showing some traction with a lot of your investments. How do you feel about your position for your merchant business now? You've done quite a few deals in software over the past few years. Do you think you're in the right assets from a software standpoint? Do you feel like you want to do more this year on that front? And then, we can go maybe a little bit, dive a little deeper into the merchant side as well.

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

A

Yeah, sure, Darrin. Obviously, we're big fan of owned and partnered software at our company. I mean, today, as we said in September, that we're a top quartile Software as a Service tech company, Darrin, not just in payments, but really in the United States, in the public markets in the US, a top quartile Software as a Service technology company with nearly $3 billion of software revenue annually, cloud-centric and mainly, of course, with AWS and Google. Really no one, in and around financial technology, has this position in cloud-native SaaS, really nobody.

At the time of our 2018 Investor Conference, Darrin, if you can go back and remember that long ago, it seems like, you know, eons ago, given all that we've been through.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah.

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

A

I'd say, as a world, but, you know, we spent much of our presentation in 2018 discussing why the convergence of software and payments was a really important trend. And to be honest, we faced some skepticism during that period about that strategy. Namely, we were told it's really tough to execute and filled with conflict and that kind of thing.

I think history, since then, has absolutely proven us right. It's now dogma, as we said in September, that software and payments have converged, despite all the pablum that we endured at the time. And we're really pleased with the leading position we have in software today, but, as you asked, expanding our software portfolio remains a top priority and will be a key driver of our mix shift to 75%-plus tech-enabled revenue over the cycle.

We've invested nearly $2.5 billion in acquisitions since the pandemic began, nearly 60% of which, to be honest, has been in software. And we did report on the results at Zego in real estate and MineralTree in B2B in our last call. Couldn't be more pleased with their early performance really post acquisition. So we certainly look to do more. We think we have the wind at our back with our strategy there. And I'm really pleased, Darrin, that we started investing heavily in that business five-plus years ago.

Darrin Peller
Analyst, Wolfe Research LLC

Q

I was going to talk about M&A a little later, but while we're on the topic of software and acquisitions, have the bid-ask spreads started to come in a little bit? I mean, obviously, valuations are pretty insanely volatile at the moment, both on the growth side and pretty much across the market. So when you consider what you can actually acquire now, just given valuations both on the private and the public side have come in quite a bit.

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

A

Yeah, I would say, Darrin, the nice thing about us is if you go back in the nearly nine years we've been running the company, to be honest, the capital allocation priorities, either in M&A or repurchase, really haven't changed for us.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah.

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

A

We balance the investment in the business and capital returns while maintaining flexibility. Look, our pipeline is full today. There's a lot of – just as we all surmised there would be, Darrin, there's a lot of broken IPOs, a lot of companies that are products masquerading as real businesses, which they're not. And I think the market in terms of how they perform tells you as much, kind of every day when you're looking at them.

So we regularly look at what's available. The issue is really not the pipeline. We have a lot of things that we believe that we can do both financially, strategically, as well as culturally. But we do view the bar for M&A to be pretty high today, not because of the valuation ask, Darrin, but because of what we consider to be the extraordinarily compelling return characteristics for the alternative, which is repurchasing our stock.

So it's not so much that the bid-ask is different or is hard to bridge. Look, we're a strategic buyer. We're generating record amounts of free cash flow, last year. We'll do the same this year. We have a fair amount of leverage capacity. I think what we said back in September, Darrin, was like something like $28 billion over the next cycle of free cash flow plus leverage capacity that we can reinvest in our businesses. We already invest – we will invest this year $1.7 billion in OpEx and CapEx, just of our own internal technology environment. And that free cash flow number is net of those investments.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah.

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

A

So we have plenty of capacity to do it. It really comes down to, Darrin, not the valuation ask, but the returns relative to the repurchase. And I think that's something we're obviously very focused on. We've repurchased about 6% of the company since the 2020 period during the pandemic. That doesn't include the current $2 billion authorization that we announced last month. Depending on where things shake out over time, that could be another 5%, so 6% and 5% is 11%. And, obviously, if we're to do something with Netspend in the foreseeable term, that would be incremental to those numbers. So, look, we have plenty of things that we can do. There's plenty of broken IPOs and other companies out there that obviously cascades through the market.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah.

