



Global Payments, Inc. - Barclays Emerging Payments and Fintech Forum 2021

Ramsey El-Assal:

Hi and welcome back everybody. Our next session of the day is a fireside chat with the CFO of Global Payments, Paul Todd. Paul, thank you very much for being here today. Greatly appreciate it.

Paul Todd:

Yeah, thanks Ramsey. It's great being here as well.

Ramsey El-Assal:

Why don't we start off where we often start off these days with an update on the recent trends you're seeing in the marketplace or in your business in particular or both.

Paul Todd:

Yeah, Ramsey. It's obviously something that we're very attentive to and something we're very pleased with. Just like we talked about on our last call. We're very pleased with the positive decoupling that we've seen particularly in our merchant business, relative to the volumes coming out of the networks. Obviously we were very pleased with our first quarter results and positive sequential trends that we saw both inside the quarter, month to month, as the quarter progressed. But also just on an overall year over year basis, when you had the comparison to having almost a fully affected pandemic quarter to one that was largely unaffected last quarter. And then as we also said on the call, we're very pleased with what we saw in April relative to the volumes and so far that's continued as we've seen in May.

Paul Todd:

As we started the year, obviously we were very curious to see how things were going to play out. We had some weather in the first part of the quarter that impacted but after that, the momentum that we've seen, really across all the businesses, but certainly in our merchant business with volume recovery there, has been better than we thought. And we liked the sustainability of that. And obviously you saw in our guidance the way we raised our overall revenue guidance range. We raised our merchant segment from mid to high-teens growth on the merchant side. And then also raised on the business and consumer side from the mid single-digit to mid-to-high-single digit on that side. So that reflected the optimism and the strong underlying volume performance that we saw both in the quarter, but also as we look out throughout the year.

Ramsey El-Assal:

That's great. That's terrific. I wanted to ask about some of the commentary from the earnings call and specifically you talked about getting to roughly 75% of revenues from tech-enabled channels, I think, versus 60% prior. Can you talk about the path to getting there, organic versus M&A and any other color that might be helpful there?

Paul Todd:

Well sure, Ramsey. And this obviously has been a very important goal for us. We set this goal back in 2018 and we set that we wanted to achieve that goal by the end of 2020. So the fact that we achieved that goal six months prior to the stated timeline, also in the middle of the pandemic, was something that we're very pleased with from just a strategic accomplishment standpoint. I would also say that the pandemic showed how important to us tech-enablement was with how we performed and those businesses performed during the pandemic and further validated that this path that we're on of tech-enablement is certainly the right path to be on. And I highlight two things. Our integrated performance both during the pandemic and also what we had in the first quarter and on the e-comm, omni volume increases that we've seen throughout the pandemic.

Paul Todd:

And also into the first quarter, highlight the strength of two lines of that tech-enablement. And we continue to see the performance of that be reflected on a go-forward basis as well. How we're going to get there, I think there's a couple of paths just like there has been to get to the point that we're at today. One is that those businesses by their nature orchestrated to grow in the double-digit range, which is higher than our 9% to 11% or high single-digit, low double-digit range we're expecting for the overall company.

Paul Todd:

So just as a math matter with those businesses growing at a faster pace than the overall company, it starts becoming a more meaningful percentage of the total. And so we'll have that dynamic play its way through, particularly given the pandemic and some of the acceleration on the e-comm side and also on the integrated side. And so there will be probably be even a more meaningful impact of that dynamic going forward, just given the dynamics of the business.

Paul Todd:

And then yeah, M&A will play a role just like it has over the last several years as we've made tech-enabled acquisitions. We've said all along that our strategic interest is making tech-enabled acquisitions that have the characteristics that we're looking like, and the Zego acquisition we just announced is the perfect example of that. And so as we continue to execute against our M&A pipeline you will see this tech-enablement percentage move up as that becomes a more meaningful percentage of the overall company. Obviously, this is something we're going to talk a lot more about at our upcoming investor day and so we'll get a lot more color around that. Jeff gave a preview of that in our last earnings call of something that we're very interested in. But that gives you some parameters around how we're thinking about it.

