07-Dec-2021

Global Payments, Inc. (GPN)

UBS Global TMT Conference

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Chief Executive Officer & Director, Global Payments, Inc.

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Rayna Kumar
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MANAGEMENT DISCUSSION SECTION

Rayna Kumar
Analyst, UBS Securities LLC

Good morning, everyone. We are on day two of UBS's TMT Conference. I am Rayna Kumar, and I lead US payments processors and IT services equity research coverage. We're delighted to have Global Payments' CEO, Jeff Sloan, with us here today. Thanks for taking the time, Jeff.

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

Thanks for having us.

QUESTION AND ANSWER SECTION

Rayna Kumar
Analyst, UBS Securities LLC

Q

So, Jeff, at your Investor Day, you raised your cycle guidance which now includes low double-digit revenue growth and high teens to 20% EPS growth over the next three to five years. What needs to happen to achieve the high end of those targets? What could prevent you from reaching those targets?

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

A

Thanks again, Rayna, for having us here today and it's a pleasure to be with you, and thanks everybody for listening and your interest in us. So, let me just start by reiterating what you said so everyone is on the same page. So, on September 8, 2021, we had our most recent Investor Conference. We now expect to generate double-digit adjusted net revenue growth over the next three to five years, 50 to 75 basis points of adjusted margin expansion, and 17% to 20% compounded earnings growth, and those are all increases as you mentioned, Rayna, versus where our previous cycle guidance was back in 2018.

So, let me just start, to answer your question, by saying our confidence in raising our cycle guidance target really comes from the things that we talked about in our Investor Conference. First, the acceleration of digitization in payments, Rayna, as we talked about in the conference. The pandemic has actually accelerated the ongoing trend and probably brought forward by three to five years the digitization of payments, and we are the beneficiaries of the demise of cash and check in the system. Second, our ongoing mix shift, Rayna, that we talked about in the conference for technology-enabled strategies which account for more than 60% of our revenue today and the vast majority of our growth, and we said in the Investor Conference in September, Rayna, that we expect that to account for three-quarters of the revenue of the company over the next cycle. Our exposure to expanding TAMs, and of course, we announced our entry into B2B in our Investor Conference in September. And then lastly, our focus on capital allocation which I'll come back to as we talk about some of your questions this morning. And in general, that has added 200, 300 basis points of growth to our earnings streams over a period of time.

Specifically, your question about how we get to the ranges and kind of where we are, it's really more a function than anything else, Rayna, of the macroeconomic backdrop in the markets that we serve. As you know and as we talked about in September, we are physically present today in 38 countries around the globe. The US is three-quarters of the company; that's only one of the 38 countries that I described. And we do business cross-border in more than 170 countries. So, there's always going to be, Rayna, geographies that are further ahead and further behind as it relates to the pandemic and as it relates to economic growth. I think it's really important to point out though, Rayna, as we said a number of times over the last few quarters, we don't need perfection to hit the targets that we've laid out, and even the high end of the targets that we laid out in the Investor Day and that we've described publicly.

The other thing I want to mention is we said this in September but we also reiterate, Rayna, in November that we are targeting on a [ph] quarterly (00:03:42) basis for 2022 the high end of our cycle guidance range, and specifically we're targeting the high end of the 17% to 20% earnings per share growth. And most specifically, to be clear, 20% is what we're targeting EPS growth for next year. What drives us to the high end, Rayna, is first, our assumption that we continue to see a gradual recovery in the broader macroeconomic environment, and we also benefit, of course, with that recovery with the lapping of the pandemic. So, for example, first quarter of 2021, we obviously were trying to lap the first quarter of 2020. That means that the first quarter of 2022 is going to be a relatively easy comp. So, that's one of the things that obviously gives us confidence in the 20% earnings growth number.

The second thing that I would highlight is we expect that these strong bookings trends across our businesses that I think we've been disclosing, Rayna, quarterly for probably two years now will continue to flow into our businesses and provide a real tailwind as it did in 2021 where we expect to grow adjusted net revenue 14% or 15% this year. We expect those bookings to provide a really strong tailwind into 2022. And we've been disclosing those bookings trends so I won't repeat it here, but you can look at our earnings releases and transcripts for how those are going. And then, the last thing I'd say, Rayna, is we continue to expect to realize incremental synergies from our merger with TSYS. That deal closed in September 2019, but we do have incremental synergies that are going to roll into 2022 that also gives us the confidence to be toward the high end of the earnings per share cycle guidance range for 2022.