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

A

I think, Darrin, it's just a question of what's the best return for our shareholders. And for right now, we've got our thumbs on the scale of repurchase. But, look, we have – we look at most things and I think our pipeline is full. It would be good to get a few days, Darrin, of stability in the capital markets to just come to a point of view. But the current environment suits us kind of any which way.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Okay. That makes a lot of sense. Let me follow up on the yields for a minute, going back to what you were saying before about – you touched on interchange potentially being a tailwind. But more broadly speaking even beyond that, I think the mix on [ph] gas per gas (17:22) transactions, for example, had an impact on your yield, just given that you get paid a fixed fee there, right? Volume numbers were higher yet, but when we consider what it can be going forward post-pandemic and really hopefully post this geopolitical crisis and you think about some of the business coming back, I think you were somewhere in the 5 to 8 basis points higher pre-pandemic than you may be now based on the mix. Do you see that coming back up again, just as mix normalizes?

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

A

Yeah, it's a great question. I would just start by saying that our yields really have been stable throughout the pandemic. I think you touched on some of the reasons that there may be quarter-to-quarter differences.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah.

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

A

So several of our vertical markets businesses, think Gaming, K-12 and ACTIVE, were more pandemic impacted. And given, Darrin, that the majority of our revenues in those businesses are software-driven versus payments, that creates some lumpiness, you know kind of quarter-to-quarter with relatively little impact on volumes because those are primarily kind of software businesses. So given the diversity of our businesses across verticals, channels, geographies, software as well as payments, you're naturally going to have, you know, ebbing and flowing. The most recent thing is what you just talked about in the fourth quarter, we obviously saw an impact from higher fuel prices. That will – given where oil is today, Darrin, that's going to continue for some period of time.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Sure.

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

A

Because in that legacy kind of Heartland business, we get paid like $0.01, plus or minus, a transaction. So the retail price of fuel really does not drive our revenue in that business, but obviously it does drive volume-based disclosures. So that translates into higher volumes, but really the same level of revenue at the end of the day. So you will see some variability around it.

Just to give you a sense, Darrin, I think that the impact from vertical markets to our fourth quarter volume versus revenue was about 400 or 500 basis points. So that would have narrowed the gap, Darrin, if you take out, you know, those two or three businesses that I described. And they would have been closer in terms of alignment in the way of saying kind of a higher yield.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Understood.

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

A

So at the end of the day, our view internally is that our yield has been remarkably consistent. In terms of our expectations for longer-term yields over time, listen, our focus is on continuing to lead with tech, solve for complexity, deliver more and more value. The more we can wrap more value, like data analytics around transactions, the better off we'll be. So we're really pleased with the stability in our yields. And we expect that really to continue.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Your strategy of owning software has become very clearly a smart move when you consider what we're seeing with some of the PayFacs out there now. And the PayFac enablement, where software companies are trying to do more on their own, but I think there's also maybe a bit of a stretch in how much it's impacted the market. With that said, maybe just give us a little color on your thoughts on that, that trend in PayFac enablement and how much of an impact it's had on your business.

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

Let's just start by saying we're rooting for PayFacs. We have the largest PayFac in the world, PayPal, as a customer for a long time. As we mentioned in October, I think, Darrin, they recently renewed and expanded our relationship at the end of 2021 for the next number of years. And we think by adding crypto in a number of their vertical markets with PayPal, that we can double our TAM with PayPal over the next cycle.

So let me just start by saying we're rooting for those guys, at the end of the day. So that's actually good news for our business. But if you back up further and you kind of put that to one side, the VAR ISO, now called PayFac, was a concern nearly a decade ago when we bought APT, which was really our first foray into owned and partnered software.

