

15-Sep-2020

Global Payments, Inc. (GPN)

J.P. Morgan U.S. All Stars Conference

CORPORATE PARTICIPANTS

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

OTHER PARTICIPANTS

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Great. Thanks everyone for joining. I think we're live. This is Tien-Tsin Huang. I cover the Payments and Processing, IT Services sector at JPMorgan and welcome to the All Stars Virtual Conference. We're supposed to be in London right now, Jeff, but we're doing it virtually, of course. Hope, everyone is safe.

So, with us, we've got Jeff Sloan, the CEO of Global Payments. Really we're excited to have him back. We're going to do a fireside chat. We'll do a bunch of questions that I've accumulated from the investor audience, Jeff. But then, we're also going to take some questions from the group as well. I think the instructions are to e-mail those directly to me through the system and I'll do my best to hit all those questions.

So, Jeff, thanks again for joining us. Hope, you're well. Great to see you.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks for having us, Tien-Tsin. It's a pleasure to be with you here.

QUESTION AND ANSWER SECTION

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

No. I know it's a – you're really, really busy. So, thanks for spending a few minutes with us. So, I thought I'd kick it off Jeff with sort of a big theme in payments in fintech right now, which is this this modern and legacy debate, new versus traditional, digital versus legacy? And I'm curious how you would answer this question of where does Global Payments fit in that spectrum of digital and modern versus legacy and traditional? I know you've made some very smart early bets on tech-enabled and software-owned and you coined a lot of those modern statements for us. But from a tech perspective and from a distribution perspective, Jeff, where does Global Payments fit in that spectrum if that make sense?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. I certainly have the answer Tien-Tsin and I think a really good way to think about it upfront is 60% of our business today is technology led, which is to say, we're either selling our own software into our distribution channels or we're partnering with a software company to do the same thing or selling our e-commerce and omni-channel solutions directly to merchants worldwide.

So, that 60% number is a target that we set back in 2018. If we go all the way back when we actually started running the company, believe it or not, at this point it's almost seven years ago to the day today, that number was probably like 30%. So, we've taken our business from 30% selling technology and digitization up to 60% today, we're very proud of it.

Now, let's break that into pieces, because I think it gets to your point that how digital really is the company. So, our biggest segment at the company is our e-commerce and omni-channel business and our merchant segment. 20% of our revenue today in our merchant segment, our biggest single channel is coming from our e-commerce/omni-channel segment. We announced in the second quarter call in August, a month ago, Tien-Tsin, that that business grew 16% top line year-over-year ex-T&E.

That compares to GDP shrinkage of what minus 32% here in United States, probably minus 10% in Europe. So, our business grew 50 points, better than the US economy, so we're really pleased with that business that we announced. A whole series of wins in that business, including the win we had with Citi last fall, which is now up and live in multiple geographies around the world; US, Canada and United Kingdom.

Our second largest business in our Merchant business, as you know is our Global Payments Integrated business, which you alluded to, that's another 20% of our Merchants business. So, you've got e-commerce 20%, another 20% is our Integrated business. As you know that business was growing high-teens organically, probably for the last six quarters, up until the pandemics start at the end of March.

And as you know, Tien-Tsin, also we've owned that business for years going back to APT in 2012. We've probably got eight years with double-digit growth in that business organically by quarter as far back as you can go. And obviously, the merger with TSYS brings us additional assets like ProPay really into that business segment, which we're very proud of and elements of that business return to growth in June. We also said that on our August call for the second quarter.

A third piece of our business is our own software business, that's also about 20% of our revenue. So, now we have 60% of our revenue in the three segments in Merchant, in the three segments that I mentioned a minute ago. It depends on which software piece you're talking about, but look at AdvancedMD. As we said in our call in the second quarter, we had all-time record bookings and revenue in that business in the month of June.

We did something like 0.5 million telemedicine visits in the second quarter, up from like 50,000 in the first quarter of 2022, so a clear beneficiary of the trend coming out of digitization, coming out of the pandemic. If you look at our Xenial QSR, our enterprise quick service restaurant business where we have 26 of the top 50 brands like Burger King, Popeyes, Tim Hortons, and NOW BURGER, et cetera, that business has largely got back to where it needs to from a bookings point of view, because we're selling omni-channel solutions. So, buy in your phone, pay with your thumb or face, have it delivered to you through DoorDash or Uber Eats or go pick it up on an integrated basis through the drive-thru, so again a great place to be from an enterprise QSR business.

And lastly, I would say, our Heartland business, two-thirds of our new sales and I think Cameron said in our second quarter call that we set record sales volumes in Heartland in June and July. And by the way our Integrated business for the second quarter met its new sales budget in the second quarter, up 30% year-over-year on the partner side, because we are selling technology. So, in our Heartland business, two-thirds of the sales in the second quarter were semi-integrated or technology-related solutions.

