

23-May-2022

Global Payments, Inc. (GPN)

JPMorgan Global Technology, Media & Communications Conference

CORPORATE PARTICIPANTS

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

OTHER PARTICIPANTS

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

All right. Thanks, everybody, for joining. My name is Tien-Tsin Huang, I cover the payments and IT services sector at JPMorgan. Really excited to have Cameron Bready back with us from Global Payments, President and CEO so – COO. We are doing fireside chat, Cameron. Hope, that's okay. Gather a lot of questions from the investor community. We will also take questions from the portal, from the room so feel free to chime in as I have been telling everyone. But Cameron, great to see you, welcome.

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

Thank you. Great to be here. Nice to be back face to face. And good to see you after a couple of year hiatus.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

You haven't changed a bit. You haven't changed a bit [indiscernible] (00:34).

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

That's nice [ph] of you to say. I don't feel that way but that's nice of you to say (00:36).

QUESTION AND ANSWER SECTION

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

You look good. So I thought we kick in. If you don't mind going back to the quarter, I know a lot of time there's a lot has happened since then. But I was really surprised by the reaction from what we thought was a pretty good results. So, what do you think the markets aren't appreciating there?

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

Yeah. So I would say a couple of things. First of all, when you report kind of record first quarter revenue, margin and earnings, on the heels of reporting record revenue, margin and earnings for 2021, obviously, we were a little surprised to see the reaction as well. I think there is a couple of things driving it more than anything else. I think with us specifically, because we are a pure play payments company, I do think to some degree, we're a barometer for how people are feeling about the macro at any given time. So, I do think there's a little bit of macro overlay driving reaction versus any sort of fundamental performance, I think is point number one. Point number two, I mean, it's hard to argue, the whole sector has been under some pressure for much of this year and I think if you stack our performance up relative to the networks, I think we're outperforming them, generally, kind of, performing in line with those that are deemed to be kind of our comps in the marketplace. So, obviously, we like the stock to be at a different place than it is today. It's hard to say that the market is rational every single day or how the market's going to react to any particular news, any given day. But I do think it's rational over time. So I think from our perspective, what are people missing? I don't know that they're necessarily missing anything other than to say, look, if you think about this business and the fundamental performance we've been able to generate over a long period of time, coupled with the cycle guidance that we updated last September at our investor conference and the outlook as a fundamental matter over the next several years. Look, I think people should look at Global Payments in a couple of different ways. One is we're excellent operators and we have a fantastic track record of execution and we're very good at capital allocation.

So in this environment, we're taking every opportunity to continue to improve the business that we have. I think we're making very wise strategic investments, particularly as it relates to the large scale partnerships we've announced with AWS and Google. I think we continue to execute extraordinarily well in a difficult environment and I think we continue to make wise choices around capital allocation that as we come out of the backside of this current period, I think shareholders are definitely going to get rewarded for that confidence they place in us by owning our stock.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah. Accretive. Forgive me for asking. It's just... it's been...

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

No. It's a fair question. It's something we ask ourselves all the time.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

People heard me say, it's been a very humbling couple of years. So I just wanted to get your perspective on that. So before we get to the segments, right, you do get a lot of visibility on the macro. I know you said that the mood on that changes day by day. But what are you seeing on the ground, Cameron?

Cameron M. Bready*President & Chief Operating Officer, Global Payments, Inc.*

A

Yeah. I might go back to the first quarter since we started there and just look at the fundamental performance in the first quarter at a macro level. So if you look at our merchant business, volumes are up nearly 20%, slightly ahead of where the networks were. So I would say, overall, we saw a consumer in the first quarter that continued to be very resilient, continued to – I think look to engage in commerce coming out of a couple of years of obviously difficult environment. And I think that continued in the April timeframe, as we highlighted on our first quarter call. And since then, I think we've been seeing pretty consistent trend relative to our expectations.

