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Global Payments, Inc. (GPN)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to Global Payments' Second Quarter 2023 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 & Corporate Sustainability, Global Payments, Inc.

Good morning, and welcome to Global Payments second quarter 2023 conference call. Our earnings release and the slides that accompany this call can be found on the Investor Relations area of our website at www.globalpayments.com.

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, among other matters, expected operating and financial results. These statements are subject to risks, uncertainties and other factors, including the impact of economic conditions on our future operations that could cause actual results to differ materially from 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.

We will also be referring to several non-GAAP financial measures which we believe are more reflective of our ongoing performance. For a full reconciliation of the non-GAAP financial measures discussed in this call to the most comparable GAAP measure in accordance with SEC regulations, please see our press release furnished as an exhibit to our Form 8-K filed this morning and our supplemental materials available on the Investor Relations section of our website.

Joining me on the call are Cameron Bready, President and CEO; and Josh Whipple, Senior Executive Vice President and CFO.

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

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Winnie, and good morning, everyone. It is a privilege to be addressing you today for the first time as Global Payments' CEO. I've been in this role for roughly two months, and I'm delighted with how my tenure has begun. The transition has been seamless as expected. Our organization and team members continue to execute at a very high level as evidenced by the outstanding second quarter results we reported this morning.

Our performance for the quarter was ahead of our expectations despite what has been an uncertain macroeconomic environment globally, driven by the effectiveness of our strategy and ongoing relentless focus on execution.

On a consolidated basis, we reported 7% adjusted net revenue growth, while expanding adjusted operating margins 100 basis points and delivering adjusted earnings per share growth of 11% for the quarter. This includes a roughly 400 basis point headwind to adjusted earnings per share growth from the divestiture of Netspend's consumer assets.

Focusing on our Merchant Solutions business, we again delivered strong organic growth in the second quarter led by ongoing momentum in our technology-enabled businesses. Our software-centric strategy with an overlay of leading e-comm omni capabilities in value-added commerce enablement solutions continues to drive our performance. And our ability to deliver these solutions across a diverse and attractive set of geographic markets worldwide further differentiates our business.

Software sits at the heart of our Merchant Solutions business and is supported by a three-legged go-to-market integrated payment strategy, expanding our partner ISV, vertical market software and point-of-sale software businesses. Collectively, these businesses comprise approximately 40% of our Merchant Solutions adjusted net revenue and are contributing a meaningful share of the growth in the business.

In our partnered ISV channel or integrated business as we often refer to it, we continue to deliver consistent teens growth and again achieved record sales this quarter, surpassing last quarter's strong performance. We signed 33% more integrated merchants this period than in the second quarter of 2022.

We have a long history of success in our partnered ISV business and continue to gain share despite this becoming a more crowded market over the last several years. Against that backdrop, it is important to highlight

why we continue to grow and win in this space. First, we have developed a more streamlined and simplified offering for partners with the options they desire, allowing us to meet both them and their merchants where and how they want to be met.

The ISV landscape has changed significantly in the last five years. Software providers desire to bring payments closer to their business and require options on the depth of integration, a clear understanding of the responsibility of those depths carry with them and the benefits of a feature-rich solution. Our simple SDKs and APIs allow us to deliver on these expectations for our ISV partners.

Second, we offer three distinctive integrated payments models to our partners, allowing us to meet the unique demands of an ISV customized for its specific vertical market and merchant base. This includes a more traditional direct integrated model where we provide the most comprehensive suite of products, services and support for both the ISV and its customers.

We also offer a full payment facilitation or PayFac model where the partners have access to our leading payments technologies, although much of the operating complexity including compliance and regulatory requirements reside with the ISV. Additionally, we recently launched our new progressive payment facilitation, or ProFac model, a hybrid option, which provides many of the benefits of payment facilitation while minimizing the heavy burden that comes as a PayFac.

Our ProFac model is unique to Global Payments, serving as another example of our leadership in integrated payments. We have seen great interest in this proposition and have a strong pipeline of partners seeking to board in the coming quarters. Our full spectrum of integrated solutions allows us to customize our offerings and provide different levels of support based on the specific needs of our partners.

Third, across all these models, we operate a higher level of service than our peers, including for our PayFac and ProFac customers. And we also provide our partners with a breadth of commerce enablement and value-added solutions to sell into their merchant base, which meaningfully increases the revenue opportunity and accelerates growth.

This includes human capital management software, payroll, loyalty, tailored marketing solutions, BNPL and call center support amongst others, again, all customized to meet the unique needs of each partner. Overall, our technology leadership, unrivaled distribution, tailored operating models, comprehensive suite of products and capabilities and best-in-class service and support is why we win.

We meet the specific needs of our partners, which differentiates us in the marketplace and is allowing us to achieve sustainable high rates of growth at attractive margins.

Turning to our vertical markets business. Our approach is largely consistent with how we think about the ISV partner channel with the exception being that we control the entirety of the technology stack and monetize it accordingly. This business again delivered double-digit growth this quarter, led by strength in our Zego, Xenial and School Solutions businesses.

Zego has seen great momentum in the student housing vertical and recently expanded its relationships with Scion as well as another large player in this space. Zego is also partnering with our higher education business, TouchNet to help us capture a greater portion of the student payments value chain through our campus management and OneCard solutions.

Focusing on Xenial, we announced our partnership with the Atlanta Hawks earlier this year and are now officially live with our Xenial cloud point-of-sale solutions at State Farm Arena. Xenial also recently signed an agreement with Sodexo, one of the leading food service management companies globally to be its preferred point-of-sale and kiosk partner. With this win, Xenial is now the partner of choice for the three largest players in the food service management space.

Our School Solutions business had a strong quarter, achieving a new school district partnership with Oklahoma City, expanding its partnership with Baltimore County, and extending a large existing relationship with Chicago Public Schools for several more years. Additionally, ACTIVE recently signed the city of Toronto. It's its largest ever win in the community vertical and one of 14 new partnerships achieved in this space during the quarter.

In vertical markets where the primary mode of competition is at the point of sale, we go to market through one ecosystem of owned POS software solutions with two distinct operating platforms, one for restaurants and one for retail. These cloud-based software solutions operate on a single hardware environment custom designed, built and branded with a modern look and feel.