But then to answer your question, 60% of the merchant business today and probably the vast majority of the growth has really come from digitization. That's before you even get to the Issuer business and our partnership, the announcement we made with AWS in July, on the August call, which really sets up a fantastic next 5 to 10 years for transformative technology growth and distribution to get all the digital channels that we need to be in, in the context of TSYS issuing.

And then last, I'll just say, our NetSpend business, as we announced on the call also, 25% to 30% of the transactions, that business are online. You've got people signing up for prepaid online or spending it online in the grocery and more pharmaceutical space. That business grew 11% organic revenue last quarter, record operating income, record margins over the last 10 years, and that trend is sustained beyond the disbursement in May into June and July, as we said in the August call.

So, if you put it all together, I think our focus on digitization is where it would enable us to meaningfully outperform the market and look at Visa and Mastercard, our overall business down 14% and revenue down 13% in earnings, those guys were down 17% to 19% revenue, and down 25% in earnings. And the reason is, we're gaining share. We're focused on digitization. They represent the market. Our ability to invest in the areas I just described, it's what's driving our outsized growth. So, I think we're knee-deep in digitization. And thankfully, for us, it plays into our favor even in the midst of the pandemic.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC



Yeah. That's great to get through a lot of that. That's a good way to summarize it, Jeff. You mentioned the AWS deal. And I wanted to drill into that, if you don't mind, within the context of the Issuer business, because you and I haven't had a chance to get together, I know we always talk about Merchant, but I don't want to leave the Issuer side alone here, because it's an important. So, sort of a three-part question within the Issuer.

Can you give us a little bit more on the AWS partnership, right? And then I'm really interested in the installment offering that you guys also announced with Mastercard Buy Now, Pay Later is a really hot area right now, Jeff. You already know that. I actually had a chat earlier with Dan Schulman, we talked quite a bit about their

installment product. And then lastly, just an update on recent wins and pipeline, but maybe if you can start with AWS, how could that evolve here? You mentioned 3, 5, 10 years, but what are some of the milestones we should watch on that as you stand something up within AWS?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

So, it's a great question, Tien-Tsin, and there are two elements to the AWS deal that we announced at the end of July. The first one is really technology transformation. So, like most of our folks, like Fidelity and Fiserv, we compete in that business largely with our mainframe technologies in codes and architecture that were written some time ago. As you would imagine, the TSYS business has been around since like 1983, right.

So, at the end of the day, those businesses just historically, not surprisingly given their customer base have largely been legacy in nature. So, the first part of what we're doing with AWS is really transforming that business first into a modern cloud native environment with AWS. And AWS has done more of this with financial institutions than anybody else. And the second element of what we're doing is transferring that knowledge into a modern architecture and modern code, right.

So, if you think about the technology side of the equation, as we implement this over the next 18 months to 24 months with AWS, that business is going to be state-of-the-art and set for the next 5 to 10 years of scale growth in that business. And as we ramp up with AWS and cloud native environments, we'll be ramping down in the existing mainframe markets. So, it's fully funded of our existing capital budget, which is a really nice thing to be able to say.

The second piece of the AWS relationship, which is so important and really is unique with us is a distribution go-to-market strategy. So, as we said publicly last month at the time of our earnings call, we think this triples our target addressable market by doing a few things. Number one, brings us into new geographies that we were not in. TSYS, for example, is not in Australia, because they know the data center in their environment and already existing technology infrastructure that they're using, you really need a physical data center in the market you're serving, or there's too much of latency.

You don't have that problem in AWS. First, it will have environments everywhere and the second thing is it's cloud native. So, it really kind of doesn't matter where it's resident, physically, at the end of the day. So, that's one thing.

The second element of tripling the TAM is really expanding us in just small and mid-sized banks. So, historically, TS2 was really the province of the largest banks in North America and Western Europe and we have a prime business too, which is a small piece of the business, about 20% that sells license software and processing solutions primarily outside of North America and Western Europe.

This allows us to augment our sales force by leveraging the distribution relationships that AWS and Amazon have. So, we're trying to get into this small and mid-sized bank market. We can't find a better partner and so unlike Amazon and AWS on the technology side and also on the distribution side to do just that. So, dramatically, expands with their sales distribution assets or go to penetrate further into markets that we're already in, just the different size.

And the last thing I'd say and the third thing of the tripling, the reason is, it opens us up to neo banks, think Goldman with the Apple Card, think Chime, think Uber and Lyft with their own wallets and all those other things and that's really Amazon, AWS's sweet spot, right. So, our ability is the technology, so the technology partner like

that to go-to-market with a cloud native solution, which is what you really need to win those accounts at the end of the day is dramatically enhanced.

