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Global Payments, Inc. (GPN)

J.P. Morgan Global Virtual Technology, Media and Communications Conference

CORPORATE PARTICIPANTS

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

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Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Thanks everyone for joining. My name is Tien-Tsin Huang. I cover the payments and IT services sector at JPMorgan. And so happy to have Global Payments with us for this session. We're going to do a fireside chat. And if you have questions, we'll take questions from the ask a question portal. I'll be watching that here as we go. With us from Global Payments, Jeff Sloan, the CEO of the company, and always great to have any time with Jeff. So, Jeff, thank you so much for spending a few minutes with us today to catch up.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Well, Tien-Tsin, thank you very much for having me.

QUESTION AND ANSWER SECTION

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

No, of course, so let's get right into it. We've gotten a lot of great questions from investors. I hope we can get through them all. I'll just get right to it. Pretty harsh reaction to 1Q results here. What do you think the market is underappreciating, Jeff?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.



Well, I think it's a combination of a couple things, Tien-Tsin. We tend not to focus overall on the day-to-day to and fro of the market. I think it's important to remember that in the roughly seven years we've been running the company, our stock is up 8 times. So, I certainly think the market gets it right over a period of time. And look, we reported at a tough time when folks like Apple and Amazon reported probably the best quarters in corporate history, and so their stocks trade down as the Nasdaq went through a bit of a market correction. But I would say in terms – the second point in terms of the market, I think may not be appreciating fully. It's just really the sustained share gains I think that we've experienced over the last three and four quarters. A great example is we view really Visa Mastercard as proxies for the market.

In the most recent quarter, the first quarter of 2021, Visa's revenues I think declined about 2%. Mastercard organically had revenue growth of about 3%. Our overall company grew revenue 5%. Our merchant revenue was up 4.4% in the first quarter. I'd also say sequentially our total revenue and merchant revenues were up 800 to 900 basis points sequentially from the fourth quarter of 2020, Tien-Tsin, to the first quarter of 2021. So certainly relative to the markets and I view the networks as a proxy for the markets, far better performance than the numbers reported in the markets.

And then second, I would say relative to our more direct peers, Fidelity or Fiserv for example, I think Fidelity was up about 1%. Merchant in the first quarter, again, ours was 4 times that rate of growth at 4.4. And I think Fiserv got a similar number to ours in terms of merchant growth in the first quarter. But I think you have to remember that we're in 38 countries not just 1. So, while the US is incredibly important to our business, that's three quarters of our business. Obviously, [ph] the only (00:02:58) markets outside the United States which we're absorbing primarily in Asia, Europe and Canada in that number and also Fiserv has its slightly different revenue mix being more debit than we are than credit.

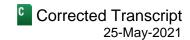
So, I think on a relative basis being in the same place as Fiserv is pretty good performance for the first quarter. Similarly on a comparative basis to the markets or Fidelity, I think the numbers are pretty terrific. And of course, as we said in the call in early May, Tien-Tsin, that performance actually accelerated into April. We said to call that in the month of March we were up 20% revenue year-over-year for the overall business and near 30% in earnings. Those numbers continue to improve and accelerate into April and actually continue to accelerate now into May. So, I think from a market point of view, that will ultimately I think be borne out obviously as we continue to report our results. But certainly, we're in a very healthy place.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC



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Yeah, so let's just stay with the topic of the recovery there. I'm sure the US is doing quite well is what we've heard throughout the conference. But it's a little uneven outside the US, and in India for example, it's pretty tough as you highlighted there. So maybe give us a quick update on what you're seeing. Where are you optimistic? Where are you feeling a little bit more cautious from a recovery standpoint?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Sure. It's a great question. So, look, we're physically present in 38 countries. The US is one of those. In 38 countries around the world, we do business cross-border in more than a 100. So, to your point, I think we do have a pretty good point of view of what's going on. Let's just start with the United States which is roughly three quarters of our company in terms of revenue and also in terms of employee and team member base. It's hard to overstate really how good things are right now in terms trend here in the United States.