The fear then was obviously disintermediation, commoditization, but I would say, Darrin, that deal was done, and I hate to date myself, Darrin, by kind of giving you dates, but that was, believe it or not, almost 9.5 years ago now. So, I certainly feel old when I talk about deals we've done that are literally, this summer, going to be 10 years old. It doesn't make me feel any younger but this, in fact, so now we have a 9.5 year history, Darrin, to answer your question. In fact, it's simply not happened in our business, nor do we see a trend in that direction.

So, if you'd back up further, you'd say, look, ISVs express interest in becoming a PayFac for three primary reasons: one, just money, economics; two, better control of certain of their processes like enrollment, onboarding, that kind of thing; and three, if they have something funky in funding that they're trying to solve for by controlling more of the flow. Really, the only trend that we've seen over time is towards the third thing in terms of funding and settlement. But that requires a lot of work, as you know, to support that type of disbursement model, which I'll come back to.

So we support PayFacs in kind of any category they'd like to be supported. I mentioned a minute ago, we have the largest in the world that's been our customer. It's just renewed for a number of years. First of all, on the economics side, I think it's more important to divide a bigger pie rather than to re-divide into smaller slices the – into more slices the existing pie. So economics are a function of the size of the TAM. I think we've been very good with things like data and analytics, things like Google in Merchant to expand the size of target addressable market. So we do share more of the economics because the TAM gets bigger rather than re-cutting the sharing ratio with our VAR ISVs and PayFacs.

Second, I don't think anybody has a better self-service onboarding environment than we do. Our merchant portal, I believe, is market leading. That's where you'll find the Google software, for example.

And third, there's a lot of cost that goes into these things in terms of underwriting credit selection, that kind of thing, that we're just really uniquely positioned to do. And most VAR ISOs, PayFacs are really not, at the end of day.

So even when we speak to founder owned, PE-backed and public ISVs, the vast majority of those discussions with us end with us signing a partnership agreement which extends our relationship with those VAR ISOs and PayFacs. And, look, as you know, that stuff is mostly embedded, Darrin, in our Global Payments Integrated business. That business, during the pandemic, is actually growing more quickly today, Darrin, than it was pre-pandemic, which is something we talked about in September. We're just coming off of a quarter where our Integrated business accelerated to the high 20s organic revenue growth year-over-year.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Wow.

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

A

So, if anything, that business is growing more quickly now than it did, Darrin, and a much bigger size it did like 9.5 years ago, we bought the thing in the first place. Again, I hate to date myself, but you know those are the facts.

Darrin Peller
Analyst, Wolfe Research LLC

Q

You mentioned Google a minute ago, so maybe we'll shift there now and just talk a bit about your relationship with Google and, to that degree, with Amazon and AWS on the issuer side. If you could just give us some examples of what that's really doing for your business, either side, right, whether it's the merchant side or the issuer side, you know clearly, we've been seeing the bookings go in the right direction, so I imagine there's a correlation. But if you can give us a little bit more color on that and what you expect there, it'd be great.

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

A

Yeah, I mean, look, at a high level, those are really market-changing exclusive distribution and technology relationships in our business are really unique to us. So here we are a year and a half into the Amazon announcement and just about a year now into the Google announcement.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Yeah.

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

A

And we really couldn't be more pleased with how we're going. So let's just start with Google, which is merchant, so we're really – we're busy there reimagining core services we deliver. We don't just sell products really with Google. We sell results. And that's why we call it Run and Grow My Business, which is the name of [ph] either (24:43) software. So we're selling opportunities for our merchant customers globally to run and grow their businesses more effectively and efficiently on a unique basis. So it's not about price. It's about growing the pie and the TAM.

Great way to think about this, Darrin, on the commerce enablement side is something like data and analytics. As we talked about in September, that is now a nine figure business that we invented, all organically, hosting the Google Cloud up from $0 of revenue more or less in 2018. So we invented this thing from scratch. And it'll do well into the nine figures this year, hosted in the Google Cloud. We also went live with Google as a merchant customer in multiple markets in Asia Pacific in the third quarter of last year. And as we said last month, Darrin, we expect to launch Google as a merchant with us in North America by the end of this quarter.