And then finally, I want to just talk about kind of where we are and really the run rate and the jump off point which also gives us confidence for next year. So, Rayna, we just produced the two best quarters of financial and operating performance in our history in the second quarter of 2021 and the third quarter of 2021. And of course, our guidance for the fourth quarter of this year as well as for calendar 2021, especially for our merchant business which is two-thirds of the company, assumes an acceleration in that business in the fourth quarter that we're in right now. So, all of that, we expect to have a record 2021. Our initial targeting for 2022 was also a record, so I hope you can see why we think we're pretty optimistic about where the business is today and where it's headed.

Rayna Kumar
Analyst, UBS Securities LLC

Q

It's extremely helpful, Jeff. So, we've seen recent hikes in COVID cases. We have, obviously, a new COVID variant; new travel and lockdown restrictions. So, maybe if you can just help us understand how merchant volumes are trending in the fourth quarter given all the noise from COVID and travel. That would be helpful.

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

A

Sure. So, we're monitoring the Omicron. I'm never sure how to pronounce it, if it's uh-micron or oh-micron.

Rayna Kumar
Analyst, UBS Securities LLC

Q

I'm not sure either.

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

A

But we're monitoring the new – yeah, you may know; I know I don't know. But we're monitoring the new variant. But to be clear, to-date, we haven't seen any significant impact from the variant or from any of the new travel restrictions. And I think it's important for you and everybody to recall that we previously highlighted that travel and entertainment worldwide is only 2% to 3% of company revenue, so we're relatively small exposure to travel and entertainment. And our international businesses, really intentionally, are generally domestic-oriented, and that was particularly true, Rayna, throughout the pandemic where any cross-border exposure that we had in that 2% to 3%, we really refocused our non-US merchant businesses to be catering to domestic consumption. So, at the end of the day, we are very well-positioned regardless of what happens with any of the variants.

As we said on our earnings call, Rayna, in November, our volumes in October were better than our volumes in September, and I'm pleased to now tell you that November was better than October and consistent with our expectations. I'd also say in our issuer business which, recall, is like 25% of the company, so the merchant is two-thirds, but in our issuer business we also saw very strong growth in transactions on and around Black Friday. So, we're pleased with where we are and we're pleased with the holiday season. We haven't had any discernible impact from the new variant, and it looks like November is better than October and consistent with our expectations. So, I think we're in a pretty good place.

Rayna Kumar
Analyst, UBS Securities LLC

Q

That's great details, Jeff. So, as we've seen in your past earnings results, your merchant acquiring revenue continues to outperform the credit volume growth rates that are reported by Visa and Mastercard. You've definitely given some great details at your Investor Day, but what other proof points can you share with us today that show that Global Payments continues to win market share in merchant acquiring? And are there any other metrics that you plan on showing us on a recurring basis that could provide as proof of those share gains?

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

A

Sure. It's a terrific question, Rayna, and thanks for asking it. So, I'd start by reiterating what you just said for everybody's benefit who may not know us as well. So, I hate to say it this way, Rayna, but let's start with the 75-page investor deck. I don't mean to point people to have to consume 75 pages of PowerPoint material, but on our website, we have very detailed disclosure in our merchant business but also our issuer business, our B2B strategy, our financial update, etcetera. So, I do think for folks who have not seen the investor deck, it's on our website as well as the transcript from the 3.5-hour Investor Day. So, I appreciate you raising it and I just want to mention that for everybody's benefit.

I would say on your question beyond the Investor Day, in the last two quarters, we have disclosed both for the June quarter in our September Investor Day and also the September quarter which we announced obviously in early November, we have disclosed both volume trends in our merchant business, Rayna, as well as MID count, so merchant ID or number of merchants count in the last two quarters, and that compares very favorably to our peers. As I mentioned in response to your last question, Rayna, we have been disclosing bookings trends in our merchant business but also our software, our vertical market software businesses, and we've been disclosing numbers of LOIs and pipeline in our issuer business by quarter for the last two years. So, there is a lot of disclosure we've been giving around the momentum of the business and around KPIs as we manage the company over the last few periods.

Just to highlight what we've been saying, and I'll come back to our plan going forward in a second. But just so everybody's on the same page in terms of what we've been describing, we believe that the credit volumes for the networks, that is Mastercard and Visa which probably represent 80%, Rayna, of the US credit-related business which, as I mentioned, is three-quarters of our company, we think that the networks' credit metrics is the best comp to kind of what we do. Global Payments is today about 90%-plus credit-centric. We have relatively little exposure to PIN debit to be specific. And where we do, Rayna, it's in places like petroleum, kind of oil and gas stations where our pricing scheme there is not volume-based; it's cost plus a penny or two per transaction. So, the retail price of oil and gas to the consumer oil and gas going up and going down has no bearing on our economics even in the PIN debit business that we have here in the United States. Which is why we think the credit metrics, Visa and MasterCard, on a bank card basis are the best proxy here in the United States for how we've been doing.