So I think, as a consumer matter, the trends we see in our business continue to be very favorable, and I think we see that on the issuing side as well. We saw issuing transaction growth in the first quarter in the low-double digits. We saw account on file growth in the low-single digits. And in our issuer business as well, we're seeing sort of commercial card improve as well on the heels of what was sort of a flattish kind of Q1 for commercial. We saw improvement in April and, obviously, that's a tailwind that we expect to continue to drive the business in the balance of the year.

So at a macro level, transaction volume trends were good, consistent with our expectations kind of through the early part of May and, I would say, generally tracking in line with what we would hope to see with a nice tailwind in commercial for our issuing business in the back half of the year.

Tien-Tsin Huang*Analyst, JPMorgan Securities LLC*

Q

All right. Good, good. So when we looked back, we did a study, I don't know if you saw it, around volume and transaction growth. Global Payments very much in line on the merchant side. If we look at Global Payments versus the industry, it looks like, first quarter, it grew a little bit better than the networks and the revenue discount to volume improved a little bit as well but potentially still more room for improvement. So let's start with that. Where do you see that yield or that spread difference between volume and revenue on the merchant side?

Cameron M. Bready*President & Chief Operating Officer, Global Payments, Inc.*

A

Yeah. It's a good question. And I'd start by saying you have to kind of deconstruct our data a little bit...

Tien-Tsin Huang*Analyst, JPMorgan Securities LLC*

Q

Please.

Cameron M. Bready*President & Chief Operating Officer, Global Payments, Inc.*

A

...because it gets a little challenging because of the mix of businesses that we have. Everybody has their own mix of business inside of their own ecosystem. Everybody's mix is slightly different than that of the network, so there's always going to be a little bit of give and take around these metrics. One of the things that impacts ours is our software businesses.

So, we saw during the pandemic with those being a little bit under pressure, largely because we had some verticals that were more heavily impacted by the pandemic than others. You saw a little bit of disconnect between sort of revenue growth and what the underlying transaction and volume growth was in the business. And that's just largely due – a little bit of a headwind to growth because of our vertical markets, software businesses. And I think in the first quarter, as those begin to recover, and we saw those become more of a tailwind to growth for the business, that gap began to decline.

I would say if you look at the pure sort of merchant acquiring revenue versus volume trends, those have been very consistent throughout the pandemic. Yields have been very consistent. And I'd say over a longer period of time, we expect yields to have some tailwind to them as we continue to pivot the business more towards technology enablement as the vertical market software businesses continue to recover on the heels of the pandemic. We see all that as being generally long-term positive for yields in our business.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Good. So, I know the vertical markets business is unique to you in terms of the relative exposures. So, just catch us up where are you in the recovery for some of those? I get a lot of questions on, for example, education.

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

Yeah.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

How do we consider that now at this point in the pandemic recovery versus, say, two years ago or three years ago?

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

Yeah, I think it's important to deconstruct the vertical market portfolio, because we had some real winners that probably don't get enough attention during the pandemic. And then we have some that have obviously been a little heavily in – more heavily impacted during the pandemic than others. So, on the positive side, I mean, you have to start with AdvancedMD, which has just grown, I would say, at an extraordinary level through the course of the pandemic. It's up nearly 50% versus where it was pre-pandemic level as a revenue matter.

We crossed over 50,000 customers for the first time. We saw 42% bookings growth in the first quarter. So, that business continues to be just an outstanding performer for us same with our TouchNet business. It's up nearly 40%...

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Which is your education?

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

...which is our higher education.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Yes.

Q

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

As it's important to distinguish that between – in the lower education business which I'll touch on in a second. But our higher Ed business, colleges and universities, globally, largely, obviously, focused here in North America. That business is up 40%, as I noted, versus 2019, had a record bookings quarter in the first quarter, all-time bookings record for the business. So, again, a lot of tailwinds in that business as well.