To be honest, those are simply market share gaining competitive takeaways. When we announced it, some of the incumbents said they weren't losing business. Well, why don't you go ask them now how it feels?

We've also initiated an exclusive co-sell program and are starting to see referrals of enterprise cloud clients. Again, those are competitive takeaways. Probably most importantly, we launched the first phase of Run and Grow My Business, that's the software that integrates Google Solutions with our capabilities in our proprietary digital portal environment, last quarter. And what I'm really most excited about is this year, we continue to expect to launch the next phase of Run and Grow My Business software, where we'll bring online ordering, inventory and reservations into our merchant portal ecosystem exclusively. You should think Shopify and OpenTable when you think about what that'll look like.

So our multi-year strategic partnership regularly facilitates co-innovation between Google and Global Payments and our product teams and I think is really a game-changer, both with them as a customer, but also with our go-to-market strategy.

As it relates to AWS, which is really issuer and what I'll call B2B business, our business segment. Listen, as we said when we announced it a year and a half ago, Darrin, that triples our TAM in our issuer business. I don't think you need a better example. Darrin, than Caixa. That announcement, as we said last quarter, with Caixa, when that goes live, as we expect in the back half of next year, we expect this to be among the first legacy direct cloud transformation in card issuing technologies by major financial institutions. And it will be the first entry for TSYS, certainly on the large side, into the attractive Iberian marketplace.

We also recently announced our partnership with Virgin Money over the summer. We believe when you combine Virgin Money, Darrin, with Caixa, we'll then become a Global Payments, a leading debit technology provider across Europe.

And then, finally, with AWS, the co-sell has been fantastic. We announced last month, 34 active prospects in the pipeline with AWS, 11 of which are fintechs, neobanks, and startups.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Wow.

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

A

And I think, as you noted in your note after our quarter, with Extend and ecolytiq, we're already live with a number of the fintech startups which came to us through AWS. So we couldn't be more pleased with where we sit.

And then lastly, I would say on the cost side, I mean, listen, revenue and tech are great, but regarding cost opportunities with Amazon and with Google over the next several years, we will migrate the vast majority of our tech workloads to the cloud with those guys, significantly reducing our data center footprint and streamlining our operating environments and enhancing ESG. And that will drive meaningful cost efficiencies starting in 2024. Now, we'll partly reinvest some of those savings, but those will also be on margin-enhancing and accelerating opportunities. So we couldn't be more excited about where we are with Amazon and Google.

Darrin Peller
Analyst, Wolfe Research LLC

Q

That's amazing. That pipeline you talked about with Amazon specifically, just to follow up on that and the number you mentioned was – that's issuer processing deals, correct me if I'm wrong, that crosses from credit to debit?

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

Yeah, that's correct. That's all manner, so that when we announced the other day with Extend, I know you have [ph] Brecks (28:50) speaking at your conference, but Extend is in commercial card, right. So it's not like your historical consumer, right. So it's neobanks, startup, fintech, Extend into commercial card, where we're providing the underlying technology through TSYS credit and debit into Extend, so that's exactly right.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Wow, that's great to hear. Maybe we could just shift gears just in interest of time, although we can probably go on and on about all these topics. The strategic review of Netspend, number one, I guess just comment quickly on your – what you anticipate around that in terms of whether it's timing or what you're hoping for and then, you're obviously holding onto the B2B side, right. And you are doubling-down there, combined with what you did with MineralTree as well. Maybe you could just touch on your strategy and what you'd expect us to see there.

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

First, we discussed at the Investor Day back in September, we think B2B is a huge opportunity for us. B2B, as we sized six months ago, is a $125 trillion TAM and dwarfs the rest of the markets we currently attack.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Yeah, that's true.

