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Global Payments, Inc. (GPN)

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. And welcome to Global Payments' Fourth Quarter and Full Year 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will open the lines for questions and answers. [Operator Instructions] And as a reminder, today's conference will be recorded.

At this time, I would like to turn the conference over to your host, Senior Vice President, Investor Relations, Winnie Smith. Please go ahead.

Winnie Smith

Senior Vice President-Investor Relations, Global Payments, Inc.

Good morning, and welcome to Global Payments' fourth quarter and full year 2020 conference call. Before we begin, I'd like to remind you that some of the comments made by management during today's conference call contain forward-looking statements about expected operating and financial results. These statements are subject to risks, uncertainties, and other factors, including the impact of COVID-19 and economic conditions on our future operations that could cause actual results to differ materially from our expectations. Certain risk factors inherent in our business are set forth in filings with the SEC, including our most recent 10-K and subsequent filings. We caution you not to place undue reliance on these statements. Forward-looking statements during this call speak only as of the date of this call, and we undertake no obligation to update them.

Some of the comments made refer to non-GAAP financial measures, such as adjusted net revenue, adjusted operating margin and adjusted earnings per share, which we believe are more reflective of our ongoing performance. For a full reconciliation of these and other non-GAAP financial measures to the most comparable

GAAP measure in accordance with SEC regulation, please see our press release furnished as an exhibit to our Form 8-K filed this morning and our trended financial highlights, both of which are available in the Investor Relations area of our website at www.globalpaymentsinc.com.

Joining me on the call are Jeff Sloan, CEO; Cameron Bready, President and COO; and Paul Todd, Senior Executive Vice President and CFO.

Now, I'll turn the call over to Jeff.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Winnie. We delivered fourth quarter and full year results that exceeded our expectations because of our focus on technology enablement coupled with ongoing excellence in execution. Our fourth quarter results demonstrated continued sequential improvement, despite the impact of a more challenging macroeconomic environment in a number of our markets for much of the period.

None of this would have been possible without the dedication of our exceptional team members during this difficult time. And we thank them for their commitment to our customers to each other and to our communities.

We are very pleased to have delivered substantial margin improvement for the fourth quarter, while also setting aside funds to pay partial cash bonuses to our non-executive team members. Because of the actions we took early in the pandemic and our consistent team execution, we were able to deliver double-digit earnings per share growth in the fourth quarter, positioning us well heading into 2021. We believe that we exited 2020 in a better position than we entered it.

We also accomplished a great deal over the last 12 months. Specifically we signed Truist Financial Corporation, the sixth largest commercial bank in the United States, a competitive win twice over.

Entered a new collaboration with AWS, our preferred provider of issuer cloud services to launch a unique, go to market distribution strategy, coupled with transformative cloud native technologies. Expanded and extended our partnership with CaixaBank, our increasing ownership of our joint venture, and executing a new referral agreement through 2040.

Renewed agreements with a number of the most complex and sophisticated financial institutions globally, including TD Bank in North America, HSBC in Europe and CIBC in Canada, assisted in the rapid distribution of more than \$2.5 billion in stimulus funds for our Netspend customers, days faster than other financial technology participants, and announced today a new partnership with Google to deliver innovative and seamless digital services to all manner of merchants worldwide.

Our collaboration with Google substantially advances our merchant business by driving incremental revenue and lowering operating costs through a worldwide go to market distribution relationship and co-innovation agreement, focused on transformative cloud native technologies. Together, we will bring new best-in-class digital products to market on a global basis more quickly, and we will further catalyze our culture of market leading innovation.

Cameron will provide more detail on Google in a minute. But it's worth noting that in the last six months, we have struck significant and unique distribution relationships with two of the world's largest and most respected technology companies with a combined market capitalization of nearly \$3 trillion.

This is a first in the payments technology industry. And we did this in the midst of a once in a century pandemic, while delivering adjusted earnings per share growth and gaining market share. These collaborations also are consistent with our long-held distinctive strategies to drive digital penetration.

Our business is the combination of two halves, distinctive distribution and cutting edge technologies. AWS and Google enhance both parts of the equation. Together, we will leapfrog legacy analog means of distribution and redefine how payment solutions and services are sold and consumed in the digital age for our issuing and merchant businesses.

We already have reached the threshold of 60% of our business coming from technology enablement, a goal we set in March 2018 for year end 2020 and achieved early last July. And roughly 25% of our business is now related to our e-commerce and omnichannel initiatives. But together with AWS and Google, we expect to do more by driving further technology enablement and omnichannel penetration as legs of the stool for future growth.

I cannot think of two better partners to catalyze further migration of our issuing and merchant businesses to cloud native technologies and expand our competitive moat. These partnerships provide proof points at the momentum we have entering 2021, and will accelerate the transformation of our businesses for years to come, just a reminder of the composition of the businesses driving our growth.

Starting with our merchant business, which is two-thirds of our company, our technology enabled portfolio consists of three roughly equally sized channels. Our omnichannel, partnered software and owned software vertical markets businesses collectively represent nearly 60% of merchant adjusted net revenue. Our relationship-led businesses make up the remaining portion and continue to differentiate themselves in the markets we serve, based on the strength of our technologies. Our omnichannel businesses delivered accelerated sequential growth for the fourth quarter of 2020, again, excluding travel and entertainment.

As we said at the beginning of the pandemic, we continue to see and expect ongoing sustained share shifts toward omnichannel acceptance brought forward three to five years by COVID-19. We launched our Unified Commerce or UCP cloud POS solution this quarter, which connects any commerce software to a wireless payment terminals through our API, to help merchants more easily unify their in-person and online payment experiences.