Ramsey El-Assal:

Yeah, that's very helpful. And I want to touch on M&A a little bit later, the M&A strategy. But how should we think about the P&L implications as you approach this target in terms of the margin, potentially higher margins, with this channel. Or obviously you touched on a mix-shift higher growth, stickier customer base. How should we think about those qualities?

Paul Todd:

Yeah. I'd say that those qualities are one of the reasons we're so focused on tech-enablement because it really checks the box across those parameters of a better margin profile, higher organic revenue, and stickier relationships with our customers. So if you look at those, particularly in the merchant side, those tech enabled businesses today, the organic revenue growth of those businesses. Once again I come back to our integrated business and the results that we've talked about there. E-comm, omni being another example and even vertical markets. Those businesses are structured around that growth. The pandemic's obviously had some unique impacts in a few of those vertical markets. Schools and our Active business and gaming to some degree, but they're orchestrated in a normalized environment grow in that double-digit range.

Paul Todd:

So the organic growth profile of the tech-enabled businesses have that characteristic that we like. They also have a higher margin dynamic to them typically and that's also a characteristic that is important to us as we have a very strong consistent margin increasing a target for our company. And then on the stickiness side, it accomplishes that goal, particularly when we look at software and how that software is so important to that small and medium-sized business or whoever the end customer is. Once you're adding value-added products that's wrapped around software and also from a payment standpoint, you're providing a much harder service offering to de-link from your operations where payments on a standalone basis traditionally has not had that same dynamics to it. Those are all the reasons, and more, strategically around how we want to have the target addressable markets and all the things that are involved in our tech-enablement. Those are exactly the characteristics we look for and that's exactly what our tech-enabled businesses have today.

Ramsey El-Assal:

And on the software side, I was wondering if you could talk a little bit about the longer term integration strategy. Do you envisage a broader integration across the enterprise with the software assets that you're acquiring or is it more of a stable where you have these entities that are run independently underneath the broader Global Payments umbrella?

Paul Todd:

Yeah, Ramsey, it's a good question. It's one we get a lot, given our unique go to market strategy and the way we approach the market. What we try to do with our software strategy is to maximize the organic growth characteristics of that business by leaving a lot of the front facing functions, if you will, independent and then get the synergistic and the efficiency benefits from some of the areas that aren't as strategic, like some of the back office functions of accounting or HR or even on the technology side to some degree, from an operation standpoint. And so we call it core edge, on the edge where the growth occurs, where the innovation occurs. We want to leave that independent, to be focused on the addressable market that that business is focused on, and being able to be nimble enough to compete effectively and continue to grow with the rates and even higher than the rates that those businesses were growing before we bought them.

Paul Todd:

But then we want to maximize the core and make sure that we get the efficiencies that lend themselves to a company of our size of bringing that company and being part of Global Payments. So, that's the way

we've approached the business so far. That's our strategy going forward and it's been one we've been very pleased with and one that we've got a great track record of executing against.

Ramsey El-Assal:

Absolutely. Can you talk about the Google partnership? That's a really interesting move you guys made recently. Give us a little more color on how does the go to market work? I think Jeff mentioned on the call some joint innovation efforts. Update us on that relationship and let us know a little bit more how it works.

Paul Todd:

Yeah, sure. It is one that we're extremely excited about because if you look at our company between that relationship as well as the AWS relationship, we partnered with the two preeminent technology companies to help us both from a technology standpoint and efficiency standpoint. But equally as important is on the distribution side. And so to go into your question Ramsey of how does it work? Well, first of all, there's an additive distribution component day one of Google, feet on the street sales force, that is now going to be bringing us merchant acquiring payments business that didn't exist before. So leveraging that sales force with meaningful quota relationships is one that we're very excited about and it's totally additive to everything that we're doing here from a merchant standpoint.

Paul Todd:

And so that's the first leg of it. The second leg is, you mentioned a little bit, is on product and there's two sub-legs, if you will, on that. One are the products that exist today. The grow-my-business products that we're going to be able to bring in to our portal and offer to our merchants on an exclusive basis is critical to us. Going back to the earlier question around stickiness is us being able to offer that merchant more and more services to allow both our relationship to be more full with them, but also to help them grow their business. Which is what we've always been about. And so those installed products that are ready to go today will be brought into our portal. We talked about that coming out here in the near future.