The flip side, the verticals that have been more heavily impacted, you raised it in your question. Our K-12 business during the pandemic, when school lunches were largely free, obviously, that was a headwind for growth for the business, with kids not being in school, not spending in school, that was a headwind for that business. It's still below 2019 levels. But as we get into the back half of 2022, we don't expect school lunches to be free universally next academic year. So we do expect that business to begin to recover relative to 2019 levels as we get in the back half of the year.

The second vertical that was more heavily impacted is our active business. Active largely focuses on sporting events and fitness events as well as registration for fun runs and those types of activities. Obviously, during the pandemic, that business was heavily impacted by those events being canceled and not coming back to some degree quite as of yet. As we get again further into 2022, we expect that business to continue to recover back towards 2019 levels.

So if you look at the overall business and the portfolio as a whole, it did turn positive relative to 2019 levels in the first quarter. It grew at about or slightly ahead of the overall merchant segment growth in the first quarter. And as we've highlighted a couple of times, we expect it to be a tailwind for growth for us in the balance of 2022 and pushing into 2023 and beyond.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Right. As that catches up and surpasses 2019, that's what's going to carry that. Okay, good. So, I think another segment within the Merchant business, Cameron is on the restaurant side. That fields a lot of questions, because we do cover LightSpeed and Toast. Toast will be here, I think, tomorrow. You've had a lot of great new logo wins, so catch us up on where your sweet spot is on the restaurant side. I think I know the answer, which is you touched a lot...

Q

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

Yeah.

A

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

But just help us understand sort of how that market splits out and why you guys feel good versus some of the modern software-first providers.

Q

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

Yeah, it's a good question. And I think it's important to note that we lead with software...

A

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Yeah.

Q

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

...in that segment as well.

A

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Yeah.

Q

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

So if you think about the competitive landscape within the restaurant vertical market broadly, the mode of competition is at the point of sale, it is technology-driven and it's really driven by feature functionality and capability necessary to run the most sophisticated enterprise QSR, multi-location, multi-unit environment all the way down to the local sandwich shop or coffee shop. We provide technology solutions across that full spectrum of the restaurant vertical market. And we segment the market, obviously, because the needs of those owners are very different, whether you're trying to serve an RBI or Taco Bell down to again that local sandwich shop or maybe two location, three location unit offering that we bring to bear on the market.

A

Part of what we like about the restaurant vertical market, it's kind of the quintessential market that we like to focus on. It's large, it's global, it's highly fragmented, it's complex, and we think we have the right solutions to bring to bear on the market to really solve problems that owner/operators are looking to solve in their businesses.

At the highest end of the market, kind of that enterprise QSR play segment of the market where we compete with Xenial, as you highlighted, we had a number of new logo wins this quarter that I think are – create a very strong backlog and then continuing to deploy our point of sales software solution into the enterprise QSR space. In that mid-market where we sell largely our Heartland restaurant solution, we had growth of roughly 50% in that business in the first quarter, continuing to drive new installs across what I would characterize as more of the mid-market, where we compete more head to head with a Toast, for example.

And then, at the lower end of the market where we compete more with, say, Square or First Data Clover. We're rolling out our essential solution, which is same software stack as our Heartland restaurant with slightly less feature functionality. But again, built in a way where, as owners scale and grow their businesses, they can move up, add features and move into our more full program, Heartland restaurant solution. So really delighted with the growth we're seeing in that business as well.

And as I said before, part of what I like about our business is our ability to bring those capabilities to markets outside of the US. So unlike many of our competitors, we're able to export that technology into more mature markets like Canada and the UK, which drive incremental opportunities for us to see growth in our business versus others we compete with.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

A lot of these software peers and we had ADP here earlier, Cameron, just so you know, are trying to add more breadth of service by with payment and they try and attach other things on top of the software. One of the things I picked up from your call was that payroll is a bigger piece, and I was surprised by how much of an uptick you guys have had, I think we're up 30% is what I wrote down.