Our Citi partnership also continues to expand worldwide, and we expect new Citi customers on UCP to include one of the leading global food companies, one of the preeminent global beverage brands and one of the largest multinational auto manufacturing companies across multiple continents. And of course, with today's announcement, we also expect Google to become a UCP partner.

Additionally, we signed an agreement with Texas Instruments across Taiwan, the Philippines, and India. And we expect to expand our relationship to additional geographies later this year. We also reached an agreement with Wolverine to consolidate their UK and European acquiring across 32 countries. And we have now successfully launched with both Uber Rides and Uber Eats in our Asia Pacific region.

Moving to Global Payments Integrated, which drives another nearly 20% of our merchant adjusted net revenue. We generated growth for the fourth quarter and for the full year because of the unrivaled breadth of our partnership portfolio in the most attractive vertical markets. The strength of our combined integrated offerings allowed us to exceed our budgeted new sales forecast for calendar 2020, with new partner production increasing 171% versus 2019.

Our own software businesses represent the remaining roughly 20% of our merchant adjusted net revenue. And our leading SaaS solutions in healthcare, higher education and quick service restaurants or QSRs have been more resilient in the current environment. To that end, our AdvancedMD business delivered a record performance in 2020, achieving double-digit revenue and bookings growth. And our higher education business produced one of its finest years to date.

Lastly, our enterprise QSR business continued its success with Xenial's Cloud POS and Omni Solutions, enabling over 100 million transactions and \$1.5 million in sales for the year. In addition to serving 26 of the top 50 QSR brands, we were also pleased to announce the signing of Denny's for cloud-based SaaS solutions, extending our addressable market to the fast casual category.

Today, we lead with technology and innovative solutions across all of our merchant businesses. This includes our relationship-led channels, where we continue to see stronger sales performance fueled by our suite of differentiated products and solutions. For example, our US business is seeing significant uptake of its SaaS point-of-sale solutions, with adjusted net revenue and new sales both exceeding 20% growth in 2020. One recent notable win is with the Milwaukee Bucks, where we'll be deploying our cloud-based POS solution, across merchandise stores and outlets, in the arena.

Issuer is the next largest segment of our business. In August 2020, we announced a transformational go-to-market collaboration with AWS, to provide an industry-leading cloud-based issuer processing platform, for customers regardless of size, location or processing preference.

We currently have one LOI and three other mid-to-late-stage opportunities, together with AWS, that we are actively working. And we now believe that the win in Asia in a single large market from a legacy competitor that we have already secured with AWS, will likely expand in several markets across Asia over time.

We continue to capitalize on the broad and deep pipeline, we have the good fortune to have in our issuer business. We currently have 11 letters of intent with financial institutions worldwide, six of which are competitive takeaways. In the last 18 months, we have had 36 competitive wins across North America and international markets. And our customers continue to win in the marketplace, a key element of our issuer strategy to align with market leaders. During the first quarter of 2021, we will complete the first phase of the conversion of over 4 million accounts from a competitor, for one of our largest customers.

In Germany, we have successfully expanded our long-standing and successful partnership with Deutsche Bank, our largest client in the DACH region. We are pleased to announce that TSYS has been selected, in a competitive process as Deutsche Bank's partner of choice, for their scheme branded card portfolios across all brands, including Deutsche Bank and Postbank.

We are also proud to have signed, a new multi-year agreement with Marlette Funding, owner and operator of the Best Egg lending platform, for the processing of a new consumer credit card product, which will launch in the second quarter of this year.

We are pleased to have secured long-term extensions in multiple geographies, with President's Choice, a subsidiary of Loblaw's and Canadian Tire Financial Services, both large retailers in Canada; Scotia Bank in Central America; Bank of Ireland and Banco Inveex in Mexico.

Finally, our Business and Consumer segment delivered another quarter of solid growth, as we continued to pivot our strategic focus to digitization, international expansion and business-to-business opportunities. That shift is

underway without any compromise in execution, as we also achieved adjusted net revenue in excess of \$200 million for the first time in the fourth quarter. The move toward cash flow solutions is benefiting the portfolio, with customers remaining active longer and utilizing our products more, online. I am proud that Netspend has once again facilitated the rapid distribution of stimulus funds to customers and play an important role, during this most challenging period.

Since late December, we have processed more than 1 million deposits accounting for just over \$1 billion in stimulus payments, to American consumers dispersed by the IRS. And this was done days in advance of many of our traditional financial institution and financial technology peers.

In combination with the 2020 stimulus payments, we will have dispersed more than \$2.5 billion in aid to customers through the first quarter of 2021. I think it's fair to ask, how our business has been able to deliver results that are orders of magnitude better in our markets.

Our strategic focus on the diversity of our business mix has enabled us to gain share. We are diverse across channels, geographies, software ownership and partnership, vertical markets, and new and durable partnerships. We are diverse by design. We couple that diversity with a long track record of execution consistency, years of sustained technology investment and the unmatched global experience of our long tenured team.

Now, I'll turn the call over to Cameron to provide more detail on our new partnership with Google. Cameron?

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

Thanks, Jeff. We're delighted to announce today our new multi-year strategic partnership with Google that we expect will meaningfully enhance our ability to deliver new, innovative cloud-based products and capabilities, advance our technology-enabled distribution strategy, and deliver significant operational efficiencies, while improving speed to market and the scalability of our Merchant Solutions business.

This exciting partnership has a number of facets that collectively serve to further distinguish our digital capabilities worldwide. First, together, we will collaborate on product development and innovation to enhance and differentiate the suite of cloud-based solutions available to our merchant customers. These distinctive solutions will create stickier and longer-term customer relationships, building on our competitive advantages.