Our POS business grew 20-plus percent again this quarter as we continue to see strong demand for our solutions and benefit from releases of product enhancements, including e-mail marketing, customer engagement and our latest mobile-first online ordering platform. And we expect this momentum to continue on the heels of the launch of our next-generation POS platform later this year.

Our latest solution provides best-in-class offerings coupled with the full local support and service capabilities to delight our merchant customers in these verticals. Importantly, our software platforms are vertically fluid, which, unlike more horizontal solutions in the market, offers feature-rich capabilities geared towards specific requirements of businesses we serve with capabilities that integrate seamlessly. More to come on this.

Our technology-enabled strategy is further enhanced by our differentiated e-commerce and omnichannel capabilities, which we overlay across all of our businesses, channels, verticals and geographies. Today, roughly 30% of the volume in our business is e-commerce, well above the overall percentage of retail sales tied to e-commerce.

We again saw mid-teens growth in e-commerce-related adjusted net revenues globally in the second quarter. We continue to benefit from our ability to seamlessly blend physical and virtual worlds in more markets than our peers, supporting the strong growth trends we have seen in e-commerce across our businesses. To that end, we are pleased to have recently signed a new partnership with EasyPark Group, a global provider of digital parking services, across the US, Canada and the UK.

Our exposure to some of the most attractive secular growth markets globally remains an important part of our strategy, both in terms of contributing to our overall rates of growth and providing us the global footprint and scale we need to support complex multinational corporations, like EasyPark. Our faster growth markets again contributed to our strong performance in the quarter as we saw double-digit growth in Spain, Central Europe and Asia Pacific.

In APAC, specifically, we signed new merchant relationships with several large retailers across multiple geographies, including A.S. Watson Group, Foot Locker and Audemars Piguet. EVO aligns well with our overarching strategy and its performance was consistent with our expectations for the quarter. We remain excited about the synergy opportunities we see as a combined company, both revenue and expense, and remain very much on track to deliver at least \$125 million of run rate synergies from the transaction.

Turning to Issuer. We achieved mid-single-digit growth in the quarter, consistent with our expectations and longer-term targets. Transaction growth remained strong throughout the quarter, led by our commercial business, highlighting ongoing recovery trends in cross-border corporate travel. Traditional accounts on file increased by approximately 10 million sequentially as we benefit from the strong growth within our existing large financial institution clients and the ongoing execution of our conversion pipeline.

As yet another example of our successful strategy of aligning with market share winners, Deutsche Bank, our largest client in the DACH region, recently announced new issuing partnership with Lufthansa for its Miles & More Mastercard, one of the leading credit card portfolios in Germany and Europe. We are also delighted to assign multiyear extensions with 118 118 Money in the UK, and another large long-standing financial institution partner here in the US this quarter.

We currently have eight LOIs with institutions worldwide, nearly all of which were achieved through a competitive RFP process and several will go direct to cloud by our collaboration with AWS, our preferred issuer technology solutions partner. Our relationship with many of the most complex and sophisticated institutions globally speaks to our competitiveness well into the remainder of this decade and beyond.

And our Issuer conversion pipeline remains at near record post-merger levels, providing further confidence in our growth trajectory well into the future. And the future for our business remains very bright as we execute on our multiyear strategy to modernize our technology platforms in cloud-native environments, positioning us to provide market-leading technologies at scale through more distinctive and defensible distribution channels in more markets than we ever had previously.

Our unique collaboration with AWS is tracking well. We now have our first line in production with our cloud-native next-gen analytics solution and have a number of additional customers preparing to join our cloud journey by leveraging capabilities we are launching together with AWS throughout the year.

Moving to B2B. We continue to drive strong growth with both corporates and financial institutions as we leverage our capabilities across three focus segments within the overarching B2B market, software-driven workflow automation, money-in and money-out fund flows, and employer solutions.

Starting with software, our AP and AR workflow automation solutions that include integrations with the leading ERP environments continue to see great momentum. MineralTree achieved its best bookings quarter since the acquisition, underpinning the strong growth we are seeing in our primary mid-market segment as businesses focus their attention on automating their AP processes. We also remain excited about the opportunity we now have to combine MineralTree and EVO software to create a single AP/AR solution with rich data and analytics that will provide a unique value proposition to mid-market customers.

As for B2B fund flows, as one of the largest virtual card issuers in the world, we have significant scale in all of the payment rails and capabilities necessary to support customers in making money-out payments in their businesses.

Virtual card use continues to expand, contributing to the nearly 20% growth achieved in our commercial business. Over the last 12 months, we issued nearly 80 million virtual cards, enabling roughly \$47 billion in spend. Additionally, we are seeing strong growth on the money-in side with our B2B payment acceptance solutions as more and more of this spend shifts towards digital channels.

Our B2B bookings in Merchant Solutions have more than doubled since the fourth quarter of 2022, and we expect this momentum to continue as we further align EVO with our existing capabilities and pursue our B2B software-centric go-to-market strategy.

Finally, we provide employer solutions, including our paycard, earned wage access and expense management offerings in Issuer Solutions and our human capital management and payroll solutions in our Merchant business.

This quarter, our paycard business signed new partnerships with Creative Mobile Technologies, a large taxi company with a significant presence in the top metropolitan cities in the US; and with Acara Solutions, a staffing solutions provider in the senior living vertical. Our EWA business achieved a new partnerships with Bravo Foods, a large QSR franchisee in the United States.

Our software-driven human capital management and payroll solutions business delivered high-teens adjusted net revenue growth and mid-teens new sales growth for the second quarter. We are pursuing a very similar strategy in B2B as we have in Merchant Solutions over the past several years. We lead with software to differentiate our capabilities and provide the vertical fluency clients demand.

We integrate our payment solutions into our software to monetize payment flows, and we deliver value-added services that enrich our relationships with our clients, driving further efficiencies in their businesses while increasing our average revenue per customer. With the breadth of capabilities we have and a focused technology-enabled strategy, we could not be better positioned to capture share and accelerate growth in B2B over the long term.

With that, I will turn the call over to Josh.

Joshua J. Whipple

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

Thanks, Cameron. We are pleased with our outstanding financial performance in the second quarter, which exceeded our expectations despite what continues to be an uncertain macroeconomic environment. Specifically, we delivered adjusted net revenue of \$2.2 billion, an increase of 7% from the same period in the prior year. Excluding the impact of dispositions, adjusted net revenue increased 15%.

