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# Global Payments, Inc. (GPN)

Q4 2019 Earnings Call

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## OTHER PARTICIPANTS

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, thank you for standing by, and welcome to the Global Payments Fourth Quarter and Fiscal Year 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we'll open the lines for question and answers. [Operator Instructions] As a reminder, today's conference call will be recorded.

At this time, I'd like to turn the conference over to your host, Senior Vice President of Investor Relations, Winnie Smith. Please go ahead.

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**Winnie Smith**

*Senior Vice President of Investor Relations, Global Payments, Inc.*

Good morning, and welcome to Global Payments fourth quarter and full year 2019 conference call. Before we begin, I'd like to remind you that some of the comments made by management during today's conference call contain forward-looking statements about expected operating and financial results.

Forward-looking statements are subject to risks and uncertainties discussed in our SEC filings, including our most recent 10-K and any subsequent filings. These risks and uncertainties could cause actual results to differ materially. We caution you not to place undue reliance on these statements. Forward-looking statements during this call speak only as of the date of this call and we undertake no obligation to update them.

Some of the comments made refer to non-GAAP financial measures such as adjusted net revenue, adjusted operating margin, and adjusted earnings per share, which we believe are more reflective of our ongoing performance.

For a full reconciliation of these and other non-GAAP financial measures to the most comparable GAAP measure in accordance with SEC regulations, please see our press release furnished as an exhibit to our Form 8-K filed this morning and our trended financial highlights, both of which are available in the Investor Relations area of our website at [www.globalpaymentsinc.com](http://www.globalpaymentsinc.com).

Joining me on the call are: Jeff Sloan, CEO; Cameron Bready, President and COO; and Paul Todd, Senior Executive Vice President and CFO.

Now, I'll turn the call over to Jeff.

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## Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

Thanks, Winnie. We exceeded our expectations in 2019, while delivering one of the finest strategic, operational, and financial results in our history. Our transformational merger with TSYS redefined the industry landscape, and our distinctive focus on software, partnered and owned, omnichannel businesses and faster-growth markets has driven industry-leading performance and generated significant competitive wins over the last 12 months, further validating our pure-play payments model.

For the full year, we generated strong revenue growth achieved meaningful operating leverage and grew adjusted earnings per share of 20%. We also processed in excess of 56 billion transactions across our businesses, highlighting our significant scale. These outstanding results were achieved while simultaneously executing on our partnership with TSYS, the largest merger in our history and I'm extremely proud of our 24,000 team members worldwide who made it all possible. We exited 2019 by accelerating performance in the fourth quarter and carrying strong momentum into 2020, exactly as we said we would do.

A few metrics; during the peak holiday period we processed more than 7 billion transactions, a high single-digit increase year-on-year despite a shorter calendar season. These results provide us with confidence to now raise our estimate for annual run rate expense synergies from the merger to \$350 million within 3 years, the second time we have increased our expectations in as many quarters.

Finally, we delivered the highest adjusted earnings per share growth rate in the fourth quarter that we have generated all year, setting us up nicely for ongoing growth in 2020. Let's review our business performance by segment. Merchant Solutions, which now represents 65% of our company has made substantial progress aligning go-to-market strategies and our senior leadership team is in place for the consolidated business.

Milestones in the quarter included, combining our respective technology-enabled and relationship-led sales forces, rebranding our combined integrated payments business as Global Payments Integrated; receiving recognition from J.D. Power for providing an outstanding customer service experience with our call center support, making us the first payments technology company to be so recognized; and resigning agreements with 15 of legacy TSYS' 50, largest ISV customers since closing merger.

Our Integrated business has unmatched breadth, serving more than 4,000 ISV partners across our 70 vertical markets. We continue to have a robust pipeline of new partners, following a record year for OpenEdge in terms of partner production in 2019, positioning this business well for future growth.

We also expect to begin realizing synergy benefits as we introduce Genius to the OpenEdge ecosystem this year, and provide TSYS partners international access, beginning with Canada. As for our own software portfolio, we delivered strong revenue growth for the fourth quarter and full year, as we leveraged our distribution and payments capabilities to scale our solutions in their respective vertical markets.