Relative to those metrics themselves, we've significantly outperformed this quarter as we have throughout the pandemic, and there's a slide on this obviously in our Investor Conference. But to go to the September quarter which is our most recent one, our worldwide acquiring business grew revenue 19% compared to 2019, and volumes were really on top of that, so there's really no significant difference between revenue and volume growth for us in the most recent quarter. The other thing I want to point out, Rayna, in the most recent quarter in September is that we grew our merchant ID or merchant count by 14%, one-four, relative to 2019. So, the number of customers we have regardless of the pandemic is actually up 14% kind of period-to-period, which is a good approximation as to the health of the business. That 19% revenue and volume growth is about 900 basis points better, Rayna, than the average of the Visa and Mastercard bank card volumes. And if you pull Zego out of the 900-basis point number, which is a deal we did in real estate, it's about 700 basis points better than the Visa and Mastercard trends that they disclosed also for the September quarter.

I'd also say as a trending matter, and we had this slide in the Investor Conference in September, if you look at the two or three quarters in 2020 as the pandemic started, our average spread versus the networks in terms of acquiring growth was about 400 to 500 basis points. In the last couple quarters, it was 900 basis points in the third quarter and I think 1,000-plus basis points in the second quarter. So, our lead, Rayna, has been expanding is the way we think about it in the most recent couple of quarters relative to the beginning of the pandemic.

And the last thing I'd say, Rayna, relative to the markets is obviously, we do look at Fidelity and Fiserv. Beyond the bank card volume, we look at Fidelity and Fiserv in their merchant segments as being a pretty good proxy to how we're doing from a market share point of view. Fidelity's merchant business, I believe, was up 16% in the third quarter of 2021 versus 2019; again, our number is 19%. And Fiserv's was similar to ours even though they have a big debit exposure, I think, which helped the number; was also around 19%. So, however you slice it, Rayna, if you compare us to bank card volumes, we're 700 to 900 basis points better and that's been consistent. If you compare us to two of our direct peers, namely Fidelity and Fiserv, we're somewhere between 300 basis points better to being kind of neck-and-neck regardless of the debit mix volume. So, I think we're in a really good place.

Finally, I would say going forward, it's reasonably clear to us that people react better when numbers are on a slide. If you go back and look at the Investor Conference, I hate to talk about 75 slides but we had slides that were used in the Investor Conference, and I think people reacted pretty well to those. Fidelity had slides, too, in their most recent call and I think people reacted pretty well with those. So, you should expect that in February of 2022, beginning in February, we'll actually take the data that's in our earnings transcripts and our press releases along with some of the KPIs, volumes, MIDs, etcetera that we disclosed in our 75 pages in our Investor Conference, and we'll put those on supplemental slides, Rayna, starting in February. So, there won't be any ability to be confused or not really know what we're talking about because we'll have it in a graphical format, and I think we all probably understand that that just works better for everybody. So, people can see starting in February, graphically, kind of what those numbers are and how they're trending.

Rayna Kumar
Analyst, UBS Securities LLC
Q

That sounds great, Jeff. So, if you can give us an update specifically on a number of your verticals, K-12, ACTIVE Network, and gaming. What gives you confidence that these verticals will fully recover to pre-pandemic growth levels?

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

Well, it's a great question, so let me just start off by saying those are three very good businesses. The impact has squarely been from the pandemic and not from something else. So really, they've been most acutely impacted by the pandemic and haven't recovered as sharply as some of our other businesses, which I'll talk about in a second. Having said that, the fourth quarter that we're in now, Rayna, the fourth quarter of 2021, we expect the portfolio to pivot to growth compared to 2019, so hopefully a lot of that, Rayna, therefore is behind it, will no longer be a drag on our performance relative to 2020, and we'll be growing relative to 2019.

To give you a sense of size, those three businesses, K-through-12 schools where we have [ph] 40,000 (00:16:24) public schools primarily in the United States using our services; our gaming business which is a mix of online and offline, but mostly offline; and our ACTIVE endurance business collectively contribute about 10% of merchant revenue and, as I mentioned, they're all healthy but for the obvious macro around the pandemic. The very good news beyond the fact they turned in the fourth quarter that we're now in is that ACTIVE and gaming has showed really good bookings trends and really good performance most recently. K-through-12 is going to be a little bit longer because the way that business works, Rayna, is two-thirds of the revenue is payment for school lunches and that kind of thing. Only a third is cloud SAAS that the K-through-12 schools pay, and the US government has been offering free school lunches coming out of the pandemic to students around the United States through the spring of 2022. So, we'll have to monitor how that business in K-through-12 really picks up. But as I mentioned before, we've already kind of hit the inflection point on those businesses growing in the fourth quarter that we're in, so we don't expect them to be a continuing headwind.