Adjusted operating margin for the quarter increased 100 basis points to 44.8%, highlighting strong and consistent execution across our businesses. The net result was adjusted earnings per share of \$2.62, an increase of 11% compared to the same period in 2022 or 15%, excluding the impact of dispositions.

Taking a closer look at performance by segment. Merchant Solutions achieved adjusted net revenue of \$1.68 billion for the second quarter, a 17% improvement from the prior year or over 9% growth, excluding the impact of EVO and dispositions. As Cameron highlighted, this performance was led by the ongoing strength of our technology-enabled businesses, which grew double digits this quarter, while we also benefited from consistent low double-digit growth in our faster growth markets, including Spain, Central Europe and Asia Pacific.

This was partially offset by macro softness in limited geographies, including the UK, where rising interest rates and the high inflation levels are negatively impacting consumer spending. And in Canada, where GDP growth has slowed and is expected to have turned negative in the month of June. We delivered an adjusted operating margin of 48.5% in the segment, which was ahead of our expectations.

This represented a decline of 170 basis points due to the acquisition of EVO. However, excluding the impact of EVO and dispositions, adjusted operating margin increased 50 basis points. Our Issuer Solutions business produced adjusted net revenue of \$505 million, reflecting 5% constant currency growth, consistent with our long-term targets. The core Issuer business also grew mid-single digits on a constant currency basis this quarter, driven by strength in volume-based revenue.

As Cameron highlighted, traditional accounts on file increased by approximately 10 million sequentially as we continue to see healthy account growth with our larger consumer portfolio customers and benefit from the ongoing execution of our conversion pipeline. Transactions again grew double digits compared to the second quarter of 2022, led by commercial card transactions, which increased 17%. This was partially offset, as expected, by slower growth in Managed Services as we continue to pivot our Issuer business to more technology enablement and less lower-margin outsourced call center business.

Finally, we delivered adjusted operating margin of 46.7%, an increase of 300 basis points from the prior year, fueled by our top line growth and our continuing focus on driving efficiencies in the business. From a cash flow standpoint, we produced adjusted free cash flow for the quarter of \$543 million, which is an approximately 80% conversion rate of adjusted net income to free cash flow.

We continue to target converting roughly 100% of adjusted earnings to adjusted free cash flow for the full year, excluding roughly a 5-point impact of the timing change to recognizing research and development tax credits. For the year, we expect our free cash flow to follow a similar trajectory to 2022 as we benefit from seasonality and a higher conversion rate in the second half of the year.

We invested \$169 million in capital expenditures during the quarter, and continue to expect capital investment to be approximately \$630 million in 2023, consistent with our prior outlook. This quarter, we also repurchased approximately 2 million of our shares for roughly \$200 million.

During the quarter, we reduced outstanding debt by approximately \$650 million. Our balance sheet remains healthy. We have over \$2.5 billion of available liquidity, and our leverage position is roughly 3.7 times currently, a reduction from the peak levels we realized upon closing of the EVO transaction. We remain on track to return to a leverage level consistent with our longer-term targets in the low 3s by the end of 2023 while maintaining existing investment-grade ratings.

As we highlighted last quarter, in January, we established a \$2 billion commercial paper program, which is supported by our revolving credit agreement and allows us to further optimize our capital structure and reduce our overall cost of borrowing.

At the end of the second quarter, we had \$1.8 billion of commercial paper outstanding, up from \$1 billion at the end of March, highlighting the attractiveness and credit quality of Global Payments. Our total indebtedness is approximately 85% fixed with a weighted average cost of debt of 3.9%.

We are pleased with how our business is positioned following our first half performance and we are raising our financial outlook for the year. We now expect reported adjusted net revenue to range from \$8.660 billion to \$8.735 billion, reflecting growth of 7% to 8% over 2022. This represents an increase of \$25 million at the low end of the range. We continue to expect foreign currency rates to be roughly neutral for the full year.

Moving to margins. We continue to forecast annual adjusted operating margin to expand by up to 120 basis points for 2023. As a reminder, this is above our cycle guidance for margin expansion of 50 to 75 basis points annually,

driven by benefits to our business mix from our ongoing shift towards technology enablement, and the divestiture of NetSpend, partially offset by the lower-margin profile of EVO prior to full synergy realization.

To provide color at the segment level, we now anticipate our Merchant segment to report adjusted net revenue growth of approximately 16% for the full year. This is an increase from our prior outlook of 15% to 16%. We expect a modest decline in reported adjusted operating margin for the Merchant business this year driven by the absorption of EVO Payments with its lower-margin profile consistent with our prior guidance.

Specifically, we are forecasting margin contraction in the third quarter that will be followed by slight margin expansion in the fourth quarter as synergies ramp. Regarding the EVO integration, we've made substantial progress, including the successful completion of our first 100-day plan and remain enthusiastic about the synergy opportunities available.

Specifically, we are on track to realize the approximately \$35 million in cost synergies this year that we outlined previously, driven primarily by the elimination of public company costs, facility rationalization and the harmonization of duplicative vendor contracts.

Further, I am pleased to report that we have also executable plans to achieve the run rate expense synergy target of at least \$125 million within two years that we committed to at the time of the announcement. As always, we remain focused on sizing expense synergy expectations with an eye towards ensuring that we maintain momentum in the combined business and that is well positioned to continue to grow and expand in the future.

Additionally, as we discussed last quarter, although revenue synergies have a longer tail we continue to believe we can add at least a point or two of growth on top of EVO's existing run rate revenue base or approximately \$10 million to \$15 million of revenue synergies from the business.

Moving to Issuer Solutions. We continue to expect to deliver adjusted net revenue growth in the 5% to 6% range for the full year compared to 2022. This outlook reflects core Issuer growth of roughly 5%, while we expect MineralTree and Netspend's B2B businesses to grow low double digits.

We anticipate adjusted operating margin for the Issuer business to expand by up to 60 basis points, consistent with our prior outlook as we benefit from the natural operating leverage in the business.

Turning to a couple of non-operating items. We expect net interest expense to be roughly \$550 million and for our adjusted effective tax rate to be in the range of 19% to 19.5%, consistent with our prior guidance. For modeling purposes, we continue to assume excess cash is used to pay down indebtedness in the second half of 2023. Putting it all together, we now expect adjusted earnings per share for the full year to be in the range of \$10.35 to \$10.44, reflecting growth of 11% to 12% over 2022.