I think Visa, Tien-Tsin, came out with some metrics in the US toward the end of April, up 60% in volumes. Our numbers for April are in excess of that here by a pretty healthy margin. Here in the United States, we saw very substantial growth rates even just in the third quarter heading into April in our integrated business, grew 23% first quarter of 2021 over 2020 before lapping the pandemic. E-commerce was up 20% ex-T&E, our relationship-based business is up 9%. Backing out Canada and Europe really domestically was up well into double-digits. And those trends have continued to April and into May as I mentioned a minute ago. So certainly, in terms of puts and takes around the world, it's very difficult to convey to you how sound the business is here in the United States. And that has continued into April and May with really record bookings in our relationship led business here in the United States in April. And I think two of the last three quarters really were record bookings quarters for our relationship business here in the US and our integrated business has a record bookings quarter in the first quarter too. So, we're in really good place there.

Outside the United States, I would say our business was roughly flat in the first quarter of 2021 versus 2020 particularly in Europe and Asia. I would say post our first quarter heading into April and May, certainly, you've seen some markets, you mentioned some of them in Asia, in particular Singapore and Taiwan go a bit into further lockdown in the last few weeks. I think India and Philippines as you know were kind of already there, really at the end of the first quarter. Europe has begun reopening primarily in the United Kingdom and Spain. I think we said, Tien-Tsin, on the May call that Spain was up in April 80% year-over-year in revenue, in the month of Spain, in the month of May, April, sorry for Spain, which obviously is terrific. But certain markets like the Czech Republic and Ireland in Europe remained under a fair amount of restriction. UK, obviously, reopening, as is Russia. So, I think it's puts and takes outside the United States. But thankfully for us, US home market, three quarters of the company, we continue to see a lot of strength heading into May.

Tien-Tsin Huang

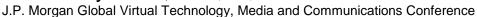
Analyst, JPMorgan Securities LLC

All right. Great. No, that's a great, great overview. So, before we dig into the segments and the bookings and the products and whatnot, I just want to, since I have you here, ask a big picture question that's on a lot of our minds just around Global Payments tech stack, right. With you, your clients, your partners, your competitors, they're all going on this digital and cloud journey. So, I wanted to hear from you. Where do you think you are in that journey in modernizing Global's tech? What's sort of the plan here in the short and the long-term?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Α





Well, I think there's really two answers to that. So, let's just start with where we are today, Tien-Tsin. So, we announced last year that we crossed the 60% threshold for our merchant business of technology enablement, which means that we're selling our own software, partnered software, or we're selling e-commerce omni-channel solutions. That's 60% was a goal that we had set in March of 2018 when it was 50% to reach by the end of last year. We exceeded that. We'll announce in our upcoming Investor Day in September, I don't want to steal all the thunder now, Tien-Tsin, from that day because I want you to come. I want everybody to come in September. But that number is going to be north of 70%, probably three quarters of the business will be technology enabled is our goal over the next few years. That's just to level set where are we today.

The second part of what you asked though kind of where are we heading beyond the 75% is we've announced unique and exclusive partnerships on both technology and distribution in the last nine months in issuing with AWS, and in merchant with Google that are really distinctive to us. And I think we'll set the tone for further digitization beyond the 75% number really for years to come. So, on the issuing side with AWS, we've struck a unique relationship, an exclusive relationship really with them, first on the technology side to modernize and take the code from cloud enabled into cloud native and then ultimately to port that over to the AWS cloud.

That project was really started on our announcement in August of 2020, although TSYS had been working on cloud enablement and nativization enhancement for at least 18 months prior to our merger announcement. In May, just about two years ago, in May of 2019, we're starting to see the benefits of that already with new product releases [ph] and develops (00:09:28) and getting kind of stay tuned there. But we're really seeing benefit and we've been disclosing this, Tien-Tsin, in the last number of calls is in terms of our distribution and co-sell partnership with AWS. So, we've already announced our first joint win which was a takeaway from one of your other speakers in Asia. We expect to go live with that large multinational bank this year. The testing environment is already up and running. So, our prime in the cloud with AWS is already a live instance in pilot in that market in Asia we hope to replicate that in other markets.

But I think we said in our most recent call, Tien-Tsin, initially we've got a dozen letters of intent, six of which with AWS, six of which are competitive takeaways, and we feel really good about where we are and kind of where we're heading. And look for us to expand into the neobank and the startup area with AWS in the near future. And that's part of the tripling of the TAM that we announced with AWS when we announced that relationship just about nine months ago.