Paul Todd:

And then there's an innovation element of that, of joint development efforts, where we're looking to do things on the analytics side and leveraging some of the Google technology to be able to bring new and innovative products that don't exist today. Leveraging both the strengths of their company and our company and so we're excited about the future of what that can bring. And then finally is just the relationship of processing them as a merchant customer. And as we talked about, they'll be one of our largest overall relationships. And we're very pleased to now have them as one of our customers going forward. As Google is obviously a fantastic marquee customer for us on a go-forward basis.

Paul Todd:

So it's got several legs to it but it's incredibly strategic to us on the growth side. And then there's an efficiency element as well as we move our processing platform fully to the cloud. Consolidating some of the legacy data centers and picking up a cost savings element that once we complete that work also will be meaningful as well. But you've highlighted the growth side and how that's going to work. And it's one that, over the coming years, we're going to talk more and more about.

Ramsey El-Assal:

And changing channels here for a second. I wanted to ask about TSYS and the revenue synergies and the revenue synergy opportunity that still remains from the TSYS deal. What are you most excited about here is still? What inking are we in when it comes to those opportunities?

Paul Todd:

Yeah, we're continuing to be very excited about the dialogue we're having with joint customers. And so that was one of the things we talked about at the start of the merger is the ability for us, from a legacy TSYS standpoint, to sell into the legacy global installed base from a financial institution standpoint. So we're very pleased with the dialogue that we're having there. We're also very pleased with the dialogue that we're having around transaction optimization. And so this whole nature of being on both sides of the transaction with a similar customer is something that we continue to have dialogue around. And something that once again, at the start of the merger we talked about. And then just on an overall synergy standpoint, we're very pleased if you moved beyond just issuer, the success that we've had with taking the Vital product, point of sale product that we had in legacy TSYS and moving that through the Heartland sales channel, also our Cayan platform and the capability there, another example, along with ProPay.

Paul Todd:

Several of those examples that we had at the start, we've been very pleased with the success that we've had of making those cross-sells and that's underpinned why we've been able to raise our revenue synergy target that we're very committed against on both sides and we didn't even hit business and consumer. We're executing on several of the synergies there. So overall couldn't be more pleased with the overall revenue synergy picture across the various segments. Specifically pleased with what we've seen from the issuing side, with the dialogue that we've had with our customers there.

Ramsey El-Assal:

Okay. Sounds like plenty of opportunity ahead there, What's your view, Paul, on buy now, pay later. Are you seeing merchant demand for it? Is this something you're seeing in the marketplace? What do you make of that industry and the impact it might have on your industry?

Paul Todd:

Yeah, it has gotten more interest, lately. And going back to the prior question around being on both the merchant side and the issuing side, we clearly have that capability on the merchant side. This is one of the benefits of our Asia presence because that's been something that's been a bigger influence in that market that's now come to this market. So we've seen a preview of what there is there. I think time will tell a little bit about how big it is in the U.S.

Paul Todd:

In some of our South American countries, there's also some dynamics that we see on the issuing side. And speaking of the issuing side, we've got partnerships with both Visa and MasterCard to be the provider of the buy now, pay later on our issuing platform. We're seeing this dynamic on both sides. It's still earlier, relatively speaking, in the U.S. But it's something that we're glad we're a technology enabler on both sides of that transaction. And this is an example to some degree of the synergies that we talk

about having a global presence, where you see things in one region that then move to another region. You have the experience and both the technological capability to facilitate that.

Ramsey El-Assal:

Interesting. You mentioned in a prior answer to one of the questions. You talk a little bit about the software part of M&A. Let me just take a little bit of a step back and talk more broadly about the M&A strategy here and what you're seeing out there. What your goals are. And also if you contemplate doing anything that was a little bit of a bigger swing at this point, something a little more transformative.