Excluding dispositions, adjusted earnings per share growth is expected to be 16% to 17% for 2023. Our second quarter results represent roughly a \$0.03 adjusted earnings per share beat relative to our internal forecast. Our raised guidance for calendar 2023, essentially rolls the beat at the low end of the guidance range for the year given the ongoing uncertainties in the macroeconomic environment globally.

Similar to what you've heard from others, in July, we saw a stability in our performance compared to our second quarter results. While our base case outlook today resumes spending trends and the macroeconomic backdrop relatively consistent with the current environment. Our guidance range accommodates the potential for a moderation in spending and overall macroeconomic environment over the remainder of the year.

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

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Josh. I've been at Global Payments for nearly a decade, and I am more enthusiastic now than I ever have been about the opportunities in front of us. We have a compelling technology-enabled strategy, a world-class team, great partners and clients and a global presence with diverse distribution capabilities.

As I step into the CEO role, I'm highly focused on several priorities for our business and customers. First is continuing to pursue the key pillars of the strategy we set forth in detail at our investor conference in September 2021. While sharpening our focus on the most attractive opportunities we see in these areas, and amplifying our investment on the most impactful of these initiatives.

This is the right strategy for our business and one that positions us well for continued growth and value creation. Second is continuing to make it as easy as possible to do business with Global Payments, while providing more commerce enablement solutions that deepen our relationships with our customers.

This starts with our ongoing focus on meeting our clients and customers how and where they want to be met with innovative and distinctive solutions that integrate seamlessly. And of course, we need to continue to couple this with exceptional service to ensure that we delight our customers with every interaction, leveraging our scale that many competitors simply cannot match.

Third is to maintain our relentless focus on execution, which has been one of the hallmarks of Global Payments and a key component of our ability to produce consistent results through market cycles. We have good competitors in our markets, and I strongly believe the consistency of execution separates one from another. Global Payments will set the standard for execution in our space.

Last and certainly not least, I am focused on ensuring Global Payments' culture is second to none. Our culture dictates how we accomplish our goals and achieve results as an organization. It is the connective tissue that makes the organization operate effectively. Having a world-class culture will further differentiate us from our competitors drive value creation and benefit all of our constituents.

I'm delighted to be taking over Global Payments now that we have simplified our business and clarified our strategy going forward. With a sharpened focus, relentless execution and disciplined investment, I am confident our exceptional team will drive sustainable growth and performance. We look forward to sharing more as we continue on our journey. The future is indeed very bright at Global Payments. Winnie?

Winnie Smith

Senior Vice President-Investor Relations & Corporate Sustainability, Global Payments, Inc.

Thanks, Cameron. 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. At this time, we will be conducting our question-and-answer session. [Operator Instructions] Our first question is coming from the line of James Faucette with Morgan Stanley. Please proceed with your question.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you very much and thanks for all the details today. I just wanted to first understand a little bit the change in commentary or the way you're describing your outlook around guidance and, in particular, the macro environment. Are you assuming any incremental impact, or are you seeing anything there that causes you to be a little bit more cautious? Or can you just talk through kind of why you decided to temper at least your macro commentary?

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, James, it's Cameron. Good morning. I would say a couple of things, and I think some of this was covered in Josh's prepared remarks. First and foremost, July trends are tracking very consistent with what we're seeing in – or what we saw, excuse me, in Q2. So, I think our outlook for the balance of the year reflects a relatively stable macro environment. That's our base case sitting here today.

I think the point we're trying to emphasize, and some of this, quite frankly, is based on commentary we heard on the heels of Q1, is the range of outcomes that we're reflecting in our guide will accommodate at the lower end, some softening of the macro environment and some softening of consumer spend, should we see that. That's not our base case today.

But if things do soften in the back half of the year relative to where we are today, I think the guidance range that we proposed today, even with the increase at the low end on both revenue and EPS, would still accommodate some modest slowdown in economic activity in the back half of the year, but that's not our base case. We're expecting – and I think you've heard similar themes from others who have reported already – a relatively stable kind of macro backdrop in the back half of the year, consistent with what we saw in Q2 and what we obviously saw in July as well.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks for that.

Joshua J. Whipple

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

A

And I would just add to that, James – and, James, I would just add that. I think if you think back to our quarterly color that we gave you on our February earnings call, I'd say that we're still on track, as Cameron mentioned, and we're still trending from a cadence perspective to go ahead and deliver those second half estimates in Q3 and Q4, which, if you remember, it was revenue growth in the 8% to 9% range, margin expansion 100 basis points, and EPS growth of 9% to 10%, which gets you to kind of the full year guide of revenue growth of 7% to 8%, and then margin expansion of up to 120 basis points and EPS growth of 11% to 12%.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Thanks for that pretty compelling algorithm, for sure. And I wanted to ask a follow-up around – on pricing. Some of your peers have moved pricing recently basically to reflect more of the value that they're delivering. Where do you see your opportunities around pricing and the value you're providing? And how should we think about that on a go-forward basis, especially if macro remains relatively stable?

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, James, this is Cameron. I think my perspective on that is really we've tried to be consistent over a relatively long period of time in pricing our solutions and services in a way that we think reflects the value that we're delivering to our customers. So, our philosophy around pricing, I think, has been, by and large, more consistent over a longer period of time perhaps than relative to some of our peers.

I think what we are seeing certainly in the market environment over the last, certainly, 6 to 12 months is some of our competitors, obviously, being a little more aggressive on taking price with the inflationary environment we're operating in and, obviously, I think, more pressure on revenue and producing profitability for some of the smaller fintech players. We have seen more pricing actions by and large, I think, across the industry, which to me just creates, I think, a more constructive competitive environment in which we're operating, and it's probably more constructive than it has been in a few years.

So, that gives me, I think, a lot of optimism and confidence about where we're going as a business. And I think the pricing philosophies we've continued to utilize over a long period of time have served us well in terms of ensuring that we're getting paid fairly for what we're delivering to our clients. And we expect to continue to proceed with that as we move forward in time.

So, I wouldn't expect any material deviation from that. But obviously, if the macro softens, we probably do have levers in our – more arrows in our quiver as it relates to continuing to optimize price in a way that would provide a little bit of a tailwind for the business as well.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you very much for that color.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, James.