Second as it relates to Google which we just announced in February of 2021, most of our code in merchant on your question about tech stack is already cloud native and in fact a bunch of our solutions like our merchant portal, our chargeback solution which is really state-of-the-art are already resident in Google Cloud today. So that's less of a life and more just a shift and they were truly about on the technology side optimizing our 35 data centers here in the United States and really reducing them to 3. We're already down from 40-odd data centers post the TSYS merger. So, we're already making progress there.

And just like AWS, you'll start to see the benefit of that, Tien-Tsin, at the end of 2023 on the pure tech side. Heading into 2024 really is a significant margin enhancement from doing that but we're also very pleased with the co-sell relationship which again is unique to us and Google and there's a few elements there. One is Google as a merchant, think YouTube, think Google Music, things are sold on Google today where Google is the merchant. We expect that volume to come to us starting as soon in Asia as the third quarter which we announced a few weeks ago in our call third quarter 2021. We expect in North America with Google as a merchant to go live by the end of this year with us. We're already piloting two customers here in the United States with Google jointly at the enterprise level. So, in addition to Google as a merchant, we have enterprise relationship where we have a rev share back to Google for customers who refer to us. And then third with Google, we also have our ability which

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again is unique to us with Google to integrate Google My Business, [ph] grow and run my business (00:12:07), as well as Gmail which Google Workspace into our existing merchant portal of Global Payments which is already in use with hundreds of thousands of merchant customers globally especially here in the United States. That's exclusive to us.

So, if you're a Google customer and you use that to run your business, you're only going to get that integration to a merchant portal with us here in the United States and globally. And the reverse is also true which is if you're a Global Payments merchant portal customer today and you want to use Google, you're going to get that in one place. And that's unique and exclusive to us with Google for the next number of years. So, I think the answer to your question is we're already in a very good place, 60% on our way to 70% in terms of digitization. But I'd also say that the AWS and Google partnerships will propel us even further on the technology journey.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC Yeah, no that's great overview. So, bridging that into merchant and e-comm, you talked about them as a client. I

get this guestion a lot. Where is Global Payments at from a competitive standpoint with both e-comm as well as omni? I think I don't know if there's a way to separate them, but the lines are certainly blurring, but it does feel like you have a good position on the omni side given your historical presence on the physical world. So, talk to us about e-comm and omni?

Jeffrey Steven Sloan

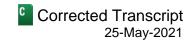
Chief Executive Officer & Director, Global Payments, Inc.

Yeah, I would say pre-pandemic, Tien-Tsin, we've looked at it as e-comm and then omni. I would say postpandemic, one of the things that the pandemic has done I agree completely with Dan Schulman at PayPal here, who I knew is also at your conference, is the pandemic has brought forward by three to five years the shift toward omni-channel enablement. If you're a merchant now, small merchant, doesn't matter, any market you're in, if you don't have a physical, but especially a virtual concurrent presence, you could be in a bad place coming out of the - during and coming out of the pandemic. So, we've collapsed it all now, Tien-Tsin. We really just call it omnichannel, especially post the pandemic.

So, look, we're in a really healthy place. By way of size and we publicly disclose this and we'll do this again of course at our Investor Day in September, we'll do \$1 billion to \$1.2 billion to this year in revenue in our omnichannel, our omni-channel businesses. We can get to one of the largest businesses in the world as we disclosed in March of 2021, Tien-Tsin. That business grew 20% ex-T&E in the first quarter 2021 year-over-year before we start anniversarying substantially the pandemic. That's the same number that Visa disclosed for its business, that 20% growth for e-comm ex-T&Es. We think we're in a really good place there. By way of comparison, if you look at the commerce department, card not present is about 14% of US retail economy. It's about 20% of our merchant business and the aggregate of all of our businesses, e-comm's about 25% of the revenue of the whole company, if you include issuing as well as our Netspend business in B&C. So, we think we're really well-represented there.

In terms of how we approach the market, we really attack it a few ways. Number one, taking a small and midsized business online domestically. So, having a frictionless environment for consumers and merchants online in their home markets to the small and mid-sized business, we think we're distinctive here. As Cameron said on the May call, bookings to that business I just described in the United States were 330% in the first quarter of '21, so a pretty healthy number. Another really healthy number, Tien-Tsin, is omni-channel QSR deliveries for us and orders went from almost zero to 100 million last year.