As just one example of the types of enhanced capabilities we will offer together, Google's Business Services, including Google My Business, Workspace and Ads will be integrated with Global Payments leading value-added software and payments ecosystem, creating a single destination and seamless digital experience for the full spectrum of solutions that merchants need to run and grow their businesses globally.

Merchant customers will be able to digitally access the industry's most robust value stack of SaaS offerings, including point of sale, omnichannel ordering and integrated payments, advertising, data and analytics, email marketing, online presence and reputation management, and loyalty and gift card solutions, as well as capital access in payroll and human capital management solutions. These products will be delivered through Global Payments cloud-native operating environment, driving better customer engagement and ease of use.

Second, our joint go-to-market efforts will drive significant referral and new customer acquisition opportunities for businesses of all sizes across our combined customer bases worldwide on an omnichannel basis. Specifically, Google Workspace serves as the cloud-native operating backbone for small and medium-sized businesses, as well as many of the most sophisticated enterprise organizations globally, while Global Payments provides

payments technology solutions to roughly 3.5 million merchant locations, in addition to some of the most complex multi-national corporations across 60 countries.

By leveraging our complementary customer bases, we will create attractive cross-selling opportunities for our digital solutions and meaningfully expand our addressable market. Further, together, we will be able to connect consumers with merchants via search in new and innovative ways, driving commerce and growth in a differentiated way for our customers. And of course, our ability to secure net new customers will be significantly enhanced through the strength of this partnership with Google.

Third, Global Payments was pleased to be selected as a preferred payment provider for Google. Today, Google executes approximately 3 billion transactions annually. And Global Payments is well positioned to meet the complex payment needs of one of the world's largest and most sophisticated technology companies by leveraging our unified commerce platform. We are humbled by the confidence our partners at Google have placed in us.

Lastly, in addition to our commercial partnership, Google will become our preferred cloud provider for our merchant payment technologies. Over the next several years, we will migrate the vast majority of our merchant technology workloads to Google Cloud, significantly reducing our data center footprint and streamlining our operating environment to enhance performance and drive meaningful cost efficiencies.

By moving our acquiring applications and workload to the Google Cloud, we will maintain the highest level of scalability, reliability and security, while increasing our speed of innovation and ability to seamlessly deploy products and services on demand anywhere in the world. We are thrilled to have established this partnership with Google. Together, we are on a transformational journey that will further enhance our industry-leading merchant solutions ecosystem with additional scale, reach and speed to market to seamlessly deliver new innovative digital technologies to customers worldwide.

With that, I'll turn the call over to Paul.

Paul Michael Todd

Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.

Thanks, Cameron. Our performance in the fourth quarter and for the full year 2020, exceeded our post COVID-19 expectations and highlight our outstanding execution and the resiliency of our business model. For the full year, we delivered adjusted net revenue of \$6.75 billion, down 5% compared to 2019 on a combined basis.

Importantly, our adjusted operating margin increased 210 basis points on a combined basis to 39.7%, as we benefited from the broad expense actions we implemented to address the impact of the pandemic and the realization of cost synergies related to the merger, which continue to track ahead of plan.

It is worth highlighting that our full year adjusted operating margin performance was largely consistent with the guidance we gave at the start of 2020 and prior to the pandemic. The net result was adjusted earnings per share, \$6.40, an increase of 3% over 2019. We are extremely pleased that we were able to grow our bottom line in 2020, enabled by continued execution on our differentiated strategy and our unwavering focus on all things within our control despite the impact of COVID-19 on the worldwide economy.

Moving to the fourth quarter. Adjusted net revenue was \$1.75 billion, a 3% decline relative to 2019, as underlying trends in our business continued to recover from third quarter levels. Adjusted operating margin was 41.5%, a 320 basis point improvement from the fourth quarter of 2019. Adjusted earnings per share was \$1.80 for the quarter,

an increase of 11% compared to the prior year period, an impressive outcome that highlights the durability of our model and momentum we have heading into 2021.

Taking a closer look at our performance by segment. Merchant Solutions achieved adjusted net revenue of \$1.1 billion for the fourth quarter, a 4% decline from the prior year, which marked a 200 basis point improvement from the third quarter. Notably, we delivered an adjusted operating margin of 47.5% in this segment, an increase of 250 basis points from 2019, as our cost initiatives, expense synergies and the underlying strength of our business mix more than offset top line headwinds from the macro environment.

Our technology-enabled portfolio continues to prove relatively resilient, with several of our businesses delivering year-over-year growth again this quarter; specifically worldwide omnichannel volume growth, excluding T&E, accelerated to the high teens, as our value proposition, including our Unified Commerce Platform or UCP continues to resonate with customers.

Additionally, Global Payments Integrated delivered adjusted net revenue growth for a second consecutive quarter. The leading scale and scope of our integrated ecosystem across more vertical markets and more geographies than our peers also enabled another record year for new partner production.

As for our own software portfolio, AdvancedMD remained a bright spot and once again produced strong double-digit adjusted net revenue growth for the quarter and achieved a record bookings year in 2020. Indeed, booking trends across our vertical markets portfolio remains solid, providing us with a positive tailwind heading into 2021.

We are also pleased that our US relationship-led business saw adjusted net revenue returned to slight growth for the fourth quarter, enabled by the innovative technology and software solutions we are delivering in this channel. And despite a more challenging macroeconomic environment in several of our international markets this period, demand for our differentiated capabilities outside of the US remains strong as our solutions are well-aligned with shifting customer needs coming out of the pandemic.

Moving to Issuer Solutions; we delivered \$457 million in adjusted net revenue for the fourth quarter, which was essentially flat to the prior year period. Transaction volumes recovered further, while traditional accounts on file continued to grow setting a new record. Additionally, our bundled pricing model including value-added products and services also benefited performance.