For example, Xenial generated revenue growth well into the double digits in 2019 and is seeing strong demand for its cloud-based point-of-sale software solution, which is currently in production in 400 locations. We have high expectations for our restaurant business in 2020 with continued rollout of Xenial at the enterprise level, the ongoing success of Heartland restaurant in the small to mid-market and the expected substantial rollout of our new digital outdoor menu boards across thousands of franchises in North America.

Our Campus Solutions business also executed its largest contract to-date outside the United States, signing a new partnership with Concordia University in Quebec. Further, we ended the year having doubled the annualized recurring revenue from our cloud-based analytics and customer engagement platform.

Regarding our Omnichannel businesses, we successfully executed the rollout of our Unified Commerce Platform, or UCP, in the United Kingdom in the fourth quarter, positioning Global Payments to seamlessly combined the virtual and physical worlds to serve complex merchant needs. UCP is now live in the United States, United Kingdom, Canada, and Asia Pacific.

We are also making great strides in our partnership with Citi to offer payment acceptance services to its multinational banking clients on an omnichannel basis. In December, we activated Citi BINs in the United States, and we will launch pilot production this quarter with the UK, Canada, and Continental Europe to begin in the second quarter. Going forward, we expect to leverage our extensive network of financial institution relationships, significantly enhanced through our partnership with TSYS to cross-sell our best-in-class UCP solutions. We are also focused on the immediate opportunity we have to enhance the omnichannel experience for all of TSYS customers with our leading single API solution and worldwide capabilities.

Turning to our relationship-led business, we have aligned our distribution channels and are now operating one combined sales force under the Heartland model. As one use case, we are pleased to have significantly expanded our relationship with a large enterprise customer, as a direct result of the breadth and depth of our combined products and services.

By pairing ProPay with our existing functionality, we are able to deliver a distinctive customized solution set to meet the unique needs of this key partner. We also ended the year with our two strongest sales productivity months across our distribution channels and delivered solid double-digit growth in payroll new sales for the quarter as we benefit from the ongoing rollout of our cloud-based platform.

Our merchant businesses outside the United States continue to experience strong momentum. We successfully closed the acquisition of Desjardins' merchant portfolio at the end of December and the integration is proceeding as planned. Lead referrals will commence later this quarter, and we'll begin converting existing customers to our platform at the same time.

In Europe, we outperformed in the UK, once again, despite ongoing weakness in macro consumer spending trends with new UK merchant sales increasing well into the double-digits. We also continue to drive terrific results in Central Europe with Erste and in Spain with Caixa and look forward to further expanding our partnerships with these two leading financial institutions, particularly, with the breadth of product offerings we now have with TSYS.

In Asia Pacific, our Omnichannel businesses accelerated growth significantly in the quarter, notwithstanding the ongoing impact of the riots in Hong Kong. Our Sentral Education Software business in Australia also had terrific performance and is poised for more outstanding growth in 2020 despite the terrible fires that have been ongoing in that country.

Turning to our Issuer Solutions segment, which represents roughly 25% of our combined revenue, we achieved record revenues operating income and transactions for both the quarter and the full year. We also ended the year at an all-time high number of Accounts on File.

We renewed existing contracts with several large customers including one of the biggest commercial card issuers in the United States for both commercial and government markets as well as Capital One and Rogers Bank. And we also executed a managed services agreement for another existing top-20 client.

We signed several new customers, including a new processing partnership with MotivHealth. And internationally, we signed a managed services agreement for nationwide debit and an amendment with Virgin Money to move the Clydesdale and Yorkshire Bank credit book to TSYS.

The Issuer business successfully converted the Capital One Walmart portfolio in October among others throughout the quarter. We also had our Enterprise License business in the United Kingdom with private bank C. Hoare & Co. go live with PRIME Hosting, and Application Management services. This is one of several new business models with PRIME as a Service, part of our initiative to further expand our PRIME proposition.

As mentioned previously, we intend to bring our PRIME business into new markets on a cloud SaaS basis as part of our issuer modernization program. We continue to maintain a healthy conversion pipeline going into the New Year and our prospects for new issuer customers remain robust. In sum, our issuer business is well-positioned for continued growth in 2020 and beyond.