Operator: Thank you. Our next question is coming from the line of Ramsey El-Assal with Barclays. Please proceed with your question.

Ramsey El-Assal

Analyst, Barclays Capital, Inc.

Q

Hi. Thanks so much for taking my questions this morning. Could you comment on the drivers of the really healthy margin expansion in Issuer? I think you mentioned [indiscernible] (00:36:57). Could you drill [ph] a little deeper (00:37:01) in terms of how you're getting [indiscernible] (00:37:02)?

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

Hey, Ramsey, you were breaking up a little bit, but I think your question relates to Issuer margin expansion and what the drivers are associated with that?

Ramsey El-Assal

Analyst, Barclays Capital, Inc.

That's exactly right, [indiscernible] (00:37:19)

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

Yeah, no worries. I'll let Josh sort of chime in on that.

Joshua J. Whipple

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

Yeah. Look, from – Ramsey, if you think back, Q1 we saw – in Q2 we saw a really great margin expansion in the business. Our Issuer business, we saw 300 basis points of margin expansion here in Q2. And that's really driven from our shift to more technology enablement and really strong expense management. And I think for the rest of the year, we would expect the growth to moderate as we expect margins to be in the high 46% range that we reported in Q2 as the comparison gets tougher and we lap the strong expense that we realized in the second half of 2022.

Ramsey El-Assal

Analyst, Barclays Capital, Inc.

Got it. Okay. And quick question for me is, basically, I wanted to ask you if you could help us through some topics around kind of [indiscernible] (00:38:15) is going to that business. [indiscernible] (00:38:17-00:38:24). You're talking about [indiscernible] (00:38:26). I'm just curious in terms of how you think about the size of customer you're servicing [indiscernible] (00:38:32).

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

Ramsey, I'm sorry, but we can't hear you. I suggest that you maybe hop out of the queue and hop back in, because, unfortunately, we can't really pick up anything that you're saying.

Operator: Thank you. We'll move on to our next question, which is coming from the line of Jason Kupferberg with Bank of America. Please proceed with your question.

Jason Kupferberg

Analyst, BofA Securities, Inc.

Good morning, guys. Nice results here. I just wanted to start on Merchant. Can you tell us what organic merchant volume growth was in the second quarter? And then just comment on your organic revenue growth expectations in Merchant for Q3 and Q4. Do you think it will be closer to 9% again? Or could it tick up to 10%? Thank you.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

Yes, Jason, good morning. it's Cameron. So organic volume growth in the second quarter was roughly 9%. So EVO contributed roughly 11%. They contributed roughly 10-ish, 10.5% on top line revenue, they contributed roughly 11% on volume just in aggregate to the metrics for the quarter. So organic was around 9%. That includes a little bit of a headwind from fuel. I think you've heard other people talk about that. But in our portfolio, it's a portion of our volume. It's not a dramatic portion of the volume, but we did see a little bit of a headwind from that.

So again, consistent with what I generally like to see with this volume and organic volume growth and organic revenue growth, generally tracking at a similar pace, which is obviously something we're striving for in the business.

I would say the outlook in the back half of the year around Merchant organically remains in that 9% to 10% range. We are not changing our outlook, and I have a lot of confidence in our ability to deliver on that 9% to 10%. We were north of 9% this quarter to be very specific. We're around 9.25%. I think we have a few initiatives kind of in the back half of the year that give me confidence that certainly 9% is the low end of what our expectation would be around the merchant business. And there may be some potential for it to drift up closer to the 10%, but we're sticking with the 9% to 10% for the time being.

Jason Kupferberg

Analyst, BofA Securities, Inc.

Q

Okay. Understood. I know you spent some time on B2B as well. And just as we think about further delevering here and the opportunity to reengage with M&A, again, moving into 2024. Do you expect B2B to be on that high priority list as it relates to potential M&A activity? I mean, it seems like you've been seeing good success with MineralTree. I think you said there were record bookings there in the quarter. So we'd just love to hear your forward-looking thoughts on that topic.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yes. Thanks, Jason. I would say absolutely B2B is in the mix as it relates to how we think about M&A in the future. And generally, just philosophically. Obviously, I want to use M&A as a lever to support all the pillars of our strategy. I think our primary focus is finding opportunities that we think really augment what it is we're trying to accomplish across the different pillars of the strategy. And of course, B2B is an important element of that.

I do feel like sitting here today, we're getting ourselves in a position where we have a more refined, more clear cut approach to how we want to pursue the B2B opportunities. I provided some commentary today in my prepared remarks about how we segment the B2B market, where we expect to play in B2B and where we want to focus our efforts and attention in what is a large, diverse and quite frankly, B2B means different things to different people.

So I thought it's important to segment the market to provide clarity as to where we're going to place our bets from a B2B perspective. And certainly, I think M&A can help build out our toolkit to make us successful and position us for success to be able to win across those three segments of what we think of as a broader B2B opportunity.

But also, obviously, I think M&A is a lever that we can utilize to continue to pursue our software strategy and our Merchant business continue to find exposure to faster growth markets, which create, as I mentioned in my comments, some good secular tailwinds for the business. And obviously, it's a scale business. So continuing to look at opportunities to help augment scale and what it is we're trying to accomplish is compelling as well.

So as we get to the back half of the year and we get leverage back to our targeted ratio, certainly, M&A becomes back into the focus for us, and it's something that we expect to pursue in a disciplined fashion going forward, but

I'll just comment to close to say, obviously, that's all going to be weighed against what the alternative uses of our capital is and we need to make sure that the investments we're making from an M&A standpoint are attractive from a return perspective relative to what else we could do with that capital.

Jason Kupferberg

Analyst, BofA Securities, Inc.

Good stuff. Thanks, Cameron.

Q

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Jason.

A

Operator: Thank you. Our next question is coming from the line of Darrin Peller with Wolfe Research. Please proceed with your question.

Darrin Peller

Analyst, Wolfe Research LLC

Guys, thanks. First of all, it's nice to see the volume growth very similar to the revenue growth rate, which I guess does to your point, give opportunity. I guess on that note, just that volume growth rate, 9% organic or even pro forma – or I'm sorry, reported 20% clearly, the 9% is better than what we're seeing across the industry right now. So I mean, Cameron, maybe just re-highlight what the strengths are you're seeing that's providing that stability. I think you're about the only company we've seen stable volume trends at quarter versus last quarter on a year-over-year basis. So what do you think is the driving force of that relative to the industry? And it sounds like you're seeing sustainability into July. So maybe just reiterate the points of strength you're seeing that's driving that versus the market overall.