Excluding our commercial card business, which represents approximately 20% of issuer portfolio and is being impacted by the slow recovery in corporate travel, this segment delivered low single-digit growth for the quarter. Notably, this business achieved record adjusted operating income and adjusted segment operating margin expanded 450 basis points from the prior year, also reaching a new record of 44.7%, as we continue to benefit from our efforts to drive efficiencies in the business. As Jeff highlighted, our issuer team successfully signed five long-term contract extensions and one new contract in the quarter.

Finally, our Business and Consumer Solutions segment delivered adjusted net revenue of \$205 million, a record fourth quarter result, representing growth of 3% from the prior year. Gross dollar volume increased more than 5% for the quarter, a result including little impact from the late December incremental stimulus, which we expect to primarily benefit us in Q1.

We are particularly pleased with trends with our DDA products, which includes an acceleration in active account growth of 29% compared to the prior year. Adjusted operating margin for this segment improved 260 basis points

to 24.1%, as we benefited from our efforts to drive greater operational efficiencies, as well as favorable revenue mix dynamics toward higher margin channels.

The solid performance we delivered across our segments highlights the powerful combination of Global Payments and TSYS, which has provided us with multiple levers to mitigate the headwinds we have faced from the pandemic. We made great progress on our integration during the crisis, which I mentioned, continues to track ahead of plan.

As a result, we are pleased to again raise our estimate for annual run rate expense synergies from the merger to at least \$400 million within three years, up from the previous estimate of \$375 million. This marks the fourth time we have increased our cost synergy expectations.

Additionally, our early success in leveraging our complementary products and capabilities worldwide also gives us the confidence to increase our expectation for annual run rate synergies, again to \$150 million, up from our previous forecast of \$125 million.

From a cash flow standpoint, we generated adjusted free cash flow of roughly \$780 million for the quarter and approximately \$2 billion for the year. These are both records for us. This is after reinvesting \$107 million of CapEx for the quarter and \$436 million for the year.

As you may recall, we indicated we expected to invest between \$400 million and \$500 million of CapEx back into the business following the onset of the pandemic. Consistent with our announcement on our last call, we are also pleased to have now returned to our traditional capital allocation priorities, and during the quarter, repurchased 1.2 million of our shares for approximately \$230 million. Our balance sheet is extremely healthy. And we ended 2020 with roughly \$3 billion of liquidity and a leverage position of roughly 2.6 times on a net debt basis. Further, our board of directors has again approved an increase through our share repurchase authorization to \$1.5 billion. As part of this program, we intend to execute an accelerated share repurchase program for \$500 million in the coming days.

Turning to our outlook for 2021. Based on our current expectations for continued recovery from the COVID-19 pandemic worldwide, we expect adjusted net revenue to range from \$7.5 billion to \$7.6 billion, reflecting growth of 11% to 13% over 2020. This outlook is consistent with the high-end of our long-term target of high single-digit to low double-digit growth, and it also reflects the benefit of the year-on-year comparisons due to the pandemic.

Considering this top line forecast, we would expect to deliver normalized adjusted operating margin expansion of up to 450 basis points, given the natural operating leverage in our business and expense synergy actions related to the TSYS merger. However, this will be partially offset by the reinstatement of certain expenses that were temporarily reduced at the onset of the COVID-19 pandemic for most of 2020. Therefore, we are currently forecasting adjusted operating margin expansion of up to 250 basis points compared to 2020 levels on a net basis.

To provide some color at the segment level. We expect adjusted net revenue growth for our Merchant Solutions segment to be in the mid to high-teens, which assumes the current pace of recovery continues worldwide. We expect underlying trends in our issuing business to be in the mid to high single-digit growth range and above our mid-single-digit growth target. These trends should be normalized for two distinct and relatively equal sized headwinds. First, we are not anticipating a recovery in our commercial card business as we expect corporate travel to remain depressed throughout 2021.

Second, we will be absorbing the impact of a portfolio sale by one of our customers, which will impact us for the remainder of the year. Taking these two items into account, we are forecasting our issuing business to deliver adjusted net revenue growth in the low single-digit range for the full year. Lastly, we expect underlying trends in our Business and Consumer segment to be consistent with our long-term expectations of mid to high single-digit growth. This outlook reflects the expected benefits of the recent stimulus announced at the end of December, but it does not assume any additional stimulus. Adjusting for the impact of the larger 2020 CARES Act stimulus on comparative results for 2021 we are forecasting adjusted net revenue growth to be in the mid-single digits for this segment.

Regarding segment margins, we expect up to 250 basis points of adjusted operating margin improvement for the total company, to be driven largely by Merchant Solutions, while we expect Issuer and Business and Consumer to deliver normalized margin expansion consistent with the underlying leverage profile of these businesses. This follows the 500 basis points and 400 basis points of adjusted operating margin expansion delivered by Issuer and Business and Consumer, respectively, in 2020.

Lastly, I would highlight that from a quarterly phasing perspective, we will not lap the initial impact of the pandemic until mid-March. Therefore, we will have pandemic affected first quarter comparisons, resulting in more muted growth characteristics early in 2021, with the opposite effect occurring in the second quarter, before returning to more normalized rates of growth in the back half of the year. Our outlook is for adjusted net revenue growth, adjusted operating margin expansion, and adjusted earnings per share growth for each quarter of 2021.

Moving to a couple of non-operating items, we currently expect net interest expense to be slightly lower in 2021 relative to 2020, while we anticipate our adjusted effective tax rate to be relatively consistent with last year and expect our capital expenditures for 2021 to be in the \$500 million to \$600 million range.

Putting it all together, we expect adjusted earnings per share for the full year in a range of \$7.75 to \$8.05, reflecting growth of 21% to 26% over 2020. This is consistent with the adjusted earnings per share target of roughly \$8 that we provided on our third quarter call despite the incremental adverse impact of additional lockdowns and social distancing protocols in a number of our markets since late October.