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

That's right. In the first quarter.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Right. So I'm just trying to understand, like how important is it to have these tangential services, if you're trying to sell into these markets. Is that a, I'm using this term, sleeping giant? Is this something that could be quite large for Global Payments if payroll gets bigger?

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

Well, I think payroll, I think, is an important element of the solutions that we can bring to bear on the market. But if you step back and think about our strategy more broadly, we're really focused on delivering commerce enablement solutions to help our largely small to medium-sized customers run their businesses more efficiently...

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Right.

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

...and drive more traffic through their environments. We talked about this extensively at our investor conference back in September, but our whole strategy from a merchant perspective is really geared around providing a broader suite of commerce enablement solutions to that core customer base.

Obviously, payroll, I think, is an important element of that, but what we offer is really more extensive than payroll. I think people think of the business generally through the lens of payroll, but it's really an entire suite of human capital management capabilities. Everything you need to drive recruiting, onboarding, offboarding, as well as obviously pay and rewarding employees while they're working for your business.

We provide those solutions to our customers within our point-of-sale environments. They're fully integrated into the point-of-sale environment. So everything happens at the point of sale, time and attendance et cetera for that employee base which is critical in a restaurant or retail environment. And then when we're not in that environment, we sell it through a suite of commerce enablement capabilities that our customers access through our digital environment.

So those capabilities are very much, I would say, market leading, particularly in that, call it, 50 to 100 employee business where we compete, I think, very favorably. And it's a little bit of a niche in the market where I think we

excel relative to the competition. So if we think about the strategy and payroll being important, payroll and HCM, really being an important element of that strategy, it's really built around this idea that we need to provide more solutions to our customers. And of course, our partnership with Google will be key to that as we move forward in time, our ability to bring Google capabilities into our environment, sell those in connection with our own capabilities.

Again, all geared around helping our customers run and grow their business which is why we use that moniker to describe everything around our commerce enablement strategy. It's really simple in the sense that we're trying to help our customers drive more traffic and more revenue growth, and we're helping them to run their businesses more efficiently with the tools and capabilities we can bring. And payment is just an element of that.

Tien-Tsin Huang*Analyst, JPMorgan Securities LLC*

Q

Very clear. So building on that commerce enablement piece. There's a lot – it's really hard to think about the trends in software and their role in payments. And because you serve ISVs, you are an ISV, you provide integrated services through OpenEdge where you power software companies. So how do you balance all of those things and thinking about commerce enablement? And I'm asking very explicitly here with Payrix being acquired by FIS and they're helping ISVs become a PayFac so they can do more payments themselves. What does that mean? Does that inform how you want to serve that software market in any way, Cameron?

Cameron M. Bready*President & Chief Operating Officer, Global Payments, Inc.*

A

Yeah. So if you step back and think about the software market broadly, I would say a couple of things. One is we've been at the forefront of integrating software and payments for years.

Tien-Tsin Huang*Analyst, JPMorgan Securities LLC*

Q

Sure.

Cameron M. Bready*President & Chief Operating Officer, Global Payments, Inc.*

A

And we've also been at the forefront, as you highlighted earlier, in terms of in certain vertical markets, owning our own software versus partnering with ISVs. And I would say as we go forward in time, our view around software and sort of software primacy hasn't changed at all.

We continue to believe that the market is becoming more verticalized over time. We continue to believe that software is the best way to deliver more vertically tailored solutions to our customers. And we continue to believe that there's going to be increased demand for, particularly at the small to medium-sized business level, more integrated software and payment opportunities and more enterprise software, again, that delivers those very vertical specific experiences that consumers are looking for. So, if you start with that as a premise, the second part of my answer would be we're going to continue to pursue that through both the partnership model and our ownership model.

Tien-Tsin Huang*Analyst, JPMorgan Securities LLC*

Q

Right.