Q

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

Yes, Darrin, it's Cameron. I'll go ahead and start. Look, I think the biggest strength we have in our portfolio is diversity of vertical market exposure. So I think that has benefited us pretty meaningfully as we think about how we're positioned from a volume perspective and why we've seen sort of the strength and performance that we've seen for the business overall. That's the first point I would make.

A

The second point is we did decel a little bit relative to Q1, not dramatic and probably not as much as we saw with the networks and others. And I think part of the reason for that is we're not that exposed to travel. So I think the travel comps are difficult comps, and I think having to grow over those for others has been a bit of a headwind. And since we didn't really benefit on the upside, which quite frankly, we were asked why we weren't quite growing at the same rate that Visa and MasterCard in these periods.

Now, we're not having that same headwind, although travel remains strong, the comps are tough. And obviously, I think that's putting a little bit of pressure on growth rates as well for those guys. So I think it's a little bit of mix. It's diversity of distribution, and I think it's ongoing consistent execution in our portfolios. Again, that gives me confidence that not only, obviously, that we produced strong results for the quarter, I think we're well poised to continue to deliver on the expectations we have for the business for the balance of the year.

Darrin Peller

Analyst, Wolfe Research LLC

Q

Yes. That's great. Cameron, your comments on the partner channel that you provided during the beginning of the call was pretty helpful. Obviously, I think it was intentional just to get the message out about how differentiated it is. When you think about the strategy on partners versus owned software going forward and assuming you had an incremental dollar to spend on something, what would you prefer? Or is it really a balanced approach? And I guess it sounds like the ISV channel is sustainable and doing well. So I'm curious to hear what you – if you had a strategic preference?

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yes. I really think it depends on the vertical, Darrin, to be honest. I'm somewhat ambivalent, quite frankly, as to whether we partner or whether we own. I think it largely boils down to the fundamentals of the vertical market that we're trying to target and which model do we think best positions us for success and growth and expansion in that market. And what are the opportunities available to us to either own or partner. So it really is something that needs to be focused vertical by vertical and opportunity by opportunity.

But as an overall strategic matter, I am somewhat ambivalent. We like owning software in certain vertical markets, but obviously, the partner model has been a fantastic growth engine for this business, I think continues to have a lot of runway. And you're right, my focus on integrated today was very intentional because I think it's important to recognize why we're different than other players in the market, why we've seen sustainable high rates of growth in that business and why we're confident we're going to continue to see sustainable high rates of growth in that business over a long period of time. And to try to draw a clear line of distinction between how we go about running our integrated business and how others in the market may be choosing to operate there.

So I'm very bullish long term, the partner model, as I said at the outset, I'm somewhat ambivalent as to whether we partner own in a vertical market. Again, it's largely going to boils down to what opportunities are available and what do we think gives us the best path to growth and success in the verticals that we're targeting.

Darrin Peller

Analyst, Wolfe Research LLC

Q

Yes. That's really helpful. Thanks, guys.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, Darrin.

Operator: Thank you. Our next question is coming from the line of Dan Perlin with RBC Capital Markets. Please proceed with your question.

Daniel R. Perlin

Analyst, RBC Capital Markets LLC

Q

Thanks. Good morning. So Cameron, I just wanted to – not to belabor this point, but staying on Merchant for a moment. You called out that I think you said 40% of Merchant's revenues are now embedded from this kind of software component, which obviously includes value-added services. So my question is a little bit different than what Darrin was just asking, which is, shouldn't you be able to decouple your revenue growth over time from

volume growth to the extent that, that continues to grow faster? And if that's the case, like how do you think about the stability of the business going forward? It would seem as though you get better visibility and not worse.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yes. I think it's a fair question. I do think there will be some slight decoupling over time. But remember, we're not selling software just for the sake of selling software. We're selling software and payments and monetizing payment flows as we're selling software. So that's why I think notwithstanding the heavy emphasis on software, which is the right strategy for our business, there is obviously an element of that that's going to drive volume growth as we execute on the software strategy. So software takes three flavors, as I mentioned before, but it's rare that we're selling software into an environment now, where we're not selling and monetizing the payment flows around that.

So from my vantage point, yes, you can see some decoupling as we continue to add more value-added services to the portfolio, other things that aren't directly linked to volume. But by and large, as we're selling software, it's going to be linked to volume, and you should see relatively consistent trends as it relates to volume growth in software and obviously, revenue growth in the business over a long period of time. But I do think it gives us, to your point, better visibility, better predictability around the business and certainly gives me a lot of confidence in the sustainability of the performance that we can achieve over a long period of time.

Daniel R. Perlin

Analyst, RBC Capital Markets LLC

Q

Yes. That's great. Can you just flush out – as my follow-up, you highlighted this ProFac model that you have, you said unique to Global Payments relative to kind of the PayFac. It sounds like – I wasn't sure are you taking on incremental compliance and underwriting risk associated with this model? It sounded like it was some sort of hybrid. So if you wouldn't mind just flushing that out a little bit, that would be great? Thank you.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yes, sure. It's a good question, and it's a model that we're really proud of, and we're seeing a lot of traction on in the market. So not to be too cute. Think about ProFac as all the gain and none of the pain for the ISV partner. They get all the benefits that they're looking for as it relates to a payment facilitation model. As it relates to the boarding experience, the control that they have, the funding options on the back end. Some of the spend-back capabilities and virtual accounts to kind of come with the payment facilitation model, but they have none of the pain of everything that comes along with being a payment company.

So think about that in the context of risk management and software to support risk management activities, its compliance and software to support AML, PCI, audits, those types of activities in the business. We're doing the underwriting and onboarding teams and we're utilizing our software to provide that for these customers. Then they don't have to manage their own chargeback and cash accounts to support chargebacks and liabilities, et cetera. And then, of course, reporting, they don't have to invest in that capability. They're buying that essentially from us leveraging our capability.