In summary, our 2021 guidance assumes an improving economy for the first half of the year and a stronger second half of the year, with continued progress toward normalization. We are pleased with how well we are positioned as we enter 2021.

And with that, I'll turn the call back over to Jeff.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Paul. I am very proud of all that we accomplished in 2020. This would have been a remarkable year of milestones regardless of the macroeconomic environment, but is all the more notable in the face of a 100-year pandemic.

Competitively, 2020 was a year of firing on all cylinders for our company. Across our businesses, we took meaningful market share and advanceable further down the field despite all the challenges thrown at us. We don't need to wait to see a more benign macro to grow. We didn't spend the past year waiting for a better day. Our resilience is self-evident.

The technology investments we made over the last seven-plus years, our distinctive strategy and execution consistency has served us well. And we significantly expanded our competitive moat as a result during the crisis. While hurdles undoubtedly remain, we would not trade positions with anyone heading into 2021. Winnie?

Winnie Smith

Senior Vice President-Investor Relations, Global Payments, Inc.

Before we begin our question-and-answer session, I'd like to ask everyone to limit their questions to one with one follow-up to accommodate everyone in the queue. Thank you. Operator, we will now go to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question comes from Bryan Keane with Deutsche Bank. Your line is open.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Q

Hi guys, good morning. Want to ask about the Google relationship. Does it change the pricing to the merchant at all? Do they see different fees as a result of the partnership? Or do they get a lot of these benefits as part of the package?

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

Hey Bryan, its Cameron. Good morning. I'll start with that and then ask Jeff or Paul to jump in if they'd like to. So, basically, what we're really trying to do is create an even more differentiated portal offering to our customer base by enhancing our existing value-added services with Google product and capabilities that exist in the market today.

And then further, as we co-develop and innovate new product with Google, we'll obviously look to layer those into the portal environment as well. The nice thing about portal environment it's completely self-select. Our customers can choose what products and solutions that they need to run and grow their business. And they'll be able to effectively determine the pricing outcome that they desire based on their need for products and services. So, like anything else we do, there'll be different levels of availability to customers from lower-end, very basic, to mid-market, to higher-end complete sets that will have different price points associated with them.

But end of the day, the idea is our customers have the opportunity to self-select the product, services, capabilities and solutions they need to run and grow their businesses more effectively. And by working with Google, we expect to be able to innovate new products and capabilities that will be distinctive in the marketplace for them.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Q

Got it. Helpful. And then as a follow-up, I just want to ask on the merchant side, I think you talked about mid to high teens growth. Can you give us any help, kind of, by segment thinking about relationship, software, obviously, that probably recovers stronger and integrated just by the pieces, maybe what those growth rates might look like to get to that mid to high teens growth? Thanks.

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

Yeah. Sure, Bryan. It's Cameron. Maybe I'll start with just a little commentary about the expectations for the business and I'll let Paul jump in with a few more of the details. So, I would say if you look at the business overall, given that North America represents about 70% of the merchant business globally, obviously, it's going to drive the lion's share of the outcome for the entire segment for the full year.

And I would say we are looking for pretty good recoveries, obviously, in the payments and payroll business, as well as the integrated business in the US. So, I would say both of those would be towards the higher end of that targeted expectation that we have for the merchant business in aggregate. And as the vertical markets that we participate in continue to recover as well, we would expect our vertical market business to be towards the higher end of that range also just given, obviously, the impacts on 2020 for that business, as well as strong new sales performance that we saw in 2020 giving us good momentum heading into 2021 as we start to lap the impact of the pandemic.

I think Europe, our expectations are little more modest. They're probably in that kind of mid-teens range, just given some of the incremental impacts of new shutdowns and restrictions in the first part of the year in Europe. And maybe just a slightly more benign expectation around the recovery environment in Europe, particularly as it relates to cross-border throughout the course of 2021.

And then I would say Asia has recovered reasonably well heading into the year. And I think we have pretty good expectations that Asia gets back to a fairly strong growth rate in the year toward again, the high end of that guidance range overall for 2021. So, I think when you put it all together, we feel good about the mix of businesses we have and the overall expectation for mid to high-teens growth for the full year.

I would tell you, Bryan, that basically assumes, kind of an ongoing gradual recovery from where we are today. We've seen results in January that are better than December. And we expect the recovery to continue to grind higher through the balance of the year. Such that by the time we're exiting 2021, we expect domestic volumes to be more normalized. And, obviously, we think cross-border is going to continue to lag slightly kind of heading into 2022. And that's consistent with the commercial card commentary that Paul provided in his script.

So, we're not expecting a heroic recovery as we think about the outlook for 2021. We expect a gradual recovery throughout the year. We know it won't be linear. There'll be puts and takes as we continue to progress throughout the year. But by and large, expect a continued gradual recovery, and that's really what supports the overall merchant expectation for the year.

Paul, I don't know if you'd add anything to that.

Paul Michael Todd

Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.

A

Yeah. The only thing I would add, I think you covered it. It would just be the quarterly phasing of that, Bryan. I kind of referenced that in the script. But, obviously, in the first quarter, we have really a pre-pandemic affected comparison that, kind of, lends, sort of, more muted growth there. And the second quarter is just the opposite. Those two, kind of, blend out to that mid to high rate that we're talking about. And then the last half of the year is pretty consistent with that mid to high rate. So, I think that gives a little more color on the quarterly phasing.