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And Tien-Tsin, the first quarter of this year, we've already done 70 million in the first quarter, so almost a 300 million run rate where you can order from your phone, pay with your thumb or face have it delivered via DoorDash, et cetera. And that's actually in our vertical markets Xenial business that gives you some indication of growth. So, the first element is taking small and mid-sized businesses online in their home markets. The second is selected MNCs in markets that are harder to serve and great example of that, Tien-Tsin, is Uber and Uber Eats which we took away from Adyen as a competitive win at the end of last year.

In the span of one quarter, Tien-Tsin, that's become one of our larger e-comm omni merchants in Asia Pacific really from a standing start at the end of last year. I think the reason that Uber and Uber Eats went with us in Asia Pacific is, number one, I think our technology with our Unified Commerce product which is single API sign on, which we released into the market two-and-a-half years ago, well in advance of our competitors, is selling very well kind of point number one. So, there really is [ph] not a lot of (00:16:34) technological distinction between us and our direct peers there. I think we're ahead of the game really. And then the other reason, Tien-Tsin, is that we have a local presence in Taiwan. So, we probably have 50 people domiciled in Taiwan supporting our physical as well as our virtual business. That's probably 50 more people than many of our competitors in that market in Uber and Uber Eats saw that has a value-add. So, selected MNCs where we think our physical as well as our virtual presence can really make a difference is the other thing that we're focused on.

Lastly, I would say in response to your question, I do think there's been a permanent growth shift in our business and omni-channel coming from the pandemic. So, we were growing that business, Tien-Tsin, kind of 15% organic top line for, I don't know, last number of years that we've been describing it. More recently, that was 20% ex-T&E acceleration in the first quarter. And to be honest based on what we're seeing and what you heard from Dan, I just don't think that's going to change. So, I think there's been a permanent share shift toward omni-channel acceptance. I think we're the beneficiary of that trend. And I expect that sustained a revenue growth number to stay.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Yeah, no I agree. It does feel like it's permanent. It does feel like it's a structural change. Okay. No, that's a good update. We appreciate the MNC sort of breakout as well when you're thinking about it. How about on the relationship led, I know we spent so much time on the digital stuff. But for me, hearing how well the relationship

led business did in the quarter, I thought it was a real standout. So, what are you doing differently there? Is the sales motion just in such a good spot from a product standpoint or catch us up on that?

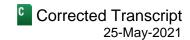
Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Well, we couldn't be more delighted with their performance as you said. So just the math, so in the first quarter of 2021 before we lapped the pandemic, that business grew 9% in revenue. And if you exclude Canada, because we include Canada in that business and Canada was under a lot of regulatory restriction because of COVID in the first quarter, that business actually grew double-digits organic in the first quarter of 2021 before we lapped the pandemic. Bookings were up 27% in the first quarter in that business. They also had a blowout April as I think we described a little bit on the May call, well in excess of the Visa 60% volume numbers that I think Visa described publicly for most of the month of April. And that continues to accelerate really into May. So, we couldn't be more pleased with where that business is.

I think Tien-Tsin, and I also say just before I forget it, two of the last three quarters at Heartland, our relationship led business were record quarters for Heartland. Think about that in the context of the pandemic. And April itself was a record bookings month for Heartland, April of 2021. So, I think the math is great, we couldn't be more

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pleased with where that business sits today. I think what we're doing right there is a few things. First of all, what I would say is the product releases as we've described over time in calendar 2020 were all-time record number of product releases in our relationship led businesses. And the bookings, going back to what I said a minute ago, to have two of your three best quarters ever in bookings, what you're seeing now, Tien-Tsin, is the flow through from those bookings last year into revenue in the first quarter of 2021, continuing into April and May. So, I think we're in a really healthy place.

I think we've got the right product suite. We'll obviously talk more about that in our September Investor Day to come. But we've got the right product suite. We've got the right sales focus. Increasingly, what they're selling even in Heartland is technology-enabled. So, probably 50% of the solutions that they're selling today are semi-integrated. It's not a full integration that we have in Global Payments integrated, but semi-integrated. And the other thing I would say is they've done a great job selling e-comm. So, back to the point I made a minute ago, in the relationship-led US business, in the first quarter, Tien-Tsin, 330% growth in e-comm bookings in the first quarter of 2021, a lot has been driven by the relationship-led business. So, it's a combination of very good execution, terrific leadership by that business, but also, I think the right products, the right focus, I think it's pretty clear that we've captured meaningful share in that business relative to Visa and Mastercard as proxies of what the market is doing.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah. No, it sounds like the right content. And of course, you've got the sales force to go out and sell it. So this feel like sustainability is real here because the backlog has been good. So, the right question for us to ask is just on the booking side, how that's performing? Is that the most important KPI here?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.