Paul Todd:

Sure. I would say maybe to start off just from a M&A standpoint. I think we commented on several calls now. Nothing's changed on our strategic appetite from a M&A standpoint. Obviously the Zego transaction that we did was straight down the middle of the fairway strategically for us. We were obviously looking to do a software/payments based acquisition and to be able to do it in the vertical market that the real estate vertical had. Where it checks all the boxes that we're looking for around size, penetration, leverage ability to the global base. The characteristics of the business economically. Zego's a very good example of the kinds of things that we're looking at. And as it relates to on a go-forward basis, those characteristics are still in place.

Paul Todd:

Would we be open to doing something bigger? Absolutely. One of the things, Ramsey, that we've been very pleased with is the overall position that we're in from a capital standpoint, to allow us to do the strategic and potentially transformational things that we want to do. We're very bullish on the ability to do future M&A. The pipeline we've said for several quarters continues to remain full. And in this last quarter, we were also pleased to being able to do the Payone acquisition, where we were able to expand our footprint internationally as well. So, more to come, and we'll obviously talk more about this at our upcoming investor day but couldn't be more pleased with where we are from an M&A standpoint.

Ramsey El-Assal:

Terrific. Paul, could you talk to us about the competitive environment and with the increasing complexity of the payments value chain of the new Fintech entrants? I think in investors there's a little bit of confusion in terms of who's a friend, who's an enemy, and who's a frenemy. How do you see the competitive environment having evolved, over the last few years especially through the pandemic, and where you guys fit in relative to some of these new entrants, who are maybe vertical specific entrants or digital focused entrants?

Paul Todd:

Yeah. It's a really good question, Ramsey. It's hard to generalize a little bit there because it depends on which business you're talking about. I would say overall, and this is exactly, maybe go into the first question, around why we're so focused on this tech-enabled strategy that we are, is because of the changing competitive environment. If you are operating like you did five years ago, then you're in a challenged position. And like I said, I think the pandemic reflected that. So I would say on the merchant side, we feel very good about the overall competitive environment, what we're doing, the way we're executing.

Paul Todd:

Obviously our financial results show that, our strategic positioning, our new sales, and the success that we've had through the pandemic. But also the things we talked about on the first quarter results continue to show that what we're offering to the marketplace is being received well. But to be able to exceed the sales goals, not only just generally, but to succeed in the areas where we wanted to. E-comm omni. The integrated. The areas that are the most growth. And that we're able to continue to reach and exceed our sales goals shows that what we're doing from a competitive standpoint is resonating with our customers.

Paul Todd:

So on a merchant segment standpoint, I think we're in a great spot. On the issuing side, I would say the same thing. Obviously there's been other entrants that are doing other things than we do from an issuing standpoint. But if you think about our recent wins, also with our AWS partnership and the way we're going to be able to pivot that platform to be able to do more things to a broader group of customers around the world than we've ever been able to do. So we're very excited from that standpoint. And obviously in that business, there's a big moat and a certain amount of scale that you need to be able to effectively compete the way we're wanting to compete in that business.

Paul Todd:

And then on the business and consumer side, that's probably had the most new entrants that are playing there. And I think what you see us doing there around our international expansion, around our more B2B pivot that we're making there, is expanding the use case of that platform wider than certainly the way we went out to compete several years ago. So yes, it's very dynamic. It's always been somewhat dynamic, but overall that's why we're focused on the things that we're focused on is trying to stay on that front foot of strategic competitiveness. And I think once again, our results and the things that we're doing is just continuing to keep us in a good spot there.

Ramsey El-Assal:

Okay. I wanted to ask about the TSYS business and particularly the commercial side of the TSYS business which I know has been impacted by the pandemic. What are your expectations there as we move through the year? And I guess there's a numbers question here, too. To what degree is a rapid recovery in that business built into your guidance.