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

Obviously, we think there are certain vertical markets where we want to own the entirety of the software stack. I think we've been very successful with that strategy over the course of time and we'll expect to continue to go pursue that as we move forward. And from a capital allocation perspective and an M&A strategy perspective, software continues to be obviously a core part of how we think about expanding the business through M&A and utilizing our capital to grow and scale.

The second thing I would say is if you look at the market today, roughly 50% of small to medium-sized businesses are using some sort of enterprise software.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Right.

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

But I think ISVs and marketplaces are probably capturing 30% of payments today. So, there's still a significant amount of runway for payment integration in the ISV space, and there's a significant amount of runway for further ISV growth, given that only half of the market today is using an enterprise solution and enterprise software solution in their business. So, I think those trends, I think, bode particularly well for where we want to drive the business over time. And I think software and integrating payments into software is going to be at the forefront of our merchant strategy for many years to come. As it relates to payment facilitation specifically, we've had the capability to provide PayFac as a service solution for a long time, and we do that today. PayFac is really just another way to support ISVs and is, I think, a perfectly suitable way in some circumstances and a not particularly suitable way in other circumstances.

Largely, we see ISVs wanting to become PayFacs for three reasons. One is they have some specific onboarding requirement that they're looking to solve. Two, they have some sort of funding and settlement solution that they're looking to solve or three, there's a perception that the economics for an ISV are better in the PayFac model than they are in a more traditional partnership model. I would say really only the first two of those are, I'd say, reasons for an ISV to consider becoming a PayFac. The third largely can be solved through negotiations around the economics and the revenue share split, et cetera.

Again, this is another thing we've talked about extensively at our investor conference. But if you look at the PayFac space itself, we have those capabilities today. We provide PayFac solutions to a number of different ISV partners around the globe, as well as the largest PayFac that I'm aware of, PayPal, in markets outside of the US. So, it's certainly a tool we have in our toolkit when the market sort of calls for that tool.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah. That's really balancing and picking your spots where you want to own the software, where you want to enable, and then where you want to partner.

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

That's right.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Okay. Now, it's learning as we go, Cameron. It's – like I said – but you – Global Payments is always early, right, with the owned software piece and with OpenEdge bringing that together which is why I wanted to ask the question. Anything else on merchant we should talk about before we switch gears to issuing?

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

That covers the landscape pretty well.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

All right. Let's do that. So, number one question I've been getting is just what's driving the confidence in the growth acceleration on the issuing side? You mentioned commercial, [ph] of course, there's a (20:48) back book or backlog that's converting as well. Walk us through that.

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

Yeah. It's a fair question. So, maybe start with just the first quarter results and unpack those a little bit and then we can talk a little bit about what we see from an expectation perspective for the balance of the year. But if you look at the first quarter, the normalized growth in our issuer business was in that mid-single digit range. We had kind of three headwinds that we were grappling with as a reported matter that I think are important to call out.

First of all, we had just a tough comp relative to Q1 of 2021 because we had some one-time fees in 2021 that just didn't recur in 2022. That was probably about a [ph] 1.5% of (21:27) growth.

Secondly, we've been deemphasizing our managed services business over a period of time, largely focusing more on our technology-enabled business. So, if you think about the managed services business, I would sort of equate it to how we thought about wholesale on the merchant side for a long period of time, which is, look, it's business we're happy to do and it's good business as long as the economics reflect the value that we're bringing to bear on that customer. And if they don't, then that's not a real business that we want to be involved with. So, there's plenty of cases today where the economics of our managed services business are appropriate, and there's other situations where they haven't been and we've been moving away from those as we move forward in time, as we continue to pivot that business towards more technology enablement as we have our merchant business. So that was about a [ph] 1.5% (22:11) headwind that largely is encapsulated in the first quarter.

And then the third, as I called out earlier, is just commercial card. And commercial card recovery obviously continues to lag a little bit behind where we see consumer spend at this point. And commercial card in our issuer business was roughly flat for the first quarter. It represents about 20% of that business. So, it was about a [ph] 1.5 of (22:32) headwind as well.