The other thing I want to point out for everybody is that some of our international markets, predominantly in Asia Pacific – and here, Rayna, I'm thinking most specifically about India and the Philippines – have been more disproportionately impacted by the pandemic and slower to recover and remain below 2019 levels. Having said that though, in the fourth quarter, we expect our Asia Pacific business to deliver mid-single-digit revenue growth relative to 2019, and that's an acceleration, Rayna, up from low single-digit growth in Q3. So, we actually think we've turned the corner on the Asia Pacific business, too, notwithstanding the fact that India and the Philippines, while stable, have yet to fully recover, right, from the pandemic impact.

And then, the final thing I want to mention is our commercial card business which I know we've talked about before in our issuer portfolio. Not surprisingly, that business, Rayna, is tied to travel and entertainment spending for businesses, so very much a function of kind of domestic and international traveling. It's also not fully recovered relative to 2019, and this business has been about 20% of our issuer business. Issuer itself is 25% of the total company, so call it about 4%, 5% of the total business. In the fourth quarter that we're now in, we expect the commercial card issuing business will probably be down in the high single-digit range relative to 2019 and will grow low single digits versus 2020. So, we kind of lap the worst period of it relative to 2020, but that's probably one business that's not yet back to 2019 levels. The good news there is that we're seeing sequential improvement, and we expect all of these businesses to recover going forward and really serve as tailwinds to growth in 2022 and beyond. So, I think we're really positioned very well heading into next year which is what gives us the confidence to target the 20% growth in earnings that we've been talking about.

Rayna Kumar
Analyst, UBS Securities LLC

Q

If anyone has any questions for Jeff, feel free to type it into the chat box and happy to read them out towards the end of this fireside chat. So, Jeff, tons of discussion on buy now, pay later. It's probably one of the most controversial areas of payments right now. Do you view the growth of BNPL in the US as a positive or negative to your merchant solutions business?

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

A

Well, I think, Rayna, the answer is it's nothing but good news really for Global Payments and our business. So, as we said at the Investor Conference, Rayna, in September, cash and check is really the enemy. Digitization is the mode in which we compete, and we're the beneficiaries of innovation in the ecosystem, including things like BNPL. And for that matter Rayna, safer commerce, digital wallets, all those things accrue to our benefit, and I'll give you some specific examples in a second. Here, we are different than the networks. So, you think about the position, Rayna, of Visa or Mastercard, just by definition Amex and everything else. But for Visa, they really depend on consumers using Visa-branded bank cards or other Visa-branded services to continue to grow and gain share. We're really not in that position. As long as the merchant is taking a digital form of payment, we get paid and we continue to grow.

And one thing that we talked about in the Investor Conference that I think is obvious but I think it bears repeating here is at the end of the day, merchants want to accept any form of payment, including BNPL, that consumers want to use. So, as long as merchants are taking in BNPL, they're taking contactless, they're taking digital wallets, as long as they're not taking cash and check, we're actually going to be in the middle of that and get paid, and that's especially true, Rayna, when you think that 80% of our customer base is small to mid-size businesses, right? So, at the end of the day, those folks don't want to spend all their time figuring out which form of payment to take; they want to be able to take any form of payment digitally especially that a consumer wants to use. So, just be clear, we're really agnostic as to whether branded cards, account-to-account transfers, ACH, P2P, closed-loop digital wallets or other non-bank card rails are utilized. We're actually better off in every one of those instances as long as it's not cash or check, and that's the overall framework I think that people should apply. And there, we are differentially positioned better, I believe, than the end networks.

Specifically, though, on BNPL because that's the question that you asked; I want to address that, too. So again, as we said in September, we are already one of the largest enablers of BNPL today. So, as I mentioned then, we enable more than 1.5 billion transactions already around the world for BNPL, so already a very big player in that space. We're also one of the largest virtual card technology issuers in the world. We have more than 50 million-plus virtual cards with more than $23 billion of volume. As you know, Rayna, I'm sure 90% of the amount used to settle the volumes are virtual cards in BNPL, so we're in the middle of that, too. And I want to mention one example, because it ties into BNPL but also non-bank card-based rails, the announcement we made in September with Virgin Money where we're developing their digital wallet for them that will be live in the middle of 2022, that really is going to be non-bank card rail-centric. What do I mean by that? QR codes, BNPL in your digital wallet, loyalty points. All those types of things are all really, I think, the next generation of payments technology, and that transaction itself will make us the largest debit technology partner in the United Kingdom, so I think positions us very well for non-bank card rails.