So, think of it, as I said, quite simply, is all of the gain that ISVs perceive come from being payment facilitation businesses without the pain of actually being a payments company. And that model, as I said, is really resonating because it's really the best of both worlds. Most payment facilitators don't set out to become payment companies because they really desire to build all of the infrastructure required to be a payments company. They want more

control. They want a different onboarding experience, and they want different back-end capabilities from a settlement capability, et cetera. So I think it's our model that really allows them to achieve that on economic terms that are advantage – or advantageous for us, excuse me, and also beneficial for them. So it's something that we think is really going to continue to grow in popularity in the market.

Daniel R. Perlin

Analyst, RBC Capital Markets LLC

Q

Yeah. That's great. I suspect that is going to be very popular. Thank you.

Operator: Thank you. Our next question is coming from the line of Tien-Tsin Huang with JPMorgan. Please proceed with your question.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Hey. Thanks so much. Good morning to all of you. Just also on the integrated side, I like Cameron how you went through that, as Darrin said. So the record sales, can you just comment on what verticals specifically are selling well? And then across the three models that you discussed, you mentioned ambivalence between partnered and owned. How about across those three models from a pricing and margin standpoint? Any call outs there? Thanks.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yes, both good questions, Tien-Tsin. On the vertical side, I would say it's kind of across the board. I think we're seeing good strength probably skewed right now towards non-discretionary spend verticals versus discretionary spend. But we're seeing just great engagement with our partners. We're seeing great lead flow into the business, and we're seeing very strong conversion rates of lead flow to new merchants and new MID accounts for us.

And I think I commented that MID count conversion was something up 33% kind of year-over-year in the second quarter. So, very strong just overall performance. I would say slightly skewed and much of our integrated business is skewed towards consumer non-discretionary. So, I think that's where we're seeing, obviously, the strength in the overall portfolio as well.

As it relates to the different partner models that we operate, again, we're probably somewhat ambivalent. We're really more focused on what's the right model to meet the demands and requirements of the ISV partner. And there are plenty of situations where the right model for the ISV partner in terms of how they want to go to market and what it is they're trying to accomplish is payment facilitation. There's plenty of times when the right model for a partner really is direct integration, depending on, again, what it is trying to accomplish their objectives or go-to-market strategies, et cetera. And as I mentioned before, we think the ProFac model we rolled out this past quarter sort of blends that in a way that works for some merchants, but not all.

So, I think we've tried to structure each of those models where we're somewhat economically neutral in terms of the overall net result for us, given the level of work that we're doing to support a partner across those three models. Obviously, in a payment facilitation model, we're not doing nearly as much work. So, obviously, we don't have as much cost supporting that part of the business. And certainly in a direct integration model, we're doing a lot more work for the partner and the economics need to reflect that so we can maintain, obviously, the margins in the business that we're trying to achieve.

So, as long as it's structured the right way with the right partner, as I said before, we're somewhat ambivalent. We want to make sure that the model itself is appropriate to accomplish the objectives for the ISV partner.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah. No, I'm sure you're thoughtful about it, and you got all your bases covered. So, thank you.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, Tien-Tsin.

Operator: Thank you. Our next question is coming from Will Nance with Goldman Sachs. Please proceed with your question.

Will Nance

Analyst, Goldman Sachs & Co. LLC

Q

Hey, guys. Appreciate you taking the question. I figured I'd pile on, also I have on the integrated business. I was wondering if you could maybe talk about the trends in the mix between the PayFac versus the traditional integrated model that you talked about? I think one of the longer-term concerns from investors is that the yield delta is large and the trend is towards PayFac. So, can you maybe talk about how that has trended over the past couple of years and what the actual growth between those two channels has looked like? And then, maybe when you think about the new product, where do you expect the pricing on the ProFac model to land relative to those two models?

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, it's a good question. I would say, in our portfolio, we've seen generally consistent growth across direct, integrated, and PayFac over the last couple of years, say. And I for one don't necessarily subscribe to the theory that long term, all sort of ISVs are going to become PayFacs. Quite frankly, we have a number of ISVs in our portfolio that went the PayFac route, determined it's incredibly difficult to build the infrastructure to support a payments business and have now come back towards either our ProFac model or, even in some cases, back to a just direct integrated model, abandoning sort of the PayFac approach entirely.

So, my view long term is we'll have a relatively balanced portfolio kind of across those three channels, as I said in response to Tien-Tsin's question. There's plenty of times when payment facilitation is the right model. I'm not trying to suggest it's not a good model and not an appropriate solution for some ISVs, but it's not the silver bullet that's going to work for every ISV. So, I expect to continue to see good growth across the three different sort of operating models that we have within our integrated channel. I think the ProFac model, as I mentioned before, has a lot of merit and is resonating very nicely in the market, because, as I said before, it delivers the best of both worlds.

And I think the economics around that are going to be somewhat in between and also the cost that we have to support the model is somewhat in between what we have for a direct integrated partner and what we have for a PayFac partner. So, from my vantage point, again, I'm somewhat ambivalent across where the growth is coming from in those channels. I think we've been able to execute on PayFac relationships at margins that are still attractive for our business. So, I have no qualms in continuing to grow the PayFac side of the business. But I think you'll see good growth across ProFac and direct integration as well over a longer period of time.

Will Nance

Analyst, Goldman Sachs & Co. LLC

Q

Got it. That's helpful. And then maybe another number that really stuck out to me was the 20% growth in POS this quarter. I think that's another area where – that investors commonly cite as being very competitive and maybe being at risk from vertical-specific ISVs. Where is the growth kind of coming from? What do you think is driving that 20%? And maybe how has that trended over the past couple of years?

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. Well, let me start by saying we are a vertical-specific ISV in our POS business. So, we have a retail platform and we have a restaurant platform that we go to market with, with vertical fluency, with all the software you need to run a restaurant or run a retail environment at the point of sale. So, that is our mode of competition in that space. We're not a horizontal solution provider competing against vertically specific ISVs. We are a vertically specific ISV that owns our own software that we deliver through the point-of-sale system across restaurant and retail.

So, I think that's really why we're seeing the growth that we're seeing in that business. We have cloud-based software that is vertically fluent. I think our platforms are modern, they're sleek, they're well designed. We bring all the feature functionality that restaurants and smaller retail environments need to run their operations. And as I mentioned in my prepared remarks, we're rolling out our next-generation version of that later this year that we think it's going to be an incremental catalyst to continue to grow and scale our point-of-sale business as we move forward in time.