By really with this unique relationship is with Amazon, we also expect as part of our transaction to have revenue flows back from Amazon back to Global Payments, in the context of referrals, in the context of payment services, time will tell. But that's done under a take or pay basis, we feel pretty good, about realizing those achievements there.

So, I think it's really unique collaboration between the two of us, we're delighted that there are preferred provider issuer technologies going forward. And I think, Tien-Tsin, it's really transformative in the issuer side, there's nobody else who's really doing this the way we're doing it. And I think to answer your question about digitization, this is going to change the nature of how people distribute and provide cloud processing services for our second largest business, our Issuer business.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

So, 18 to 24 months is sort of the timeframe when you think something will be stood up and some of these things will start to go live and you can go against some of the initiatives you just laid out?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. That's correct. I guess, it relates to technology and go-to-market, but you're going to see wins soon.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Okay.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

So, I'd say over the next quarter to two, we'll probably have things to announce, where we jointly have won various pieces of business. But I think you're right on the 18 to 24 months in terms of actually being in market, with the new products and our services. And listen, to get to one of your other questions in terms of wins that we had, we've announced Truist in May of this year, which was a double takeaway, from our primary competitors here in the United States, sixth largest bank in United States. Obviously, we renewed TD, just the other day we said, we renewed the Wells Fargo relationship also that we had.

So, I would tell you, look, the pipeline is full. I think business is in a very healthy state. We'll continue to announce new wins with them or without, but with also AWS over the coming months. I think our business is really in a very healthy area as we announced on the second quarter call. That business, the issuing business for us in the second quarter actually net grew in June, if you exclude the commercial card business, which is about 20% of business, which of course is impacted by the fact that no one is doing corporate travel.

But if you look at a normalized consumer, what our consumer is doing, which is 80% of business, that business was flat to modestly up in June and obviously as we expect, given what I said about our share gains and where we're going relative to what the networks have announced that our performance we expect to continue. You're heading into the rest of the year really across all of our business savings including issuing, merchant, as well as our NetSpend.

And so, to your question about installment sales, Buy Now, Pay Later or due installments, we're probably one of the biggest providers of IPP or Installment Payment Plan services in the world; first, as it relates to merchant, which we've been doing years, given the prominence of our business in Asia-Pacific and other markets where IPP was really the de facto standard in terms of how consumers purchased.

That's come more recently to the United States, hence the announcements with both Mastercard as well as Visa and really first in with both Mastercard and Visa. We're very proud of that and very proud of our issuing business for doing that. And I think you're right when you said, great growth in that business. It reminds me of the – our businesses you see across Europe, the businesses you see across Asia.

As we've said all along, whether it's IPP, QR codes, at the end of the day, Pay by Link, which we're doing across Europe now, we're the beneficiary of investments and trends in the ecosystem in which we operate. So, it's great to see our partners Visa and Mastercard do this. I think it's also fantastic that those investments generate returns in our business, which is why I expect our outperformance relative to the results you saw from the networks which obviously is the market proxy, I expect that that will continue for the rest of the year.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Okay. No. Good. Look, hats off for doing the cloud journey with AWS and I think it was nice to see that you have an installment plan that's rolling out. Last question on Issuer, any other sort of products you can preview with us from a roadmap perspective. I know there's a lot already on your plate on the Issuer side, but it does feel like a renewed energy, given some of these announcements you've talked about?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Well, I think the best way to think about that, Tien-Tsin, is what you've seen in contactless. What you know has been around in Europe and Asia for really long time, but really did not come to the states until probably in the last year, but especially it's been accelerating. I think demand moved ahead by three to five years, given that pandemic. So, we have an initiative called safer commerce, which by the way isn't just contactless cards, but that's actually paying with QR codes at the restaurant.

So, instead of actually physically taking a receipt and kind of signing with the pen or giving people your card, we actually take your cellphone and through the QR reader and you're actually QR it on the invoice, you don't have to touch anything. And you pay with your thumb or your face on your phone for authentication. I think our Issuer business has been the beneficiary of obviously all those contactless issuance, which is a key element of the what I just described in terms of safer commerce, but it isn't the only one.

We also in our restaurant business have the ability to do menus online also through QR code, also the ability to prompt you and text you when you're in your car and say, you can come in now, you don't want to wait in the lobby of the restaurant anymore, where other people are congregated. So, all those changes really play to our advantage, Tien-Tsin. At the end of the day, and our Issuer business is really at the forefront of what I've just been describing, so it's a great time to be in that business.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah. Look, I mean, TS2 from a licensing perspective is everywhere, and it's well known already. So, yeah, I guess getting it to this modern point and having it more digitally native like you said, it really could bend the curve. So, now, it will be fun to watch that as it goes. So, let's – I'm getting a lot of emails coming in here on the Merchant side.