And then finally, as it relates to BNPL and digital wallets, we're one of the largest providers of digital wallet technology today with QR codes, so think about Alipay and Ant, think about Tencent with WeChat which are really QR code, ACH, and account-to-account-centric. We power all those around the world as the largest provider of NFC acceptance at the point-of-sale. So, the more QR codes, Rayna, the more P2P, the more ACH, the more BNPL, as long as it's coming from cash and check, at the end of day it's really good news for our business. That's especially true given the nature of our customer footprint, which is small to mid-size businesses. It's one thing for Amazon, for example, in the UK to say hey, I prefer Mastercard which is the deal they cut rather than Visa. Our merchants are generally the restaurant, the small pizza shop kind of on the corner, the dry cleaner, the small auto repair shop. Those folks are looking for us to provide alternative solutions to enable every type of payment acceptance like BNPL that someone can offer and that consumers want to use. They're not in a position to tell folks that they're not going to take certain types of payments or favor one off the other.

So, I think it's important to understand our core customer base and also important understand where we are in the distribution area which is 4 million-plus small and mid-size businesses and merchants around the globe. And our value proposition is very closely tied to that last mile of connectivity, particularly in the physical world which is three-quarters of the company but also in the virtual world which is a quarter of the company. At the end of day, providing solutions to those millions of merchants is what we do, and that piece is only further enabled by having more products to sell like BNPL.

Rayna Kumar
Analyst, UBS Securities LLC

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That's great detail. Thanks for that, Jeff. So, we do have a few questions coming in specifically on BNPL from the audience; I'll just ask them to you now. So, what do you think investors are worried about with BNPL if Global Payments is agnostic to payment type? Do you earn fees when BNPL is paid by ACH?

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

A

Yeah. So, the answer is if it's one of our merchants, the answer is yes. So, our predominant method of dealing with BNPL today, and we have deals with Affirm, for example, in the United States. I always get the name wrong, but I think it's Atome – it's kind of like the Omicron thing; I can never know how to pronounce it – in Asia Pacific, and obviously a host of providers kind of around the world. But in general, our economics, Rayna, are not impacted by the fact that it's BNPL. So, we typically have referral fees back and forth, so where we refer business, if it comes in through one of our merchants and we refer it out to a BNPL provider, that really looks to us no different than a typical credit or debit transaction that we would otherwise process.

The same thing is true on ACH; we have heavy exposure to ACH businesses today. Let me give you a few examples. So of course, the whole Virgin Money thing is really account-to-account than kind of bank transfer, which is coming in 2022. But putting that aside for a second, in our existing businesses that have been up and running for many years, our tuition, our university business, TouchNet, the vast majority of what people pay tuition with here in North America and also Western Europe is ACH. So, I pay my daughter's tuition at Vanderbilt in Tennessee. I'm not interested in paying 300 basis points of credit card charge; I pay via ACH. On the statement from Vanderbilt, it says Powered by TouchNet which is our Global Payments university product. Another really good example is our health and fitness series of businesses. A lot of people setup recurring charges for their gyms; almost all of that is ACH-based. And then most recently, Rayna, with our acquisition of Zego in real estate, as you would imagine, people paying their rent, the vast majority of that is ACH and direct debit from bank accounts and not bank-branded card payments. And there, that's probably 60% of the payment fees. Probably half of the business at Zego in real estate is cloud SaaS subscription software; the other portion is payments. The majority of the payment stream, not surprisingly, in real estate is ACH. So, we get paid obviously just fine on that and that supports the rate of revenue growth and margin which is very attractive in that business.

So, we have tons of experience in getting paid in non-bank card-based rails, obviously with Ali-Ant, with WeChat, with Virgin Money now, and our digital wallet scheme we just resigned our PayPal contract which we announced last quarter. Obviously, with PayPal's wallets particularly around the crypto space, we've got a lot of experience of funding digital wallet initiatives; a lot of those are QR and ACH-centric. So really, in our business, as long as it's displacing cash and check, we're going to do well.

Rayna Kumar
Analyst, UBS Securities LLC

Q

Well, it's interesting that you personally use ACH to pay for your daughter's tuition. That's very helpful.

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

A

I use the Heartland TouchNet product to do it. So just to be clear, I do use Global Payments and Heartland TouchNet to do it. But, yeah, look, people can arb the points, but I do pay at the end of the day with ACH through TouchNet for Vandy.

Rayna Kumar
Analyst, UBS Securities LLC

Q

Got it, noted. So, you've been the pioneer in the integrated payments industry. So, do you continue to see value in acquiring more integrated payment assets? And particularly, are there any verticals that you would like to add?