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

But not only that, Darrin, we believe we're already a scale player with nearly two-thirds of the $1 billion of revenue in B2B. And really, we're just in the early innings of that category, not just for us, but for the industry. To give you a sense, that two-thirds of a $1 billion of revenue is more revenue than Avid, Bill.com and Billtrust combined. And, of course, none of them has the scale on B2B and our business is already profitable. So we think we're in a really good place.

So we think about where we're going to go, particularly with MineralTree. We tend to expand from cloud SaaS and payables into the receivable side. We have an existing base of 60,000 businesses, where we make it possible for every kind of payment to be made through our Netspend assets through EWA, paycard and banking-as-a-service to get paid. Combine that with the 145 million accounts on file that we have in our commercial card business as well as our Heartland Payroll business, which is well into nine figures, and we think we're really well-positioned. As it relates to Netspend, in particular, because you led off with that in this question.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Yeah.

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

What I would say is we'll continue to give updates, but we're pleased about where we are in that process. Obviously, we give an update as we enter the next quarter, but we do plan to retain their B2B assets, which includes the three I mentioned, paycard, earned wage access and banking-as-a-service. Those, combined with MineralTree, combined with TSYS issuing, combined with Heartland in payroll, I think position us very well competitively in our B2B sector [ph] business member board (31:19).

Darrin Peller
Analyst, Wolfe Research LLC

Q

Very helpful. Was going to touch back on capital allocation, but you pretty much hit that before. So in an interest of time, let's just wrap it up with your long-term growth potential. I mean, again, you talk about obviously that 10% to 11% constant currency growth range guide for 2022 for top line, but three to five year cycle, I think you mentioned low double digit, right. When you think about growth rates there, is your strategy still to keep investing in areas that are going to drive top line, you know and maintain margin expansion? Is that, from an algorithm standpoint, what you have in mind or anything change on that front? And just thinking about what you see now in terms of the businesses assets and capability of continuing to grow that level versus what you saw even a year ago, given how much has changed in the world.

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

A

Yeah, listen, I think it's a great question. And I'd point you back to what Paul Todd, our CFO, said as the foundation for accelerated growth targets that we laid out in September, where we increased our cycle guidance. And I'll just list a few of those drivers, which really haven't changed, to your point. One is a further mix shift toward technology enablement as we target this 75% goal over the cycles, with the beneficiaries of tailwind in the mix shift. Second, accelerate digitization brought on by the pandemic.

So, obviously, the pandemic has had a horrible human toll and everything else coming out of it. But as we said in our Investor Conference, Darrin, those businesses that were growing quickly pre-pandemic for us, along the lines of digitization, many of those growth drivers in terms of mix are actually growing more quickly today than they were pre-pandemic. Our unique and exclusive partnerships, which we talked about today, with Amazon and Google, for distribution and technology transformation, really also have accelerated our business. We just finished talking about those.

Obviously, the addition of B2B, something else we just commented on the new fourth leg of this stool, and, of course aggressive capital deployment for the cycle. We talked about the $28 billion of free cash flow, plus leverage capacity over the cycle which we intend to deploy in our capital environment. All those things tell us that we're doing the right stuff, that our growth is sustainable. We actually increased our targets. We obviously feel good about what we laid out, you know, a month ago, which is what you touched on a second ago.

And I would say as it relates to competition, as we talked about extensively in September, our business has always been highly competitive. And really, that environment hasn't changed. Yet, here we are having produced the best year in our history in 2021, best fourth quarter in our history in 2021. And with our guide for 2022 last month, by definition, the best years of expectations we've ever set out for a business, consistent with what we said in September, despite a worsening macro environment since the fall of 2021. So we feel really good about where we are, Darrin, and really excited about the future and where we're heading.

Darrin Peller
Analyst, Wolfe Research LLC

Q

All right. That's really helpful. Look, we're kind of in penalty time. Let me just take one or two quick – very quick ones from the audience.

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

A

Sure.