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

Yeah. And the only other thing I would add to that, Bryan, is we don't need a heroic recovery or perfection to get to the higher end of the range. So, obviously, there's a lot of uncertainty heading into the year, and I think our guidance accommodates that. But we don't need perfection and some sort of heroic recovery where everything is kind of back to normal by mid-year for us to get to the higher end of the range that we look forward today.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Q

Got it. Very helpful, comments. Thanks guys.

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

Thanks, Bryan.

Operator: Your next question comes from Timothy Chiodo of Credit Suisse. Your line is open.

Timothy Chiodo

Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks a lot for taking the question. So, you mentioned this in the Google press release and then also Cameron in the prepared remarks around the distribution of not just payments acceptance, but also loyalty, gift card, payroll, capital access was mentioned and other financial services. Maybe you could talk a little bit more broadly about not only the opportunity within the Google relationship, but also how much runway there might be for embedding these offerings with your 4,000 other software platforms and partners within the global integrated – Global Payments integrated business.

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

Yes. It's a really good question. So, there's really two elements of that. There's one, obviously, the co-sell relationship that we'll have with Google as it relates to our go-to-market strategy going forward. And obviously, being able to work with Google Cloud, co-sell solutions with them, having them refer business into us from a payment standpoint creates a strong new technology-enabled distribution stream that really, I think, augments and complements our existing go-to-market strategies very nicely. So, we're delighted about that and think there's a lot that we can do together with Google to drive new revenue growth in the business through this cross-sell relationship.

And then reflecting back a little bit on the comments that I made to Bryan's question, if you think about the business, these solutions will all be delivered through our cloud-based digital portal that is in operation today and running in Google Cloud today. So, the idea is as we continue to integrate new products and solutions and services into our digital portal, they'll be available to our entire merchant base regardless of what distribution and channel that merchant customer comes to us.

So, since it's all consolidated on the back end, those merchant customers will have the ability to access all of those value-added solutions and capabilities, whether or not they're a traditional relationship-led customer coming through us through that channel or they're an integrated customer coming through us through an ISV relationship.

And we think that's unique and distinctive to Global Payments. Our ability to integrate those solutions and make them available through a digital portal to the entire suite of customers that we serve around the globe.

Timothy Chiodo

Analyst, Credit Suisse Securities (USA) LLC

Excellent. Thank you.

Q

Operator: Your next question comes from Ashwin Shirvaikar of Citi. Your line is open.

Ashwin Vasant Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Thank you. Hey Jeff, hey Cameron, and Paul. You guys have been quite busy with lot of investments and announcements to absorb here. It's good to see. I guess one question I had, obviously, heading into 2021, lot of moving parts, which you addressed in the prepared remarks. But if you don't mind, could you in one place go through the cadence of how you expect overall segment revenue and profit to perform over the course of the year by segment, particularly thinking of comps, synergy, unwind of early pandemic cost, things like that?

Q

Paul Michael Todd

Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.

Sure, Ashwin. We kind of hit on it a little bit on the merchant side in the earlier question around kind of that phasing and that same kind of concept kind of plays through to a large degree with other segments, particularly as it relates to the pre-pandemic comp in 1Q and then the pandemic comp going the other way in the second quarter and then, kind of, more normalized in the back half of the year.

A

So, clearly, that's the case in Merchant. And that mid to high teens growth rate, as I said, kind of, averages out between the first two quarters with those two impacts and then, is pretty consistent for the back two quarters.

On the Issuing side, as we said, from a kind of organic standpoint, we start kind of that mid to high-growth rate. And then, we're going to actually look to, be at more of a low single-digit as a reported matter, the only thing I would highlight there is just, we did not assume commercial card recovering throughout the year. So, that's a headwind that plays itself out throughout the whole year.

I would say, we also have some – in addition to this the pre-pandemic comps, we also have some headwind, as it relates to just credit transaction volumes in the issuing business year-over-year, and we're seeing consistent with what the Visa numbers that they talked about for January.

And as Cameron mentioned earlier, we did see improvement from January to December, but we still have some headwind on the transaction volume side in Issuing that will play itself through the first quarter.

And then, on the Business and Consumer side, we kind of talked about it. We've got some tailwind, as it relates to stimulus in the first quarter and then kind of more normalized kind of that mid-single-digit growth rate that we talked about for the remaining three quarters.

As it relates to expenses and margin, [ph] there isn't anything necessary (00:44:00) on the expense side. Obviously, we've done a really good job over the last two quarters of managing that expense rate through a pretty consistent year-over-year growth rate of roughly about 8%. And there's nothing I would necessarily highlight, other than the variable expenses that come with that revenue that I would call out on the expense side.

So, obviously, we're very pleased to be in a position to yet, again, have a very impressive margin expansion as a consolidated matter. We did, as we said in our prepared remarks, have a much higher weighting of that margin expansion on the Merchant side than we did this last year, but we still expect to have nice margin expansion in both Issuing and Business and Consumer. And there wouldn't be necessarily anything on a quarterly basis I could call out there.

Ashwin Vasant Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Q

Got it. And then capital allocation, it's good to see the incremental buyback announcement. Can you speak to the M&A pipeline though from a capital allocation perspective? Has your traditional view on making accretive acquisitions maybe changed in favor of acquisitions that might help revenue growth a little bit more, but not be accretive to the bottom line?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Ashwin, it's Jeff. I'll start on your question. So the answer is, no. Our view has not changed on capital allocation, our M&A pipeline is full. As you usually point out, we did almost \$780 million of free cash flow just in the fourth quarter, 2020 over \$2 billion during the course of 2020 in a pandemic caused depression. So, we feel pretty good about our ability to generate free cash flow.

So, I would say, nothing has changed there. We are looking for revenue growth opportunities on our side because we've got plenty of earnings. And obviously, showing our ability to grow margin very substantially, even in difficult macroeconomic environments in 2020, and that's obviously our outlook for 2021 too.