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

A

It's a great question, Rayna. So, our traditional priorities that we've used so successfully in the last eight-plus years that we've been running the company, which is M&A and then return of capital to shareholders, really hasn't changed. I said in the last call the pipeline is full. So, we look at software assets, owned and partnered. As you're saying about integrated, we look at e-comm omni assets as well, B2B now which is a new market for us, as well as entrance into faster-growth geographies and bringing those assets into those geographies, and that really hasn't changed. We've obviously done a bunch of deals in the last year. Zego we've been talking about in real estate is one of them. MineralTree in B2B in September is another. We've also expanded further into Portugal with our partners at CaixaBank and deeper into Spain during this this period. So, I think we've got a very good track record of continuing to kind of make investments and grow our company.

That being said, I would say sitting here today, Rayna, just given where the market has gone and our share price and the valuation of payment sectors generally, while historically we've probably been mostly leaning toward M&A with a secondary focus on share repurchase, in the immediate term it just makes sense for us to put our finger on the scale and err more toward share repurchase in the current environment. So, since the pandemic, I'll call it Wave 1.0 of the pandemic, so if you go March of 2020 to October of 2020, Rayna, starting in November of 2020 when Wave 1.0 of COVID started to lapse, we started ramping up the share repurchase machine in November of 2020 when it looked like there was light at the end of the tunnel coming out of COVID. My expectation is that will continue. I believe that we'll have bought back probably close to 7% of the market cap of the company from November of 2020, when that window reopened after COVID 1.0 until the time that we kind of get to the earnings call in February of 2022.

To the extent that we see kind of ongoing weakness in the capital markets heading into 2022, between free cash flow and leverage capacity, depending on your view of ratings and leverage, we probably have somewhere around $4 billion plus or minus, call it $3 billion to $5 billion of additional capacity next year for investment. And depending on where we are in February, we'll either ramp up or ramp down where the business is in terms of capital allocation. If nothing changes and we put another $4 billion, $5 billion back into repurchase, we'll then have repurchased about 15% to 20% of the company in kind of a two-year period, if that's what ends up happening heading into next year. If you back up further as I mentioned a minute ago, we just produced two best quarters in the company's history. From a financial and operating point of view, our expectations are for acceleration of our merchant business; I gave you kind of the October and November numbers a few minutes ago.

So certainly, my perspective is the business is in a very healthy place. To the extent the market doesn't recognize that, we'll continue to put our finger on the scale toward repurchase. We have plenty of capital capacity to do that. I think Paul said in the Investor Day that we have $20 billion-plus of capital capacity between free cash flow and leverage capability over the next three to five years, and we intend to utilize that. We don't intend to build cash.

Rayna Kumar
Analyst, UBS Securities LLC

Q

Great. So, we'll take another one from the audience now. Jeff, how do you think your technology and capabilities in e-comm compare to the pure-play e-commerce providers out there?

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

A

Well, that's also a terrific question. I want to compliment you, Rayna. Between your questions and the audience, it's a really good series of questions and kind of right to the point. So, listen, as we said in the Investor Conference in September, we couldn't be more proud of what we think is the largest, if not one of the largest – we call it now omni-channel, and I'll come back to that in a second because of the pandemic. But our e-comm omni business is about $1.4 billion; we expect to get $1.4 billion in revenue this year in calendar 2021. That business was growing mid-teens pre-pandemic. As we said in the Investor Conference, that business is now growing 20%-plus because of the share shifts coming out of the pandemic from the physical world to the virtual and from the physical world into the blended omni-channel world, which is kind of why we call it omni-channel.

In terms of how we compete, look, I think we're neck-and-neck. Great examples of this are our recent win with Uber and Uber Eats in Taiwan which we took away from Adyen. I think that's – and by the way, we also turned on in Sri Lanka, in Asia and more markets to come, but right now it's live in Taiwan and Sri Lanka. So, how do you win that business because I think it speaks to the question? The first thing I'd say, Rayna, is we have a mix in our business, which is why we call it omni-channel, of a virtual but also a physical presence. So, go back to what I said before. We're physically in 38 countries; we probably have, ballpark, 50 people sitting in Taiwan right now today as we speak, Rayna. I think we have more people in Taiwan than Adyen has in all of Asia, just to give you a sense. I'm not picking on them. I mean, these guys publicly disclose it. I'm just telling you what their public filings say as do we. So, I think at the end of day, one of the key advantages in what we do, and it's very expensive to do, is we offer local licensing, settlement, compliance, sales, support, product management, etcetera, and we do that across 38 countries that probably represent 95%-plus of volume worldwide in the payments ecosystem. That's taken 50 years – the company and I are the same age, 54, so it's taken more than half a century to accumulate that business. So, that's a very good, scalable moat for us which is very difficult for other people I think to penetrate and I think puts us in a very good competitive position.