So, there's a lot. You've already went – you've gone through a lot of it already. There's a lot of questions here and I have it on my list just, Visa, MasterCard trends have been pretty resilient even through the stimulus expiration, Jeff. So, I'm curious to hear your thoughts on trends if you could give be a little bit more granular here across your big lines of business within Merchant and I have some follow on, I know sure for that?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Well, I think, Tien-Tsin, as you know as you saw in the second quarter, we are performing the networks trends in the second quarter, I went through kind of our revenue and our earnings relative to those guys, and that's continuing based on in the trends I've seen from those guys. So, I expect a continuation of the outperformance in our business, like you saw in the second quarter going forward, based on what we see. Obviously, that's for a few reasons, and I'll come back a little bit more on micro, but let me give you the macro first.

The first thing I would say is, we the owned and partner software business. As I mentioned a minute ago, our Integrated business as well as our owned software as well as what we're selling at Heartland now, two-thirds of which is really integrated or semi-integrated over the Heartland technology sells, digitization sells. People want safer commerce. They want contactless. All the things – they want delivery at home. All the things that I've been describing really sells. Those businesses have been far more resilient than the overall kind of network trends that you've seen, which is what approximates the way to market growth. Firstly, I'd say, it's our investment technology here has well put us in a very good place.

The second thing I would say is our geographies. Now, I'm talking worldwide, Tien-Tsin. So, our business in Continental Europe, our joint venture with Erste Bank grew 20% in the second quarter year-over-year, no adjustments, just grew 20%, right. So, being in a market that we think and the third leg to our stool as you know for years and our strategy has been exposure to faster growth markets. So, thankfully for us, being exposed to Continental Europe with a good partner like Erste in the markets that we're in there has resulted in very good growth, notwithstanding really the pandemic.

We've seen this also with CaixaBank, part of the JV we just are buying in now. And we've seen this also CaixaBank in domestic Spain, that's returned to growth as well in the June period. So, I think we're very fortunate to be in the faster growth markets in the right geographies, and I think you've seen that play out in the outperformance relative to the networks that you see in the second quarter, which I also expect to continue.

The third thing I'd say is the ownership of software. So, let's look at our Xenial business and let's look at restaurant, let's look at our AdvancedMD business. So, when you look at our Xenial business, we talked about safer commerce already. As you can imagine, it really sells to go to large restaurant chains right now and talk about safer restaurant experiences, the ability to take contactless, pay with QR, the ability of stuff delivered to your car and take out, the ability to integrate with the drive-thru, the ability to pay, buy in your phone, have it delivered through DoorDash, through Uber Eats, every one of the things I just described is tougher in market with today in thousands of restaurants, quick service restaurants.

So, we have 26 of the top 50 quick service restaurants in the United States. In the aggregate, that's probably 5% or 6% of the revenue of our Merchant business in the US. What, I described the enterprise QSR clients. Think

also that our AdvancedMD health business, the telemedicine I was describing before, so bookings in that business, bookings in our Xenial restaurant business, bookings in our health business are at all-time highs. And we did a very good June and July in those businesses I described before how AdvancedMD had a fantastic June in terms of revenue. So, many of the software businesses that we're in, not all of them, but many of the ones that we're in, which explains the outperformance, really doing very well notwithstanding the pandemic.

Our university business, whether you go to school online or whether you go to school physically, that business is up and running and we're going to get paid and paradoxically when folks are actually not in school, it's easier to sell to these guys, because to be honest they aren't busy with the students. So, at the end of the day we've actually had really good bookings in our university, and our K-12 business.

Now, of course, we have some businesses like K-12 here in the United States unlike (sic) [like] our ACTIVE Endurance business and like our gaming business that absolutely are performing worse than market, not their own markets, but relative to the corporate in whole. And that is because those businesses have been impacted by the virus.

Having said that though, the bookings in that business, the bookings that at Active, the bookings in our gaming business and the bookings in our K-12 business are very good, primarily because that's what the merchants want us to do, in an environment where they're not operating at full speed. So, I would say that the silver lining here is that overall the company is performing well better than you saw us in the second quarter and we'll continue to, I believe, well better than what the market is performing, Visa and Mastercard and our direct peers in particular.