So, if you roll all that together kind of on a normalized basis, the issuer business was in that mid-single-digit growth target that we have for the business in the first quarter. So, if you fast forward to Q2 where we expect growth to be in that mid-single-digit range on a constant currency basis, one, we've [ph] lapped kind of that one-time grow over (22:53) issue we had in the first quarter. We expect commercial to recover. And, of course, the managed service headwind I highlighted earlier is largely behind us now as those contracts have anniversaried, the ones that we – the ones that we exited.

So, as we get into Q2, we have a lot of confidence sitting here in mid-May that that business will generate the mid-single-digit growth targets we have organically on a constant currency basis in the second quarter. And then as you look forward to Q3 and Q4 the back half of the year, we have a large implementation pipeline that comes into service. So, today, we have 56 million accounts in our implementation pipeline, about 22 million of that goes into service in the back half of the year heading into 2023.

So, we expect the issuer performance to get sequentially better, Q1 to Q2, Q2 to Q3 and Q3 to Q4 such that we're exiting the year kind of in that high-mid-single digit range or even low-high-single digit range for the business, which gives us great momentum kind of heading into 2023. And it's visibility around the items I called out in the first quarter that don't repeat as we move further in the year, as well as the implementation pipeline that I think gives us a lot of confidence around where that business is heading for 2022, as well as, as I said before, heading into 2023.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Okay, good. Thanks for walking through that. I'm assuming we all use our commercial card to come here. So, there's probably some good signs.

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

Well, events like this certainly help, no doubt.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Let's see. Fingers crossed. Okay. So, let's talk about AWS. I also get a lot of these questions and, you're working with AWS to move to the cloud on the issuing side. The issuing business has been around for quite some time. So, what does the shift to the cloud mean for, I think about front book and back book, Cameron. So, front book, you can be more competitive, competing for business for a lot of reasons, not just price, but also what does it mean for the back book? You need to convert that as well over time, given the partnership that you put in with AWS.

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

Yeah. Yeah. It's a great question. And it's hard to overstate just how important AWS is to our issuer strategy long-term or how transformative I think it is to that business over a long period of time. And if you just started at the very beginning, I don't view it so much as competitiveness in the market today. We're very competitive with our offerings today. I think when we go head to head in the segment of the market that we focus on today, we rarely lose. There's no one that has the breadth and depth of capabilities across the issuing, processing platforms that we have today. I don't think there's anyone that can match us with large scale, sophisticated FIs in large retailers from an issuer processing capability perspective. So that business has – and we call this out in terms of the number of LOL's that we have, the number of competitive takeaways we have. That business competes extraordinarily well today, that it competes in one segment, I would say, of that market.

So, one of the most important element from the AWS partnership is the ability to expand our TAM dramatically in that space. By our estimates, we'll more than triple the TAM for our issuer processing business through our

partnership with AWS, because we'll be able to go down market into smaller FIs. We'll have better capabilities and more consumable capabilities, which I think is important for fintechs and neobanks.

And we'll be able to scale geographically far more easier than we ever could when we are running our businesses more on mainframes, on an on-premise environment. So, I think from an AWS standpoint, dramatically increasing the size of that TAM, creating a product suite that is more easily consumable from an API perspective, breaking our solutions down into microservices so customers can more easily pick and choose those services they want to consume from us and then again consume them more easily from a technology perspective.

And then I would say third, increase our speed to market in terms of new product, new capability deployment, and then again being able to deploy that ubiquitously around the globe as we introduce new capabilities to the marketplace. To me, those are really the three sort of core elements of the AWS opportunity and partnership that are so important to us.