So, the first thing I'd say is we would never win stuff like Uber if our technology wasn't neck-and-neck. And we've been disclosing our e-comm numbers, Rayna, as you know quarterly for three years now, and that business is now $1.4 billion as I mentioned before, so we're very pleased with where it is. So, the first thing is our Unified Commerce product platform which we released three years ago, almost to the day now, it's kind of November-ish of 2018. It has been very successful in kind of gaining share and I think puts us neck-and-neck in tech. But the second point of differentiation is this physical as well as this virtual presence, and I think that matters to lots of people, including people who have the size and scale of someone like an Uber. The third thing I'll say that's different about us, just responding to the question, is we're also primarily focused, as we are historically, on SMBs. So, taking SMBs kind of online, a physical SMB like a pizza chain, a physical SMB like an automotive chain, a veterinarian who is probably physically present before the pandemic and now everything has to be online. I've got three dogs; I don't know about you, Rayna. So, when we drop them off at the vet, I used to go in there; everything was kind of card-present. Now, because of COVID, you pull your car up, the vet actually comes into the parking lot, you hand your dog or your cat to the vet, they scan your phone or you have a QR code, and you do it online because no one wants to touch anything.

So, that trend towards safer commerce really speaks to how our e-comm and omni business is positioned. We gave some stats. I don't think we gave the vet stats, Rayna, because I don't know the vet numbers back in September. But we did give the omni-channel food delivery stats, and we have every Burger King, Popeyes, and Tim Hortons in North America; I think we've got 25 of the top 50 QSR brands using some of our services, one or more of our services, and obviously now we have the Mercedes-Benz Stadium here in Atlanta doing the same thing. And what I'd say about all those things, Rayna, at the end of the day is there's been a blurring of the physical and the virtual worlds accelerated by the pandemic. So, what do I mean by that? So, I think we've done something like 200 million omni online orders from Burger King. I know it sounds silly that you're going to buy from Taco Bell or whoever the customer is, buy your taco on your phone, pay with your face or your thumb, and either have it delivered via DoorDash or Uber Eats, or you go to the drive-thru and just like they'll hand you the bag; ala Starbucks but you're not actually going to go sit in a restaurant. We probably did 20 million of those before the pandemic and we did 200 million, right? And I think a 300 million run rate in the most recent quarter.

So, we are the beneficiaries of those share shifts in our business. And if you think about the question, the pure-play e-comm folks are not – there's no physical analog. Why would you need DoorDash for them? Why would you need Uber Eats for those guys? We're instead levering the 150,000-plus restaurants in North America that actually use our services in the physical world to take them virtual more quickly, and I think that was always going to happen. But during the pandemic, that probably brought that forward, Rayna, by three to five years, and very much we're the beneficiaries of that kind of innovation through safer commerce in the ecosystem.

Rayna Kumar
Analyst, UBS Securities LLC

Q

Got it. Okay, now those are very interesting examples. Thanks, Jeff. So, I just want to move on to your issuer business. If you talk about the outlook for issuer, how does your current pipeline look? And if you can specifically address the opportunities that you have with AWS.

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

A

So, we're super pleased about the two partnerships that we announced, Rayna, during the pandemic. And we didn't sit still during the pandemic; we actually moved the strategic ball really far down the field. The first one obviously is AWS. I do want to mention Google because we can talk about it in the context of the merchant business, which I think is a similar game-changer, so if we have time we can speak about that. But on the issuer business with AWS, we couldn't be more pleased with where we are. So, that is really a partnership and a collaboration around lift-and-shift. So, what do I mean by that? So, AWS is 18 months into modernizing our issuer technology and making it cloud-native rather than just kind of cloud-enabled, so think about COBOL moving into Java. So, digitization of the underlying infrastructure in the issuing business, and then obviously bits and pieces over time get moved into the Amazon Cloud, which is where it will be hosted.

We're a year and a half into that process. I would say the good news, not surprising, well, at the time a couple years ago, who really knew the public cloud sells in financial services? Some of our direct competitors either don't have a cloud strategy or they have a hybrid kind of private cloud strategy. I would just say sitting here today the public cloud sells. The first joint win that we had, which is a large bank in India, is in pilot production right now with us and AWS in the cloud. It was a straight to cloud rather than a conversion that's going to go fully live from pilot on January 1, 2022, so we're kind of already there. We already announced UMB, United Missouri Bank, a takeaway from one of our competitors. Same thing; the loyalty and data initiative, straight to the cloud, right, in

AWS rather than some kind of conversion. So, the cloud really sells, and not surprisingly being exclusively aligned for the next decade with the largest provider in the cloud world, it especially sells. So, we couldn't be more pleased with where we are.