And for those businesses that are not, because of the obvious macro concerns, bookings in those businesses are very good, right. So, as we think about what 2021 and beyond looks like, I think we're setup for a very good period really between the existing businesses and the businesses I just discussed heading into next year.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Got you. So, let's drill then into e-comm and omni, the 20% that you alluded to. Jeff, I get this question a lot. How do you compete and win against the e-comm pure plays that are out there? So, obviously, you have a big footprint on the physical side, and they're transitioning as fast as they can to omni and to embrace e-comm. But what about the digital first companies? And how do you compete for that business? Can you just give a little bit more on where your sweet spot is or maybe where you might be putting more capital to invest in growth within e-comm?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Sure, it's a great question, Tien-Tsin. So, I'd say there's really two elements that are distinct to us in terms of competition. The first thing I'd say in our e-comm business is, there's nobody as more physical as well as virtual marriage than we have. And what retailers and what corporates want now, what MNCs want is the ability to marry physical with virtual presence, omni-channel, real omni-channel, the ability to buy something online, [ph] return to store, return (00:23:43) in a different country as long as it's under the same corporate brand.

So our ability to do that seamlessly in 38 countries around the world, we have both the physical as well as a virtual presence in those markets that means we're a direct member of Visa and MasterCard and selling our own rights in those markets. That means we have support staff and sales, that means we have operating folks, that means we have compliance and regulatory folks in those markets. Our ability to do that more seamlessly in more markets physically and virtually than anybody is enormous competitive advantage. You saw in the second

quarter, we announced new partnerships with Louis Vuitton in 14 markets across Europe, with Dolce & Gabbana, with Molton Brown, with ParkNow, which is parking in the United Kingdom.

Previous quarters, we announced Zara, FedEx, Desigual just go down the list, Longchamp of what we announced. So we think we're really well positioned in that business and it's winning every day. And what we do in terms of positioning that is the physical acceptance, but also its service. Because we're physically present in those markets, we can provide the kind of service that the world's most complicated multinationals really want at the end of the day and that really is different around the globe from our competitors.

The second mode of competition is we go domestic in a given market to SMBs and medium-sized companies and that really is very distinctive to us. So for example in Spain, we don't talk about this a lot generally because you run out of time during these calls. But in Spain, 20% of our revenues in Spain is from domestic e-commerce. In Canada, 20% of our revenue in Canada is from domestic e-commerce. So because we're physically present in these countries, Tien-Tsin, we're able to go to small to mid-sized business and say, hey listen in addition to being offline, how about being online and then with that's particularly impactful in the context of the virus has been our work with Xenial around restaurants.

So what we said in the context of Heartland in the last quarter in August was 58% growth year-over-year in omni-channel solutions for small restaurants in the United States for take-out, for home delivery, there's no way we could grow at those rates if we didn't have that domestic distribution in the 38 countries that I was just describing. So, it's a meaningful piece of our business domestically as well as for multinationals cross-border, and that's the reason [ph] that billion dollar (00:26:00) business is growing 16% top line for us organically in a market that's got GDP compressed.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah. I think that's underappreciated...

[indiscernible] (00:26:11)

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

...answered to that way. I think that's underappreciated, but you've got that privileged position with the share that you have with a lot of the merchants and you're able to help them adapt. So, you've invested a lot. You've talked about Xenial and some of the software assets. Jeff, you've been a very smart chess player in this payment's game. So, I'm curious the importance of expanding margins on the merchant side given all the changes that are going on in this big shift and how consumers are behaving, is it important to expand margins in the merchant business now, Jeff? And are you able to do so?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. The answer is, I think it is important for us to continue showing margin expansion. And of course, we will be. So, I would tell you at the end of the day, well, I don't think you can run rate the third and fourth quarter of 2020 because we were expected, I expect us to show really outsized margin expansion in the third and the fourth quarter. If you look at the second quarter, Tien-Tsin, and extrapolate 14% down, the revenue margin roughly flat.

So, as we continue to and as we said, July being better than June and continue the trend of [ph] outperformance (00:27:13) relative to networks, you're going to see outsized margin expansion just mathematically in the third and the fourth quarter of 2020, that's going to provide a fantastic base for us to continue to grow with our model, which is up to 50 basis points a year of margin expansion. We're not going to go backwards. Once you anniversary that stuff in 2021, we're going to continue the grow. So, I do think margin expansion is really important part of what we do, but take a look at the actions we took, not just from the merger, but the actions we took very early on in pandemic and that's because we're operating at scale and we're good on the execution side.

So, within two or three weeks of the initial pandemic, which is to say by the back half of March, we'd already announced starting April 1 that we were taking out \$400 million of incremental annualized expense reduction on top, in 12 months, on top of the, \$350 million we're already taking out over three years as part of the merger. Now, we said the \$400 million, that \$200 million would persist beyond the crisis once you get into the second quarter of calendar 2021. So, our ability to be fleet of foot, thinking about margin, to answer your question, we continue to expand the margins that we're already building on is something we're very proud of, I think, is really critical to the thesis in Global Payments.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Okay. Good. Good to hear that. So, we got – some of the questions are coming in, we've got another 15 minutes left. Let me make sure we had a Business and Consumer Solutions question. So, focusing on NetSpend, you and some of your peers have saw – they saw – you saw a surge in users, thanks to stimulus. So, I'm curious the quality of those users that are coming in Jeff.