So, I don't think any of that's changed. These things aren't mutually exclusive. We've got plenty of firepower at 2.6 times net leverage and \$2 billion of free cash flow from last year to continue to make concurrent investments in ourselves, which we think is a good idea to do right now, just like we thought it was in October, in our third quarter call. We've got the flexibility thankfully and the wherewithal to do both those things, and that's what we'll continue to do.

Ashwin Vasant Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Q

Thank you. Good job. Keep up the good work.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thank you.

Operator: Your next question comes from Darrin Peller of Wolfe Research. Your line is open.

Darrin Peller

Analyst, Wolfe Research LLC

Q

Hey, thanks, guys. You know, I want to go back, just a follow-up on the capital allocation for M&A. We ended the year last year with some headlines over consolidation with FIS in the news and you guys – and it was obviously, at the time, rumors. But Jeff, if you could just revisit for us your vision of the industry for a minute in terms of the

merits of consolidation, scale versus your view of what you're clearly doing now, which is investing in yourselves around omnichannel and in cloud and other initiatives. I'd love to just hear your view on long-term, next few years, where you see the industry heading?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, Darrin. It's Jeff. So look, we're in a scale business. I think that's always been true. That continues to be true today and that's going to be true tomorrow. So, having more scale in a scale business is always a good idea. I think we've shown this with Heartland. I think we've shown it with TSYS partnership. So, I don't think having scale in the technology business is really ever going to go out of favor.

I think the proof's in the pudding, and you saw that in 2020, right? Double-digit earnings growth in the fourth quarter coming out of the depression, while the networks are shrinking, I don't think you have to look further than that to realize that, that was a good idea. So, I think at the end of day, those type of scale economies will drive further consolidation. But it's not just consolidation for consolidation sake.

I think the reasons in part that we look for further scale opportunities is to make more investments back in our businesses. If you look at the areas that are growing most quickly for us during the pandemic, look at our omnichannel business, which accelerated again to high teens in the fourth quarter of 2020, which by the way Google is going on too under our UCP product, look at our integrated business, which showed absolute growth in the fourth quarter and for the year, those are businesses, and of course, our software businesses, which did as well in certain of the vertical markets like AdvancedMD.

Those are all businesses where we've made very substantial investments in over the last number of years. We couldn't make those investments worldwide as we're doing if we didn't have the scale in the first place. So listen, my own view on the – in the business is we need to continue to invest in those areas that we think are right for future growth. We never could have pivoted this quickly to omnichannel to safer commerce, if we hadn't had those on the product development board in the first place and if we didn't have the access to capital that we do from our own free cash flow, right, to continue to make those investments.

So, in those contexts, obviously, additional scale makes sense. But very similar to the response, Darrin, because you asked a very similar question to Ashwin's, at the end of the day, none of that changes the strategy, really that we've been running the company with over the last seven-plus years, which is to say, focus on the three prongs at the end of the day of software partnership and ownership, on omnichannel acceptance and delivery and on the most attractive market.

So, the nice thing about 2020 with all the challenges [ph] that suit (00:49:29) every one of us was that it really validates all things that we've been talking about. So, if we can find future transactions or partnerships that align with the three things that we've been talking about since 2013, then of course, scale and scale business is going to be a good idea. So, I think we view 2020 and the more recent events as really just a validation of all the stuff that we've been talking about. If we can find further ways to accelerate those investments, then we will.

Darrin Peller

Analyst, Wolfe Research LLC

Q

That's helpful. Just one quick follow-up, Jeff. You guys outperformed our merchant business in the quarter. And I mean, it's pretty clear that it's a tough quarter from a merchant standpoint for revenue to really read a lot into what's happening, given mix. But if you can give us any more color on the actual bookings kind of trends in the sense of number of merchants you're adding. It seems like with all the initiatives you're holding up, and you're

actually gaining share, but it's easier to see that if we had numbers around the number of merchants or bookings. So, any more color on what happened there? So, we know what could look like when it reopens. Thanks again guys.

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

Yeah. Hey Darrin, it's Cameron. Maybe I'll jump in on that one and I'll ask Jeff or Paul to chime in as well if they'd like to add anything. So, maybe if I just step back and look at it from a macro standpoint in terms of overall net new sales performance for the year. I think it's pretty easy to say that we're delighted with the outcome, particularly given the backdrop that we were executing again for the full year. So, just a few highlights that I would share. One, Heartland for the year had new sales growth year-over-year relative to 2019 despite the pandemic, which I think speaks volumes to our relationship-led managers' ability to go out and generate new business even in a really difficult environment. And obviously, they've been very creative and nimble in terms of how they've been able to do that.

So, Heartland grew net sales in 2020 notwithstanding the pandemic environment. Integrated exceeded our budgeted new sales forecast for the year by a pretty meaningful amount, an excellent new sales year for our integrated business. New partner production was also about 140% of our budget. So, not only did we see good, strong new sales of merchants, we saw good new business development partner production in that channel as well.

And then in some of the vertical market businesses, AdvancedMD grew bookings 15% year-over-year. Our Xenial SaaS solution was up 20% year-over-year. TouchNet had new sales performance that's pretty consistent with 2019; again, notwithstanding the fact that many university and campuses were closed for much of the year with the beginning of the pandemic.

So, that just gives you a few ideas. Canada was up 20% in new sales year-over-year. So, from a new sales execution standpoint, I think our performance was exemplary in 2020. And I'm really delighted with the teams and what they were able to accomplish given the backdrop.

I think the most important thing is we grew net mid count globally in 2020. So, notwithstanding all the concerns around the SMB markets and all the concerns about small business failure, we grew mid count year-over-year, which is a good accomplishment in any market, in any environment, but a particularly good outcome in 2020 given the backdrop.