In terms of pipeline that we've been disclosing really by quarter over the last six to eight quarters, as we said in September, Rayna, we've got a pipeline that's worth over $2 billion in contract value over the term, with over nearly 30 million accounts yet to be boarded on our system. We currently have 10 letters of intent with financial institutions worldwide in the pipeline, six of which, so 60% of which are competitive takeaways with FIs. We've announced a whole series and slew of referrals. To be honest, right now, I can't think of a single customer of any significance that we would point to that we didn't resign in the 2.5 years since the merger, Barclays, Citi, CIBC just kind of in the most recent environment. I'd also say it's worth noting here before I get to fintechs that in the FI segment, we don't ever see Marqeta, right? So, when you think about kind of the startups and everything else, that's just not something that we see in that environment primarily because we are credit as well as debit. As I mentioned a minute ago, Rayna, with the Virgin Money UK implementation, by the summer of next year we'll be the largest provider of debit technologies in the United Kingdom. And we've got other deals we hope to announce early next year which will make us the largest provider of debit across all of Europe in terms of debit technologies. But the mix of credit and debit is really distinctive to us. Folks like Marqeta are almost all-debit because, to be honest, it's just easier to do. And that's really a series of use cases, which is why they have three customers, we have thousands. So, I think that's the comparison to draw on the FI side.

As it relates to neobanks, fintechs, and startups, what we said in the most recent call in November is we have 25 in the pipeline today. I expect to have an update, Rayna, in the fourth quarter call in the first quarter of 2022. So, on the February 1, 2022 call, I expect a number of those, call it five or so to go into contract – in LOI, and we'll tell you the names when we do. The biggest issue we have with AWS and the biggest positive is the pipeline is overflowing from those guys. As you would imagine, a lot of neobanks, fintechs, and startups go to AWS when they start talking about cloud entry and rolling out their products and services. It's up to us and AWS to kind of sort through those, pick the ones that are the most promising and most opportunistic and execute on them. So, scaling that part of the business is kind of what we're working on, and we expect a decent number of those 25 to be signed by LOI in our February call, and obviously we'll give you the names at the time. So, we couldn't be more pleased with where we are in both the consumer and the commercial business with AWS. And I would say that partnership, particularly on the co-sell side, is substantially exceeding our expectations from a couple years ago when we signed it.

Rayna Kumar Q
Analyst, UBS Securities LLC

Great. Okay, well, since we're getting to the last few minutes of our session, Jeff, I just want to ask you one final question. What do you think investors misunderstand about Global Payments? What do you think investors are missing here?

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

Yeah. So, I'd say it's a few things. Listen, on the stock price performance, you know as well as I kind of what's going on. I really think it's mostly, not entirely but mostly a tail of COVID. So, go look at the stock was in an all-time high price in 4P in April and May of 2021, when President Biden's view of COVID was you can have July 4 barbecue with your family without worrying about COVID, then obviously the Delta variant, now the Omicron variant come out, but people can have their own point of view. Listen, I think it's a financial and an operating matter. I think folks, there's so many new companies in our sector, although maybe new to the public markets, not new to us, but there's so many new companies in our sector and so many opportunities for investment, I think investors just kind of throw up their hands and say I don't really know kind of which one is doing what and who's gaining share and who's losing share.

I think the most misunderstood thing about us, Rayna, is how good the differential outperformance really has been. I gave you a bunch of metrics. There's 75 slides from September you can look; we'll have more slides in February. But we're just coming off a period where financially and operationally, this is for everybody to see, we had the best performance we've ever had in our history during the Delta part of COVID 2.0 and now I guess during the Omicron part or COVID 3.0, whatever we're in kind of currently. So, I think if people can just focus on the financial and operating performance, the increased cycle guide that we gave which is really market-leading for folks like us that we gave in September, focus on the guide for the fourth quarter, the acceleration into the fourth quarter, focus on our initial targeting for next year, if people could just focus on the mathematics and the facts and move away from the gee, I don't really know what's going on, it's like super complicated, I think that will be good for everybody.

We intend to help facilitate that as we did in September. We'll facilitate that in February by giving more detailed graphical pages about our market statistics, like volume, MIDs, the stuff we've already been disclosing and metrics around our vertical software environment which really are industry-leading in terms of revenue growth, margin, ARR, net revenue retention. Those are all really good numbers. In fact, in a restaurant business, those numbers are the same or better than toast in many cases. But I think it's hard for people, with 40-odd-plus public payments companies, it's very hard for people to kind of see through all that and kind of come to a point of view on how it stacks up comparatively, so we'll do that for everybody. So, we'll show you what we think that means and then people can kind of assess and come to their own point of view.

Rayna Kumar

Analyst, UBS Securities LLC

Great. Jeff, thanks for doing this with us today. Really enjoyed speaking to you.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks for having us.

Rayna Kumar

Analyst, UBS Securities LLC

Have a good day.