Finally, our Business and Consumer Solutions segment, which now represents roughly 10% of our business, finished the year with growth accelerating from the third quarter, while execution remains strong. And we are already making significant strides in our differentiated strategy. Specifically, we recently signed an agreement to enter a new joint venture with CaixaBank-owned MoneyToPay, which provides prepaid payment solutions to consumers, corporations, governments and other institutions across multiple markets in Europe. This transaction represents an important first step in our effort to expand and diversify our business into new international markets.

The digitization of payments remains an ongoing strategic area of focus, and we completed the integration of our Payment Solution into the Samsung Pay digital wallet in the fourth quarter with new account registrations exceeding our initial expectations.

We are also executing against a large and rapidly growing B2B opportunity set and we had several notable new wins this quarter, including multiyear new Paycard relationships with a top 25 consumer bank.

Additionally, based on the positive results of our mid-2019 pilot, we are expanding our distribution of the PayPal-branded prepaid card to all of Walmart's US locations.

Looking ahead, the strong momentum we drove in 2019 is set to continue in 2020. As we execute on our pure-play strategy and benefit from the realization of the meaningful revenue and cost synergies from our partnership with TSYS.

In addition to the \$350 million of expense synergies, we now expect to realize over the next three years. We also continue to have line of sight toward achieving our goal to deliver at least \$125 million of annual run rate revenue benefits over the same period.

As I've already mentioned, our efforts to align our merchant organizations and go-to-market strategy in the US are complete, and we expect to begin realizing revenue synergies in 2020 as we ramp to our target over the next three years. Specifically, we have now enabled TSYS' Genius, customer engagement platform to support payment facilitation through ProPay.

With this new capability, our partners across our businesses will be able to improve merchant onboarding and create complex payment solutions tailored to the needs of innovative and faster-growing markets.

Further, we are launching Vital POS in the Heartland distribution channel next month and expect to deliver it to Canada later this year. We are developing self-select capabilities for Heartland, accelerating our plans to enable this new distribution channel by leveraging the capabilities of ProPay.

Additionally, we anticipate to begin cross-selling Heartland Payroll into the legacy TSYS merchant base in the second quarter. We are also integrating Netspend's Paycard solution into our payroll platform, significantly enhancing our value proposition in key vertical markets, including restaurants and hospitality.

Moreover, we are executing against development roadmaps to deliver products like Genius and ProPay to additional geographies internationally, and enable TSYS' legacy customers outside of the United States. To that end, we are already supporting legacy TSYS integrated partners in Canada.

Later this year, we expect to launch our analytics and customer engagement platform into the legacy TSYS portfolio. We also anticipate making our own software businesses available to TSYS merchants. While we execute on these cross-selling initiatives to begin generating near-term revenue enhancements, we continue to engage in discussions with bank partners across three continents on issuer processing opportunities for TSYS.

We remain optimistic regarding our ability to extend existing relationships by marrying our issuer processing with our acquiring capabilities globally to optimize transaction flows. Of course, these opportunities are in addition to core merchant referral relationship possibilities from existing TSYS FIs and private label retailers to Global Payments.

Lastly, we were actively working on expanding Netspend's B2B and B2C capabilities, into our existing businesses. In addition to the Paycard solution, I previously highlighted, we are also planning to leverage Netspend in our gaming business. And integrate Netspend's B2B solution as a funding option, for our instant deposit product.

All this is in addition, to our newly announced joint venture at MoneyToPay with our partners at CaixaBank, a clear example of our ability to generate synergies, through our distinctive relationships. Paul?

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## Paul Michael Todd

*Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.*

Thanks, Jeff. I want to reiterate, how pleased we are to have delivered outstanding financial results that exceeded our expectations for both, the fourth quarter and the full year in 2019.

Notably, we accomplished this, while also executing on the largest merger in our history. And we're incredibly proud of all that we have already achieved together, in just a few short months.

As we mentioned on our last earnings call, based on feedback from the SEC, starting with this quarter we are now reporting on an adjusted net revenue basis, excluding the addition of network fees.

We filed combined supplemental financials for the first three quarters of 2019 with this convention in mid-January. The combined supplemental financials also reflect the changes to our segment structure now Merchant Solutions, Issuer Solutions, and Business and Consumer Solutions, which aligns with how we operate the company, beginning in the fourth quarter.