So, we feel very good about the health of the underlying portfolios that we are managing. We feel very good about the diversification of the businesses that we have, the vertical markets exposures we have. To Jeff's point in his script, we are diverse by design. Obviously, we've put a lot of effort into making sure that we have a merchant business in particular that has a good mix of credit exposure that is not taking undue credit risk. It's well diversified across geographies, verticals, types of underlying merchant customers. And I think that has helped us to have a more – relatively more resilient sort of performance over the course of 2020.

And I think we exited the year at a pretty good place and have a lot of confidence heading into 2021 that the expectations we've set forth today are achievable, and we feel good about delivering against this. As I said earlier, January was better than December for us in our merchant business and very much consistent with our expectations. It gives us confidence at least one month into the year that we're on a good trajectory to get to the outcomes we've provided today.

Darrin Peller

Analyst, Wolfe Research LLC

That's great. Thanks Cameron. Great data points.

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Darrin.

A

Operator: Your next question comes from Lisa Ellis of MoffettNathanson. Your line is open.

Lisa Ellis

Analyst, MoffettNathanson LLC

Hi, good morning and thanks for taking my question. Can you just take a step back? I wanted a follow-up question on the Google partnership. And just in light of the Amazon partnership also from earlier this year, can you just maybe give it a high level compare and contrast the two a little bit? I know, obviously, Google is focused on merchant, Amazon focused on issuer. And just more strategically, I guess what do you – how do you see those impacting your business in 2021, 2022 and beyond? Thank you.

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Yeah, Lisa. It's Jeff. I'll start and I'm sure Cameron will add. It's an excellent question. So, both businesses, both TSYS and Global Payments have had historical relationships with each of Amazon and Google for many years. So, I think we've had a first row seat as to what those companies look like. We have a lot of respect for each.

A

So, why don't I start with AWS? So, our Issuer folks have worked with them for a number of years as part of their modernization initiatives. We've been very, very happy with them. I think you have to realize that it's a slightly different proposition that we're undertaking in the issuer versus merchant. So, on the issuer side, it's technology modernization and transformation really at the same time, which is to say that code is going from more of a legacy code into cloud enabled, where it probably is today, and then into cloud native ultimately, while it's being lifted and shifted over to a cloud hosted environment.

So, in the case of Google Hub, on the merchant side, we're really already there. Our businesses are really either cloud enabled or cloud native already in their own right. So the Google proposition is a little bit different in the technology side. It's more of a shift rather than a lift and shift in the case of the merchant business. I would say in the case of each, the go-to-market proposition though is very similar. We think AWS has a very distinctive and strong proposition among financial institution issuers. You can look up a lot of folks that they announced recently going to AWS Cloud.

But we've had, as we said in our prepared remarks, we said very good experience already with one announced win and I think three to four, we said are already mid to high probabilities in the pipeline. And probably another four or five that are lower probabilities, but also in the pipeline on the co-sell with AWS in the issuer environment. So, we view AWS, and I think it's been proven so far in our experience today, it's having fantastic technologies, which we knew for a long time, but also having terrific distribution into the FI segment.

Google, of course, has very many of the same things, but we view the Google co-sell more on the merchant side, which is what Cameron was talking about, too. And really, there's two pieces there that are also unique. So in the case of AWS, that's a unique co-sell in FI land, in the case of Google, it's unique co-sell into merchant land.

And on the merchant side, it's really two pieces, as Cameron's articulated with Google. The first one really is embedding their products and services uniquely into our already live merchant portal, which, by the way, is already resonant for Global Payments and has been for years in the Google Cloud already, right? So, we already have that. We're just blending their products into our merchant cloud environment more seamlessly.

And then the second piece, similar to AWS is a co-sell, meaning there's actual quota at the Google level for Google sales reps to sell our products and services into the Google base. And we also have that ability of selling Google's products and services into our portal like environment, which Cameron described some time ago. Very similar to what we're doing with AWS, right, there's quota on their sales reps and selling on the FI base.

So, while I would say that they're very similar in the sense of contract, they're a bit different when you think about where their target issuer versus merchant, and when you think about the nature of the lift and shift that's really going on in the case of the AWS side and the Google side is more of a shift.

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

And Lisa, it's Cameron. I'd just add a couple of things on that, particularly as it relates to the Google partnership, just building on Jeff's commentary. So, first of all, as Jeff noted, we have a very long history with Google. We know them in the merchant business extraordinarily well. They've been a terrific partner to us. And we expect them to be obviously a fantastic partner going forward.

I think what struck me most as we talk about the opportunity is just the shared vision that we both have as it relates to helping merchant customers, do a couple of things. One is, drive top of funnel opportunities for their business with new products and capability and innovation, particularly digitally, that will help do that for merchant customers, particularly in an environment where they need that now more than ever.

And then secondly, delivering products and capabilities that help businesses run more efficiently and more effectively. And I think we have Global Payments and what Google has tried to accomplish are really geared towards those elements of supporting merchant customers. And then lastly, we have very shared visions around innovation. And those things that we can do, again, that are going to help drive more customers through our customers' businesses, while at the same time, again, helping them to run their businesses more effectively.

And although we're starting with Google My Business, Workspace and Ads, integrating that into our portal environment, we hope to add omnichannel ordering and search, service appointment availability, inventory, those types of solutions as well, again, trying to create a more distinctive, holistic offering of value-added services through our digital portal that we think will be, again, differentiated in the market for Global Payments, but more importantly, will really help our customers, again, to run and grow their businesses effectively.

Lisa Ellis

Analyst, MoffettNathanson LLC

Q

Super helpful. Great color. Thank you.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

On behalf of Global Payments, thanks for your interest in us and joining us this morning.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.

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