Another element outside of the technology side that I think is really critical is what it does for us as a distribution [ph] matter (27:18). We highlighted on our first quarter call, we have 39 active prospects through our joint co-sell opportunity with AWS in the pipeline today. 11 of those are fintech, neobank opportunities that they have helped open the door to for us. And I think that is a core element of how we think about going to market now with our issuer processing solutions around this idea of having more technology-enabled distribution, which is a term [ph] you've often use as heard (27:45) with respect to the merchant business. We're now bringing that same philosophy to the issuer business, which is we have to diversify our distribution. Going in and selling just the large FIs the way that we used to is no longer enough. By partnering with AWS, we create a new distribution channel that's technology enabled, that's opening doors that otherwise we probably wouldn't have had access to historically.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Got it. Got it. Let me ask one more on issuing and then we'll open it up. Just it does seem like you're skewing a little bit more towards debit. Is that part of what you're describing with the TAM or is it more just a function of where what the market is going?

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

I think it's more of a function of where the market has – is going and the opportunities that have become apparent to us in the most recent RFPs and RFIs that we've been a part of.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

I see.

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

So, a lot of the new wins do have more debit associated with them. They're very much European-centric to a large degree. And I think it gives us a great opportunity to round out our capabilities around debit, which is not something that we've had historically. A lot of our focus clearly has been on commercial and consumer credit, whereas, we've had less in the debit space. But by these new wins, with Virgin, with Caixa, I think we'll be the largest debit...

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Right.

Q

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

...processor in Europe, which I think gives us far better credentials for debit more broadly as debit continues to grow and scale. And I think it helps round out our core capabilities across the entirety of the issuing space, which is really gratifying.

A

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Just one quick follow-on to that. Just the economics per card on debit versus everything else. Is it dramatically different?

Q

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

It's not dramatically different at all.

A

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Okay. Good.

Q

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

Not dramatically different at all.

A

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Thank you. Any questions from the audience? Happy to take them. I know we have some here, too. If not, we keep going. So, [ph] agreed, right? (29:34) Capital allocation, no doubt, you guys have been good at that, great at that. You were the CFO. We've talked a lot about that. A lot of ways to ask this. So, with the Netspend business coming up and this focus on simplifying the business. Returning to shareholders versus doing more M&A, I mean, is the balance changing at all? And what does that Netspend shift do? Because I think you bought MineralTree, trying to get bigger in more classic B2B. We had Bill.com here right before. How do you balance all of that, Cameron?

Q

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

Yeah. Look, I think it's a good question. So, if I step back and think about it, I think, heading down the path we're heading with Netspend was a relatively straightforward decision for us. As we step back and think about our business, we're largely focused on selling into businesses, software companies, partners of that nature. We don't really have a lot of our business that is very consumer-centric. So, exiting the Netspend consumer component of the business made a lot of sense to us. We continue to, I would say, invest and [ph] we look (30:37) to grow and scale our B2B payments capabilities.

A

And obviously, there's elements of Netspend that are B2B-centric. We intend to keep those businesses as we look to build out a more, I'd say, full capability around B2B payments for both money in, money out solutions, [ph] AR, AP (30:54) automation, full integrations in ERP. We think about the assets that we have and the assets that we can continue to add to with M&A over time, we think building out a comprehensive sort of B2B capability that is unmatched, global in scale, I think is a unique opportunity that Global Payments can execute against over time. A lot of that is going to happen organically. We have a lot of great assets in our B2B business today. But there's obviously, an eye towards adding to those capabilities through M&A, over some period of time, which kind of gets us to how do we think about M&A, where is the pipeline today and just capital allocation in general.

I would say, we've maintained a fairly balanced view of capital allocation for a long period of time. We like to balance reinvesting in the business, investing to grow and scale the business through M&A. And, obviously, we've returned capital to shareholders over a long period of time when either there weren't opportunities necessarily to put capital to work in M&A that we found attractive that would generate the kind of returns that we would expect for the business or in periods like we're in now, where we just felt like the fundamental opportunity to drive value by investing in ourselves was superior to most opportunities we would see from an M&A perspective.