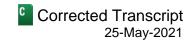
Yeah, I think that's exactly right. So, we obviously disclosed publicly a lot of our bookings every quarter. We obviously watch that very closely. Just a few points that I think are worth pointing out on recent bookings trends. So, let's just start with our Global Payments Integrated business [indiscernible] (00:21:16) bookings, the bookings from last year have translated into revenue in Global Payments Integrated, so that business grew 23% in the first quarter 2021 over 2020, before lapping the pandemic. As you would expect, it accelerated into April as you would expect given the comparison.

So, I would say bookings there in the first quarter were 120% year-over-year growth in bookings in Global Payments Integrated ahead of our budget in bookings growth for that business. We talked already about the relationship-led business. Let's talk about Canada for a second also big payments market for us, 40% growth year-over-year in bookings in the first quarter in Canada. Let's look at our vertical markets businesses, AdvancedMD, which had a fantastic year during calendar 2020 mid-teens growth in bookings in the first quarter for AdvancedMD, mid-teens revenue growth in the first quarter for AdvancedMD year-over-year.

[ph] Teledoc (00:22:15) visits on a run rate of 2 million visits coming out of the first quarter. We did 0.5 million visits in the first quarter of 2021. All of last year was 1.5 million. So, we're looking at a run rate going from 1.5 million to 2 million in [ph] teledoc (00:22:31) visits coming out of the AdvancedMD. As we said in the call a few weeks ago, Tien-Tsin, our Xenial Restaurant point-of-sale cloud SaaS business record bookings growth in that business as well in the first quarter of 2021.

So, the nice thing about where we are is the bookings from last year which were terrific are flowing into revenue this year already. And the bookings that we're doing now will hit revenue in the back half of this year continuing

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well into 2022. So, we feel really good about where we are from a sales momentum point of view. And you're right other than just how is the P&L doing bookings is the most important KPI to look at.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Okay. Got it. So, this is great. So, before we go to the software owned and Zego, I do want to ask you about that. How about the three vertical market businesses, I know that's been lagging. It sounds like that could be some upside to the extent that that comes back. And then also your outlook for the non-tech enabled business, the 30% to 40% that's not tech enabled. What do you see post pandemic there?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

So, I view those three businesses which primarily are gaming, active, and K-12 schools as being as you said right [indiscernible] (00:23:35) of the canaries in the coalmine. When things weren't going well last year, those were the three that were probably most impacted. The good news is two of those three have really turned. Sitting here today, as we announced in the call a few weeks ago, our gaming business revenue actually grew year-over-year. We've seen fantastic growth in our sports gaming and our iGaming business has grown very substantially off of a low base prior to the pandemic, which I think is also terrific to see. We also saw and we also had a very good booking cycle in gaming too. So that growth is going to hopefully be sustained.

In our active business, we saw mid-teens bookings growth in the first quarter of 2021 and very substantial sequential revenue improvement in the first quarter of 2021 relative to the fourth quarter of 2020 in our active business. So, listen, on two of the three, I'm pretty optimistic and I think have really turned heading into the middle and back half of calendar 2021. Collectively, they were about a 300 to 400 basis point headwind in the first quarter of 2021 is a revenue matter as it relates to the merchant business that we report.

I would say though that the one business we're still watching pretty closely is the K-12 business. We make a fair amount of our profit there on school lunches and the moratorium, the free lunch program has been extended into the spring of 2022 beyond the end of this calendar year. So, we'll have to watch and see really how that plays out. But two of the three businesses have really turned pretty substantially and we're very optimistic about where those were heading. I'd also tell you based on updates I've gotten from our businesses, I do think Canada is likely to start reopening if the health data continues and the vaccination continues the way it is toward the end of the second quarter, be more of a third quarter event, which I think is good to see as well as many of our markets in Europe heading into the third quarter. So, I don't think there'll be a lot of impact incrementally in the second quarter from the non-US markets especially Canada and Europe. I do expect that to be a tailwind if the trends continue heading into the third quarter and the rest of the year. So, I think that's good news for our business going forward.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