So, the nice thing about our point-of-sale business is we have multiple distribution channels now selling our point-of-sale platforms. We're seeing good growth, 20-plus percent. That number has been pretty consistent over probably the last eight quarters as it relates to the growth we're able to achieve in that business. I'll readily admit, it's off a relatively small base. That business today is a couple hundred million dollar revenue business. But we do think it continue to be – or will continue to be a catalyst for growth in the overall merchant business over a longer period of time.

Will Nance

Analyst, Goldman Sachs & Co. LLC

Q

Got it. Yeah. No, looks like very strong trend. So, I appreciate you taking the questions today.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Absolutely. Thank you.

Operator: Thank you. Our final question will come from the line of Bryan Keane with Deutsche Bank. Please proceed with your question.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Q

Hi, guys. Good morning, and congratulations on the solid results. I want to ask about ...

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Bryan.

A

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Yeah, no problem. I want to ask about the EVO acquisition. It closed for its first full quarter and it's off to a good start. But, Cameron, your comments are suggesting you're even more excited about it today. Just maybe now that you've had the company under your belt for several months, just can you talk about what might be exciting even more than you anticipated?

Q

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

Yes. Maybe I'll start, Bryan, and I'll ask Josh to chime in with his perspectives as well. I am more excited about the opportunity, largely because as we've been able spend more time with the individual businesses, and we've been able to spend more time in the markets where EVO operates in that we're not overlapping or not overlapping, excuse me, at the time of the transaction, I think I'm just much more bullish on the opportunity to be able to bring Global Payments' capabilities to those markets to drive incremental growth in those businesses. To leverage, some of the things that EVO has done well in those markets, but really amplify that and accelerate what they're doing with better product, better capability and better solutions.

A

A few examples of that are really e-comm. I think by and large, EVO's e-comm capabilities were not market leading by any stretch of the imagination. I think bringing our e-comm solutions into these markets, particularly markets like Poland and Greece is going to be a very strong sort of catalyst for growth in those individual markets. Point-of-sale opportunities are immense within their portfolio. EVO really provided by and large, just payment solutions to merchants. They didn't have a lot of other products and capabilities that they could bring to bear on the markets.

So bringing more point-of-sale software into these markets is an attractive opportunity for growth. Bringing some of our data and analytic capabilities and some of our other loyalty platforms into these markets, I think, are excellent opportunities to augment growth. So I think, by and large, the opportunity to bring Global Payments product and capability to EVO markets is greater than I envisioned at the time that we announced the transaction going on a year ago today.

I would say, secondly, the embedded opportunity around some of the multinational customers that EVO has been able to win in discrete markets and the ability to expand relationships with them – in other markets, I think, is a nice tailwind for growth for us as well. And I'm particularly excited about the ability to tap into some of those opportunities, again, leveraging our UCP platform to deliver ubiquitous processing and acquiring capabilities to some of these larger customers in more markets, obviously, than EVO has been able to do so historically.

And then lastly, I think as we dug in further into the B2B opportunities and the software that EVO brings to bear, the relationships they've had. I think, again, we're more bullish the opportunity to grow and scale the B2B side of the EVO business more on the acceptance and AR solution side of the B2B offering by again, aligning that with capabilities that we have inside of Global Payments, I think streamlining the go-to-market around B2B leading with those software solutions and obviously, monetizing payments as a part of that sale. I think – again, end of day, there's probably greater opportunities to grow and scale the B2B side of the business than I anticipated when

we announced the transaction. So that's really on the revenue side. Maybe I'll let Josh chime in and just give his perspectives on the expense side as well.

Joshua J. Whipple

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

A

Yes. Thanks, Cameron. So look, what I would say is after the first 100 days, and I think as I said in my prepared remarks, we're trending very, very well as it relates to synergies, we expect to go ahead and realize about \$35 million in cost synergies in 2023. And I would say that we have very defined executable plans in place to go ahead and achieve the \$125 million that we set at the outset of the transaction. And I would say by the end of 2023, we'll probably have of 50% to two-thirds of those synergies executed on an annualized basis.

So it's going to be more delighted just with regard to the overall integration and what we've achieved in the first 100 days, it speaks volumes to the team that we have here at Global Payments. So trending right in line with where we would expect it to be at this point in time.

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yes. And I would just conclude, Bryan, by saying it's still early in the transaction, we're really only a quarter end, but we've got a pretty good track record of exceeding expectations that we set around synergies for these transactions. And sitting here today, I don't have any reason to believe this won't be another opportunity for us to do that. Obviously, we're sticking with our results, our expectations for now, but I've got a lot of confidence in our team and our ability to outperform over a longer period.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Q

That's great. And just as a quick follow-up on the ProFac model. Is there an advantage or competitive advantage that GPN has versus the market? Or is this a kind of where the market is moving and everybody will compete in the same in this ProFac model?

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

A

Yes. Look, I'm certain other people are going to look to provide a similar type of model in the future. I do think one of the distinct sort of advantages we have is scale. I mean there's not many players out there that have over \$1 billion of revenue through our partnered-integrated panel. There's not that many players that have the scale that we can bring to bear across the operating and compliance and regulatory management and software side of integrations that I think we can bring to that equation. So I think certainly, the scale that we bring and the capability we bring is clearly one differentiating factor.

I think the second differentiating factor is the number in the breadth of commerce enablement and other solutions that we can bring to bear on those relationships. I think that allows us to really think about revenue share and revenue splits differently. I think it allows us to drive better economic outcomes working with partners. And I think it allows our partners to have more attractive offerings for them to compete in the markets that they're trying to serve as well.

And then lastly, I would say support. The white glove support we offer, obviously, the ISV support as well as the merchant support capabilities we can bring to bear on that channel are clearly differentiators for us relative to other integrated competitors. And again, I think all of those are reasons we've been able to sustain growth rates in

that business, while certainly, others in the marketplace have not been able to achieve quite those same levels over a longer period of time.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Thanks for taking the questions.

Q

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Bryan.

A

Joshua J. Whipple

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

Thank you.

A

Cameron M. Bready

President, Chief Executive Officer & Director, Global Payments, Inc.

With that, that concludes our Q2 earnings call this morning. I want to take a moment to thank all of you for joining us. We appreciate your interest in Global Payments, and we look forward to following up with you after the call. Have a great day, everyone.

Operator: Ladies and gentlemen, this does conclude today's teleconference and webcast. We thank you for your participation, and you may disconnect your lines at this time.

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