So, while we're in this environment, I would say, the scale continues to be tipped a little bit more towards investing in ourselves because the return profile is very attractive. But at the same time as valuations, I think, reset and expectations around value come into line more with where we've seen the public markets, we do have a pretty full M&A pipeline and we do hope to be able to get back to deploying more capital towards M&A with an eye to be able to generate the same kind of return from M&A that we think we can generate by investing in our own stock.

So, since the beginning of 2021, I think we've repurchased about \$3 billion worth of stock. Obviously, we've taken the opportunity with the market dislocation to be able to retire a significant portion of the underlying share base of the company. But, our long-term expectations are to grow and scale our business and continue to invest strategically for growth in the future. And obviously, we're anxious to get back to that and hopeful to find opportunities that we think are very competitive relative to repurchasing our own stock and, again, accretive to the strategy, accretive to growth and accretive to what it is we're trying to accomplish as a business.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah. No, I trust you guys will do that. So, really quickly, I know [ph] I'm (33:24) almost out of time, simplifying the business, [ph] I've been (33:28) thinking about that a lot as you guys have called that out. Do you do that in increments or there are some wholesale changes that we might expect [ph] on a Netspend (33:36) as a part of that, but is there more meaning to it?

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

Well, I think it depends on what your definition of wholesale or incremental is to some degree. I think, look, from a wholesale perspective, I think the decision around the Netspend business was probably the largest wholesale decision we would make to simplify the business back towards, again, being very much focused on selling into our core base of business customers, FIs, software partners, et cetera. And I think shedding that consumer side of the business was probably, on balance, the largest sort of wholesale change you might expect to see in the business in the near to medium term.

That being said, we're open-minded. There's nothing sacred in our portfolio businesses today. We're always looking at the underlying macro environments in the vertical markets or segments of the business that we're operating in, how those businesses are performing, what the long-term growth prospects are for those

businesses, and whether anything fundamentally has changed that may cause us to feel differently about the business. And I think that's just part of healthy running of the business, continuing to assess the underlying components of the business and making sure that the mix of businesses you're operating remains sort of right-sized and appropriate relative to where you're trying to drive the strategy over a long period of time.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah, makes perfect sense. So, I'll let you get out here. Just on one last question, just you have a lot going on. We're all paying attention to what you do with cap allocation, whether it's M&A or repurchasing stock, and just building up investor confidence. And as we focus on looking at it as external analysts, what do you think should the – we should focus on more?

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

A

Well, I mean, I'd say, from my vantage point, our strategy is incredibly sound. And we've taken the opportunity during the pandemic to build a better business for the long-term, whether it's the AWS partnership for issuer or the Google partnership for our merchant business, obviously, the decision we've made around simplifying the business with the exit of Netspend, we've taken the opportunity over the last couple of years where a lot of people were just sort of hunkering down and riding things out. I think to build a better business for the long-term. And I'd have to say, I don't think that has been fully appreciated, is the first point.

Our strategy, I think sets us apart from a number of competitors in this marketplace and I think puts us at the forefront of investment opportunities in the payment landscape. Second, as I said before, our long track record of execution, I think should be well-considered by investors. We put such a premium on operating discipline, relentless focus on execution in the business. I think we're among the best operators in the business, and I'd put our track record up against anyone.

And then third, as I said before, we've been very deliberate, diligent and I'd say prudent about how we've allocated capital in the past. And we continue to be sitting here today and we'll be as we move forward in time. And that balance, that combination of operating capability and execution capability with the capital allocators that we are, I think makes us a very attractive long-term winner in this phase and gives – should hopefully give investors a lot of confidence in backing us.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Great. Thank you for the time, Cameron. It's always good to have a conversation with you.

Cameron M. Bready

President & Chief Operating Officer, Global Payments, Inc.

Always good to see you. Yeah. Good to be here. Thanks for having me.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2022 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.