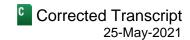
Okay. Great. No, I think we have ten minutes left. I want to make sure we hit a few things. Zego I like that prop tech space on the software side. I know they do a lot in payments and they're adding a lot of software content. They've done a couple of acquisitions I think. What excites you about owning this asset?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

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So, for us, it's a tail of really vertical markets and real estate was not a vertical market here in the United States because we chase GDP and real estate is one of the largest vertical markets in the United States by way of GDP. We really not – we're not directly present any meaningful way in real estate prior to the announcement of the Zego transaction. We've looked at real estate as an attractive market to enter because of its size, \$6.5 billion of TAM in one market, largely under penetrated from a payments point of view. What we said the other day on the call, Tien-Tsin, is that we think only 3% of the market is penetrated by digital payments through Zego. So, they do about \$30 billion of volume and \$1 trillion dollar market opportunity today. So, we couldn't be more excited.

I also say having looked at almost every real estate technology asset you can look at in the last three to five years, we have had a long window on this. We've looked at this with Vista, bought in 2017, I would tell you Vista has done a fantastic job as has the management team with substantially enhancing the Zego business and probably one of the best diligence reviews and reports that we've done in quite some time on a business that we've looked at which I think is saying something.

So couldn't be more excited to be in the real estate business. If you think about things that we can add to it first on the revenue side, we can leverage the 3,500 sales and sales support professionals we have globally at Global Payments to be honest to sell more Zego at the end of the day. Second, we have the ability as a payments company to drive more payments adoption into that space even at the height of pandemic, Tien-Tsin, while payments adoption went up at Zego in terms of the percentage of your universe using digital payments versus cash or check. It's still the clear minority of what they're selling about 80% under penetration. So about 80% to go or 20% digital payments penetration today at Zego. So, we think we can help scale that as we have done similar things with companies like AdvancedMD and with ACTIVE over periods of time.

Third, we can bring the business outside the United States. Think about Canada is largely a domestic only business today in the United States. So, we think there's actually a lot we can do together before we even start looking at the expense side of the ledger. I think our track record on the expense side with TSYS and Heartland and everything we've done is also pretty good. So, we think there's a real ability to dramatically increase the size of their business, our presence in the real estate vertical, which as I said before, it fits all the trends of digitization, safer commerce, omni-channel usage, frictionless environments, and commerce enablement for consumers. So, I think the trend is our friend here and I think we're in a really good place with a lot of talent.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

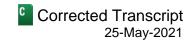
Yeah, no, I like that space. I think it's a good complement to EHR. It does feel like there's more penetration and software potential there. So, we'll be watching that. We're almost I guess more than five minutes left. Just I don't want to let you go without talking about issuer. We've heard from a lot of your larger peers. They've been spending money trying to modernize their platforms. [ph] You're standing outside (00:29:00) of AWS. So you called out some wins, good backlog. How would you call out the pipeline or qualify the pipeline today, the backlog, your win rates on the issuing side? How does it feel at this point?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc. Hey, Tien-Tsin, I would say that I think we probably have as deep a pipeline as we've ever had in that business.

We've been disclosing every quarter so you guys can kind of see what our progress looks like and everything else. Just to start with where we are factually, so we said this on May 4th call, so we exited the first quarter really March year-over-year 2021 over 2020 before we lapped that pandemic with that business initially already growing at our mid-single-digit target year-over-year on a normalized basis which is our goal for the remainder of the year. So, I feel really good about where that business is positioning and we did that while we were still absorbing the

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impact year-over-year of, obviously business travel still remains down year-over-year. Obviously, there are some trends that are increasing there.

I would say in the pipeline side, I think what we disclosed was we have 14 letters of intent, a lot of those stay with AWS, seven of those would be competitive takeaways. If we bring those to fruition, we have about a 50% success rate in my opinion in winning competitive jump balls, that's obviously with people who are not current customers of TSYS and Global Payments, whereas an existing customer like Barclays US which we just announced a renewal of our May 4th call. Obviously, our win rate there is pretty spectacular. And I think across a number of our markets, we feel like we've got really good market share. So, we think we were early investors into the digitization of that business.