Paul Todd:

Yeah, so we talked for several quarters about the impact that the commercial business has had on our issuing segment, down 30 plus percent on volume. We have not anticipated or baked into our expectations for this year any robust recovery on the commercial side. And so to the degree, Ramsey, that improves and that business travel comes back in a more meaningful sort of way, then that will be additive to our expectations. And we're certainly hopeful for that. I was traveling and yesterday for the first time, ran into somebody in an elevator that was on a business trip. So that's the first time that's happened, at least to me. And so I was hoping that's a green shoot that business travel is coming back. And to the degree that it does, that's about 20% of our issuer segment is commercial parts, great business for us. We have a huge market share there and as soon as commercial travel comes back, that business will come back with that. But we have assumed largely that that business remains about where it is for the remaining part of the year.

Ramsey El-Assal:

Got it, Okay. And I wanted to ask also about the e-comm and omni business and the unified commerce platform. Can you give us a quick overview of what the offering, the core offering, is here. How it's different from a more pure e-comm offering? I mean, I get omni-channel is different from e-comm, but how does your merchant customer in this offering differ from that and your relationship-led business?

Paul Todd:

I wouldn't say that the customer base, as a whole, is necessarily different. Just as a general e-comm, omni. We have really two elements to our e-comm, omni strategy. One is e-comm, omni solutions for our install base and for new customers. And so we've been very successful in allowing for our businesses, our small, medium-sized businesses, to pivot their business models during the pandemic. And that's why we've seen the growth in the installed base around the volumes that we talked about in e-comm, omni. The secondary element is our unified commerce platform, which is our global e-commerce, omni solution that allows for a single API connection that allows for a multi-national merchant to be able to move around the globe in a seamless fashion. Under-pinning that is our physical presence in 38 countries in a physical way. And over a hundred countries virtually. And allows for in-country presence, in-country service, in-country bins. All the things that you need and benefit from an in-country, but allowing that seamless integration point from an overall technology standpoint, to allow for that merchant to be able to move around the globe in a very efficient way.

Paul Todd:

We've talked for several quarters about our Citi relationship. That was our first financial institution relationship that we signed there. And so far we've had good success. I think, of the 25 customers we were looking to go after there, we've had success with I think eight of them so far, so that's building. I think we said as well that the strength of that offering to have Citi choose us as the partner there. I think speaks to the strength of that offering versus Adyen who's going after a pure play, e-comm player. That's not our strategy. Definitely from a capability standpoint, what makes us unique is we're solutioning the marketplace in a different sort of way. We're not going after big box retail. We're not going after pure play. We're going after customers that have the dynamics we're looking for. That our solutions are unique to them. And that's been the way we've said we're going after the business.

Ramsey El-Assal:

Okay. Paul, we just have a couple of minutes left here, but I wanted to squeeze one in on a topic that has always fascinated me. And that's back when the global TSYS merger was announced, there was some talk about creating some on-us capability in markets where you had an issuer concentration and an merchant concentration. And I'm just curious, I know the pandemic probably jostled things up quite a bit, but what about that roadmap? Is that still something you guys are looking at or progress report that would be great.

Paul Todd:

Yeah, it is Ramsey and I've brought up the synergy question. I've highlighted that. That we are pleased with dialogue we continue to have with our customers there. It is something that with the pandemic probably hasn't been the highest priority necessarily of what everybody's been looking for. But just even recently, the continued dialogue we have there, there are several different kinds of use cases. When we talk about transactional optimization. One is just a pure cost element, is their ability to have that on-us transaction, just reduce the cost. But there's also more of a potentially bigger data element that's being

played through around what can you do when you have both sides of that transaction from a data standpoint. And so this will be something we're going to talk more about as we get further along with our dialogue with the customers that we've had. It isn't something we've highlighted a lot just because we continue that dialogue. But it isn't something that we're abandoning or something that we're not still optimistic about the future use cases there.

Paul Todd:

It's just one really of progression. Of where we are, where the customer is, what are the use cases? And it's really exciting that you get into some of these dialogues with the customers around what can be done here. But it takes time to move from ideation to actually having it in the commercial marketplace. So more to come there, Ramsey, but it is something that we look forward to talking more about in the future.

Ramsey El-Assal:

That's terrific. Well, Paul we're out of time, unfortunately, but I really do appreciate you being here today. Thanks so much.

Paul Todd:

Well, thanks for having us Ramsey. We appreciate it as well. Take care.