With that backdrop, we delivered adjusted net revenue of \$4.59 billion for the full year, reflecting growth of 48% over 2018. For comparability of this performance, to the prior convention guidance range we gave on our last call, you would need to count an additional \$1.05 billion for the year that was previously included in our non-GAAP guidance that included network fees.

The result would be above the high-end of the previous \$5.60 billion to \$5.63 billion guidance range. It is worth reminding you, that the change in our non-GAAP revenue convention has no impact on operating income, net income, or earnings per share, but does serve to increase our overall margin profile.

Turning to margins, for 2019, we reported adjusted operating margin of 39.7%, which substantially exceeded our expectations and reflects our new adjusted net revenue convention.

On our last call we mentioned that we expected adjusted operating margin for the full year to expand by up to 40 basis points on our prior convention. And on a comparable basis, we exceeded that result with an expansion of approximately 70 basis points.

This better-than-expected result was in part driven by the stronger top line performance, solid execution across our businesses, and expense synergy benefits.

For the full year, we reported adjusted earnings per share of \$6.22, a 20% increase over 2018 and ahead of the top-end of our prior guidance range of \$6.12 and to \$6.20. We are delighted with the performance we were able to deliver for 2019, as we continue to execute on our differentiated pure-play payment strategy.

Moving to the fourth quarter, total adjusted net revenue was \$1.8 billion, a 120% increase over the fourth quarter of 2018. Adjusted operating margin was 38.3%, and adjusted earnings per share was \$1.62, an increase of 22% compared to the fourth quarter of 2018, which is the highest growth rate we delivered all year. Taking a closer look at our performance by segment. Merchant Solutions, which combines the legacy Global Payments and TSYS Merchant businesses, delivered adjusted net revenues of \$1.16 billion and adjusted operating margin of 45% for the fourth quarter.

In North America, which accounts for approximately 80% of Merchant segment revenue, we continue to see strong momentum, driven by our technology-enabled software-driven strategy. Our combined, integrated and vertical markets businesses delivered consistent low double-digit growth and we again delivered high single-digit growth in our relationship-led channel.



Our Canadian business grew in the mid-single-digits for the quarter, slightly above our low single-digit target on the back of a strong holiday season. We continue to have good momentum in Canada and are, of course, pleased to have closed the acquisition of the Desjardins' merchant portfolio at the end of December.

Our Merchant business in Europe, which accounts for roughly 15% of segment revenue also posted another solid quarter, achieving high single-digit constant currency growth. This is consistent with our long-term target for the region despite a challenging macroenvironment in the UK. Recall that our UK merchant business now represents merely 4% of company revenue post our merger.

Our businesses in Spain, Central Europe, and Russia all grew double-digits in the quarter. Our Asian merchant business, which accounts for roughly 5% of segment revenue, continued to deliver double-digit constant currency growth excluding Hong Kong. Notably, our Omnichannel business in APAC grew nearly 30%, driven both by a shift to e-commerce in Hong Kong and several new customer wins in the region this quarter.

Moving to Issuer Solutions. We delivered a record \$459 million in adjusted net revenue for the fourth quarter, a little more than 3.5% growth on an organic constant currency basis from the prior year and an acceleration in the sequential quarterly growth rate from the third quarter, which is consistent with our expectations.

As expected, the Issuer growth acceleration resulted from several significant conversions and a strong peak holiday season. Importantly, underlying trends in the Issuer business continued to be consistent with our long-term outlook for mid-single-digit growth. We also added 20 million Accounts on File during the quarter, roughly double the number of accounts added in each of the prior three quarters. As Jeff mentioned, this allowed us to end the year at a record number of total traditional Accounts on File. Reported adjusted segment operating margin for the Issuer business was 40.2%.

Finally, our Business and Consumer Solutions segment delivered adjusted net revenue of \$200 million, which is essentially flat with prior-year results and this is despite continued headwinds from the effect of the CFPB prepaid rule. This performance represented a meaningful acceleration sequentially from the third quarter and is consistent with our commentary on the last call.

Adjusted operating margin for the quarter was 21.5%. We continue to be pleased by the performance of our DDA products and realized improving trends in gross dollar volume, while the team had a number of significant new contract wins and successfully completed the integration with Samsung Pay.