Darrin Peller
Analyst, Wolfe Research LLC

Q

And we'll wrap it up. One of them is just, you can give us any idea of what Google and AWS may be able to do for GPN margins and free cash flow, if it could bring less CapEx over time?

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

A

Yeah, I think that's fair. So I think, in general, once you get to maturity, which is really going to start at the end of 2023 and heading into 2024, meaning once the data centers start decommissioning – we've already taken them down. I mean pre – right post the merger with TSYS, we probably had 40-odd data centers. I think now we're down to 30. And we're on our way with 3 – on our way to 3 post AWS and Google. Plus I think a good rule of thumb is you can cull 10 to 20 points out of your operating expense, once you're at full maturity, which we won't be initially, from the outsourcing arrangements and hosting the cloud with AWS and Google.

Now, in fairness, we won't realize all that. That's incremental, Darrin, to the [ph] 50 to 75 (35:06) we laid out. In fairness, we won't realize all that, because some of the amount, of course, we intend to reinvest incrementally back in our businesses to continue to accelerate growth. But you will see a significant drop in expense and an increase in margin as you enter 2024 with those two deals, partly will be reinvested back into our business to accelerate growth. But there's no doubt as we de-commission 30-odd data centers down to 3, you are going to see margin improvement incrementally, coming out of those arrangements, which is what you would expect to see as you demise 30-odd data center down 3.

Darrin Peller
Analyst, Wolfe Research LLC

Q

Sure. Very last, very quick one, just high level, when thinking about large deals versus small deals or mergers between you and others, I mean, I think there's a question that just: A, would regulators or DOJ in this environment even want to see something like that; and B, do you think scale still matters where that could be a good thing or would you rather focus on tuck-in deals and smaller acquisitions?

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

A

Well, let me start with the second part of what you asked, because I think that's pretty straightforward. So, we're in a scale business. We'll do 60 billion, 70 billion, whatever it is, transactions this year as a company. And we'll probably have volumes flowing to us, Darrin, to the low trillions, right. So, obviously, in an environment where scale margins are at 80%, 90%, your average margin's at 42%, having more scale is good thing, right. That's just the mathematics of how our business works. And we're not really unique from that point of view.

So, scale deals always makes sense because of what I just kind of listed as a purely mathematical matter, and I don't think we're done. Going back to the first part of what you asked, I think there's plenty of competition in our businesses. I can't speak to the political kind of overtones to how people look at it, but I can tell you as a business person's point of view, there's plenty of consolidation to come in our business, whether that's vertical markets software, horizontal acquisitions, new geographic market entries, where we're either not in a geography or we're in the geography already, but not in a scale sense.

There's plenty more we can do, Darrin, as a layperson thinking about what the business environment is. Our business has always been competitive. As I mentioned before, it's not going to change tomorrow. It'll just be more competitive. And there probably have never been more people in and out of our businesses today in terms of how we think about the TAM at the end of the day.

So I really don't view that as a real constraint as a practical matter on kind of what we do. How people view that will depend on their facts and circumstances. That's hard to say. But as an operating matter, I don't think we're anywhere near in any of our markets, any kind of a limit on kind of what we can do. And instead, it's driven by the second part of what you said, which is what are the scale economies. Now we have a lengthy pipeline. We obviously love software-related vertical markets. As it relates to real estate, as it relates to B2B, we've got plenty of blue sky in those businesses. So, listen, I think all that stuff is open. I think we'll be judicious in what we do, given our ability to drive returns. But I think we're in a really happy kind of competitive place as it relates to our ability to do deals.

Darrin Peller
Analyst, Wolfe Research LLC

Understood, great. Jeff, thank you so much for joining us, really appreciate the time.

Guys, for everyone on the next panel, starting actually just about in a minute. [ph] The NPL with PayPal and Simple (38:16), but, Jeff, thank you again. Be well and we'll catch up again soon.

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

Thanks for having us.

Darrin Peller
Analyst, Wolfe Research LLC

Take care.

Operator: Goodbye.