I think Amazon is going to help us not just on the technology side, but also on the distribution side. You're seeing that with the wins, I think we've already announced the one in Asia which will go live at the end of the year, a multinational financial institution which is the takeaway as I mentioned before from one of our competitors. We'll be the first live up and running within the AWS Cloud of a large financial institution multi-nationally. We also announced a win with UMB Financial a couple of weeks ago. Not only, Tien-Tsin, was that a takeaway from one of your other speakers, but that will be our first data and analytics stand up in the cloud with AWS for UMB and we couldn't be more excited about that. So, I think we're in a really good place in our issuer business. I look for growth to accelerate as we exit 2021 and head into 2022, so I think our pipeline is really good there. I feel really optimistic about where we're heading.

The last thing I'd say on issuer is that together with AWS, we think that we have the ability to triple the size of our target addressable market. One of the things that we're going to do is go down market into neobanks and fintech startups. So, I think we have the ability to look at businesses that historically we would not look at because of their size and scale and our lack of sales focus on those initiatives, so stay tuned. But I think together with AWS, we've got a unique ability to target some of those markets that we weren't in historically and that's one of them.

Tien-Tsin Huang

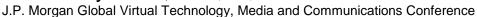
Analyst, JPMorgan Securities LLC

Yeah, there's a lot of focus on neobanks and fintechs for certain. So, okay, we'll be watching out for that. We're almost out of time, Jeff. I definitely want to ask you two things. I'll ask them together. I guess we need to keep it to a couple of minutes or less. So, margins, the recovery I think should allow for very strong incremental margins to come through, but you also – because you protected the margin, the cost base well here. I would imagine you're going to [indiscernible] (00:32:23) for some normalization of personnel costs and investments as well. So, how do you balance that? Can we see margins above sort of pre-pandemic as a result of what you've done? And then, of course, on M&A, you mentioned neobanks and fintechs. There's so much going on, well-funded private companies, a lot of IPO activity. Is the appetite to do M&A, I know you did Zego, is the appetite to do M&A or sense of urgency to do M&A greater now than what it was maybe say at the beginning of the year?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Well, those are both great questions. I'll try to answer them pretty quickly within the timing constraints. So, first on margins, we've expanded margins 400 basis points in the two years since the announcement of the TSYS merger, which finally, next week is exactly two years. So, it's a happy anniversary for Global Payments and TSYS as well, so 400 basis points there. I would say our guidance this year is we're up to 250 basis points of expansion. That includes the normalization of cost, Tien-Tsin. It would have been up to 450 this year alone if those costs hadn't normalized. But I think, going forward, we're going to be on a permanently higher margin trajectory and there's a few reasons for that.





Number 1, we're just not done with the merger synergies yet. So, we'll get some carry through on that, heading into next year beyond the normal ordinary operating margin that we always get. Number two, what you said is exactly right. So, the parts of our businesses are growing most quickly are the technology enabled businesses. A lot of our software partnered and owned assets are already at margins that are north on average, margins that are north of our already average margin of 41%. So, the stuff that's recurring, the stuff that's technology, the stuff that's software-enabled is coming in at very high incremental margins. I think we've talked about 70% to 80% incremental margins historically in the payments business.

For example, so a lot of that is going to flow through and that's where a lot of the margin expansion is coming from and we should see that through the rest of the year heading at least into the first quarter really of next year. And then second just in the interest of time on your question, our pipeline remains full. We started looking at M&A again very seriously in November of 2020 once the pandemic really had started to recede somewhat here in the United States. So look for us to do more things obviously time will tell. But I think we've been able to balance capital return to shareholders. We did \$1 billion of buyback from November of 2020 to February of 2021. And now, we just invested \$1 billion in two deals that we announced a few weeks ago with more to come depending on what happens over the coming period of time. So, I think we have an ability to balance each. They're not mutually exclusive. The balance sheet is only levered [ph] 2.6x net (00:34:59) today. We just did about \$1.5 billion in free cash flow in the last two quarters so we have plenty of financial firepower and capacity. So look for us to do more but of course time will tell.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Hey, look, you've navigated the pandemic very well. It seems like you've set it up well to do some good things here in the recovery. And the chess board is really fun to examine. We're all watching to see what you do next, Jeff, for sure. So thanks for spending some time with us today. And like I said, I hope I could see you in Atlanta sooner or come up and see us in New York City, okay.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Well, thank you for having us. As always, it's a pleasure to be here.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Jeff, that's great. Thank you so much.

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