And then also, just to set the record straight, how do you compete NetSpend versus a Green Dot or versus some of these fintech you named Chime, you named whatever Revolut, Cash App, [ph] you pick it traditional (00:29:03) banks like what – where does NetSpend fit in that spectrum of fintech players?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

So, the good news on the first part of what you asked Tien-Tsin is that that benefit has been persistent. So, as stimulus is largely dispersed or by call it the first half of May of 2020, yet as we said in the August call we had a fantastic June and a fantastic July is what we said in the August call in our business and consumer or NetSpend business. So, the really happy news that we weren't sure at that time how persistent would be. I think the really happy news is that we continue to see new accounts being added to our NetSpend business. We continue to see volumes staying in the system. People are using that money to spend online for groceries and pharmaceuticals. If you would have gone back, I don't know a year ago, you would have said that people load up money into their NetSpend account, they go to the ATM, take out in cash.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

And you don't see those guys again, which is where the churn is, that's no more the case. And maybe no more would be the case because people need the money. And right now they're smart enough to save, and they say you know what, I need this for online purchasing. And nearly 30% of that business today transactionally has

actually gone online, so it's a nice add to our online business between signing up online as well as spending online, but they're spending on essentials on groceries and pharmaceuticals. And as a result, they're not going to the ATM. And as a result, those accounts are opened, they're growing. But I don't think that you'll grow 11% in the third quarter the way we did in the second quarter of that business. I actually expect us to grow very nicely in that business, leveraging off of the continuing positives that we talked about in August coming out of the June and July period, which is well past stimulus expiration.

So I think at end of the day, there's been a permanent change in that business at least to the course of the virus where folks are smart enough to say I got this money and how long it's going to last or when the next one is, we're going to be smart about in keeping this system, spending on essentials and that's what we're seeing in our business and we're the beneficiary of that to be honest. So I think that business is in really healthy footing and the other thing I would say about that business Tien-Tsin, when we closed on the TSYS partnership in September of 2019, almost exactly a year ago today, we spent a lot of time in the fourth quarter of 2019 through June, certainly continuing in 2020 getting the expense base correct in the NetSpend business.

So in addition to disbursement benefit that you saw on revenue, you saw an all-time high at least in the last 10 years operating income in NetSpend as well as operating margin. And I think it posted a 32% or 33% operating margin in NetSpend in the third quarter and that's – sorry in the second quarter, and that's intentional. That's not just the additional revenue coming in from the disbursement, those are cost actions that we took to rightsize the business, really not tied directly with the pandemic, coming out of the back half of 2019, when we first closed the TSYS merger all the way through the middle of 2020. So, we think our business is really on the right foot, and we're very happy with the way that business is positioned today even though the stimulus is now three or four months old and we continue to see benefit coming out of that.

As relates to your second question, the mode of competition. Listen, this was for us. And I'm not saying it's the same for everybody else. But for us, this was never a neobank comparison. What NetSpend is set up to do is to attract and focus on those folks who are out of the traditional financial services realm who are unbanked or underbanked, and need our products and services to do what they do best, right, because they don't have a traditional bank account. That's very different than someone – that a millennial, which is primarily to focus [ph] some of the folks (00:32:26) that you mentioned, very different than millennial, opening up five different accounts because it's free.

And because at the end of the day, they can get rewards points on the credit card or debt card. So, I think fundamentally, it's just a very different market at the end of day and while there is some overlap, it's not in the same position. I think you are seeing that come out of the experience from the virus. So, what we saw in addition to the stimulus, which is now more than faded, what you're seeing now in terms of the actual money flows, what you see now is people persist because they see value in what we've created in NetSpend, and that's why they're buying online groceries and pharmaceuticals. That's not how you think about Chime. It's not to say it's not a good company, which has a very different value proposition. And they're targeting a very different consumer, the millennial; we're really targeting the people who need our help in financial services. So, I think those are just two different groups and we're seeing that reflected in the persistency of the account sign-ups over – in NetSpend.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC



Interesting. Thank you for that. So, and I'm getting this question too when I saw my list any way just I know NetSpend came via acquisition together with TSYS. And we're busy dealing with COVID and the crisis, but I get this question a lot Jeff, when will Global be back on the M&A trend again? And we've seen some M&A recently, right, with Amex & Kabbage, SoFi & Galileo, Intuit & Credit Karma. So I'm curious when you might be – it seems

like you're going to be one of the first back in line or think to do some deals. And where are your interests at this stage and has that changed given what we've learned from the pandemic?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, I think the answer is, well, right now. And certainly we're looking at a bunch of deals through the spring, the late winter of 2020 and the spring of 2020. We obviously not surprising in March, we're going to put those on hold for a while because we just didn't know what the world would look like, we didn't know what April would be. Turned out of April, we did a \$125 million of free cash flow who knew where I was going to [ph] in March (00:34:26), we just didn't know what we're going to see. And you also saw in the second quarter, Tien-Tsin, we did just under \$400 million, I think it was \$380 million our free cash flow in the second quarter, again we didn't know March where we're going to be, and that's about \$800 million in the first half of 2020, about a \$1.6 billion kind of run rate. Those are things we didn't really know sitting there in March. So we put it on pause a little bit as we did with share repurchase really in early March.

But I would say, sitting here today, we never would have guessed in March and April that our business would be this healthy in August and September. So very fortunate to be where we are. We're fortunate to be outperforming as we did in the second quarter. And we expect to continue the networks, which I do as a proxy for the market. So we're significantly outperforming them, which is another good thing. So I think we're ready now to really kind of the answer – take answer of your question now that depends on the deals that we're looking at. Is it the right strategic fit, cultural fit, financial fit. So, it depends on all of the things that a deal typically depend on. But I don't think we're in a position to say, gee, because of COVID or the macroeconomic stuff coming out, but I think we're way ahead of that. I think we feel like we have a firm grasp of what it looked like in March and April. We're doing a \$1.6 billion run rate of free cash flow, our balance sheet, as you know, is levered net – on a net debt basis 2.5 times, we have plenty of capacity.

Our business is really as healthy as an operating matters as it's ever been. We primarily look beyond that at the health of the integration with TSYS merger as you know from what we said, we upped our estimates twice already on expense, once on revenue. So, we're tracking ahead based on what you've said publicly, I expect us to be by and large complete, there will be some things more to do, but by and large complete with the TSYS integration by spring of 2021, a little bit less than two years after we started by comparison, it took us two-and-a-half years to fully integrate Heartland.

So, we're really ahead of what our expectations are. So, I think managerially, operationally, financially we're certainly ready now and now we'll see how those play out over time and whether that results is something for us to do in the immediate term. I would say if we get to October, we don't have meaningful M&A that we're looking at that point then we'll return pretty aggressively to share repurchase because sitting here at the end of June as Paul described in our call, we have got \$1.6 billion of cash of which about half is freely available and the \$3 billion of untapped revolver. So, [ph] we call it \$4 billion (00:36:55) of untapped firepower through the end of June, we continue to build cash kind of as we speak. So, I don't want to be in a position where we have \$5 billion of liquidity, cash and available facilities on a \$50 billion market cap company, heading into the end of the year that sounds to me like we've to return money to shareholders.

So I think if we get to the end of the third quarter and we don't see a horizon of substantial M&A, I think what we'll do is we'll visit where we were in March with share repurchase and returning capital to shareholders rather than just sitting on the balance sheet. So, I think we're in a very healthy place today. Obviously, the facts are the facts and we'll adjust to them, but I think we're right where we wanted to be in terms of capital allocation deployment.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC



Good, good. That's encouraging and I know you're not going to pre-announce what you're going to buy next, but this concept of buying depth versus breadth is always really interesting to me because I think buying total systems, it was a move to add more breadth across fintech, let's say, not payments. So, what's important in your mind today, Jeff? Is it adding more depth and scale in what you have or is – breadth is just as important in your mind?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.



Well, we're looking at a whole range of things. So you saw our announcement of CaixaBank coming out of our July or call in early August that done in July. So, obviously buying more of a joint venture that we're very pleased, we're already expanding our position in Europe and especially in that case to Spain and Portugal, was a really good thing to do. We're trying to buy in more of a joint venture for almost the entire 10 years since we started that partnership.

So, I would say that we're looking at everything, we got software companies, we're looking and other payments companies specifically that we're looking at new geographies that we're looking at, so we're looking at multiple opportunities, it's going to come down to the strategic fit, the cultural fit, and ultimately the financial returns of doing all these things. I certainly think as you think about going back to your other questions about what's changed, we certainly think post-pandemic, well, now we kind of know or we hope we know based on where things sit today, [ph] what (00:38:59) our business look like in March-April, obviously we discussed other deals along the same spectrum and asked whether we're appropriately positioned in the event that will occur.

So, we certainly will look at it, but now you know it's somewhat hypothetical about where could this go, we kind of know what it looks like back in March and April, so we certainly give thought to that. When we think about – we think about other deals, but we've got a lot of liquidity sitting here today. So I think we're in a very healthy position to make that assessment. And as a result, I would look for us to do things sooner or later, but time will tell.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC



Let's make sure. Two more questions. One, I'll take from the audience. They're asking – a couple of people have asked how does your omni, e-comm business, I guess has tech offering, your tech compare to a Toast or Touch Bistro and some of these private software ISVs that are out there today?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.



Yeah. So I think we have a better solution. So if you look at – and I think we said some of these probably year ago...

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC



You do.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.



...we rolled out our Heartland, like the micro all the way up to the enterprise chain with Xenial, so you can go online on our website and actually see what that looks like. But from the Taco Truck all the way through the Taco Bell and Taco Bell is actually one of our customers. We have pretty much every solution you could think of for a restaurant from a small individual guy who has just got one facility up through RBI who has 15,000 franchises in North America. We got it all. So I think the answer to the question about whether it's Toast and actually on that slide show Tien-Tsin from last year, we actually show Toast and Square and both. And along that spectrums, you can kind of read along and compare, but I would say at the end of the day, we have the full spectrum of all those things, we have pay-at-the-table, we have pay by QR code. We have order-ahead. We have take-out, I mentioned before what I think is our market leading safe restaurant experience where you could wait in your car and we can tell you when you can come in, you can get your menu and your QR code, by QR code and all those other things.

So I think we're in a really healthy place from a competitive point of view, some of those companies you mentioned were under particular duress, as part of the virus, which is unfortunate, furloughed half the workforce. We obviously didn't need to do that. So I think you graft on top of our technology, which matches that, I really think pound for pound, you graft on top that is safety track record and scale and size of our business and doing \$400 million of free cash flow in the north of pandemic. I don't think it's that hard of a conversation. Our pipeline at Xenial today is full as it's ever been with as many name brands as you can mention and we already have 26 at the top 50, so look the proof is in the pudding, I think we're in a very healthy place as it relates to our pipeline of opportunities at our Xenial business and that's because of all the things that I just mentioned.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

All right. Good stuff. So, good chatting here. And just one last question because I love picking your brain. Jeff, I miss those sessions we used to do because I guess that I always like a chessboard analogy, there is – a lot of moves you could potentially make so, but how would you answer the question of sort of what do you think is underappreciated? If I were to ask you what's the most underappreciated opportunity in front of Global Payments today, what would that be?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

So, I think the thing that's most underappreciated for us, I think is all the things we've accomplished, for example, in 2020, notwithstanding the pandemic. So, when you think about the virus, just forget about that for a second, think about our [ph] signature win with Truist (00:42:21) in May, which was a double takeaway, think about our renewal TD Bank, probably our second largest customer in our issuing business, think about the signing of our unique relationship with AWS and Amazon that was in July, think about the buying, the additional buying of the CaixaBank, Comercia JV also in July and we did all this, Tien-Tsin, while we were lapping the results from Visa and MasterCard in revenue and earnings for the core, meaningfully gaining share and outperforming the market.

I don't think any of that's reflected in either the stock price today or the perception of how the company was performing. And notice, I didn't say one thing about the macro environment or the virus or whatever. We further moved our strategy down the field, built a bigger moat, got further ahead competitively forgetting about the virus, notwithstanding all that stuff and just saying, what's the right thing for the company. So, everything I just described we wanted to do, we have nothing to do with the pandemic. And we didn't let that slow us down or stop what we're doing. The coming months, we'll announce relationships on the issuing and acquiring [ph] shop (00:43:23) side as we talked about since the TSYS merger, a la some of the close loop things that we talked about. We're not slowing down for that either. We'll announce more relationships like AWS and Amazon in context of our merchant business, more to come there. None of that has been stopped, slowed down or avoided because of the virus.

So, I think what we all prefer a better macro for all the obvious reasons not the least of which is the impact to people and society and our health. Notwithstanding that look how far down the field we've moved the ball, I don't think any of that's reflected kind of in the commentary that you really see or how people think about this. I think people are rightly and more generally focused on the macro, but we're focused on the substance of how far we've moved the ball down the field on the strategy. And I just don't think that's appreciated in how we think about our business today. And I do think it's reflected in our results. We're in a market where that matters or it doesn't matter depending on the day of the week you're on.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah. Well said. All that gets sorted out in the end and look, I know you and the team are working really, really hard. So, thanks for spending a few minutes with us here, Jeff and it's great to see you. I hopefully get a chance to see you in person very soon.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

It's good to see you. Thank you for having us.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

All right, Jeff. We'll catch up soon. We'll end this now. Thanks everybody for tuning in and we're sure to follow up with some of these questions down the road. Thanks again, Jeff. Thanks Winnie and team.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thank you.

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 2020 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.