I also want to express my excitement regarding our agreement to purchase 51% of MoneyToPay in partnership with CaixaBank. Not only is this an important milestone in our strategic plan to expand into new markets, but it serves as another example of how we continue to broaden our relationships with leading financial institutions in faster-growth regions. We expect to close MoneyToPay mid-year.

We said at the time of the merger that our International footprint would allow us to expand this business outside the United States and our announcement today helps us to realize the potential that we saw at the time of the merger.

The solid operating performance we delivered across all our businesses allowed us to continue to generate significant adjusted free cash flow as we converted at a rate equal to roughly 100% of adjusted earnings for the quarter.



On the investment side, we reinvested approximately \$107 million back into the business in CapEx to develop new product and technology solutions, invested \$300 million to complete the purchase of the Desjardins' merchant portfolio in Canada and repurchased roughly 520,000 of our shares for approximately \$95 million.

At the end of the quarter, pro forma leverage was at roughly 2.6 times, basically flat to where we ended last quarter, inclusive of these incremental investments and some deleveraging.

Our strong balance sheet and impressive free cash flow generation positions the new Global Payments with significant capacity to pursue our balanced capital allocation strategy going forward while maintaining our investment-grade rating.

Turning to our outlook for 2020, we expect adjusted net revenue to range from \$7.68 billion to \$7.75 billion, reflecting growth of 67% to 69% over 2019. This represents combined growth of 8% to 9%. For comparability of this guidance range to our prior convention that includes network fees, you would need to count an additional \$1.6 billion.

On the margin outlook for next year, we expect adjusted operating margin to expand by up to 250 basis points on a combined basis as we benefit from the natural operating leverage in our business and expense synergy actions. On a reported basis, we expect adjusted operating margin expansion of up to 75 basis points.

We expect net interest expense of just north of \$300 million for the year. And we are forecasting our effective tax rate to be in the range of 21% to 22%, in between the legacy historical rates of Global and TSYS as stand-alone companies.

We expect our capital expenditures to be in the high \$500 million to low \$600 million range with a combination of growth investments and some onetime capital costs related to the integration.

And finally, you will notice that we have broken out the equity and income line from our equity method investments, which is primarily made up of our approximate 45% ownership in CUP Data and we currently expect this line to mirror the fourth quarter annualized run rate in 2020.

Putting it all together, we expect adjusted earnings per share in a range of \$7.43 to \$7.62, reflecting growth of 20% to 23% over 2019.

Given our typical seasonality and our expectation that revenue and expense synergy benefits will naturally build as we go through 2020, we expect adjusted net revenue growth and adjusted earnings per share growth to be higher in the second half relative to the first half of the year.

As is well known, we will benefit from the lapping of the CFPB impact, in our Business and Consumer Solutions segment, beginning in the second quarter. And expect growth in the Issuer Solutions segment to normalize, in the second half of the year, after we anniversary the effect of the in-sourcing of a single product by one client, that we have discussed previously.

Given these two previously discussed items, we expect growth in these two businesses, in the first quarter to be roughly consistent with the year-over-year quarterly growth of what we saw in the fourth quarter. And accelerate thereafter.

Finally, we expect the ongoing strong growth of our Merchant business, as we exited 2019, to continue throughout 2020. In closing, we couldn't be more pleased with the significant financial and strategic progress we made in 2019, and how we are positioned to perform as we build on our momentum in 2020.

And with that, I'll turn it back over to Jeff.

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## Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

Thanks, Paul. The outlook for our businesses is bright as we enter the next decade as the leading provider of integrated payment solutions, owned software, and omnichannel capabilities globally, in the most attractive markets.

Our early integration efforts are well underway. And we are delighted at this stage to be in a position, to raise our expectations for expense synergies, for the second time in as many quarters.

By exceeding our expectations for the fourth quarter and the year, we exited 2019 with substantial momentum across our businesses, a strong investment-grade balance sheet and significant opportunities to continue to accelerate growth. And extend our competitive mode, well into the future. Winnie?

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## Winnie Smith

*Senior Vice President of Investor Relations, Global Payments, Inc.*

Before we begin our question-and-answer session, I'd like to ask everyone to limit their questions to one with one follow-up to accommodate everyone in a queue. Thank you. Operator, we will now go to questions.

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# QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Our first question comes from Dave Koning of Baird. Your line is open.

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## David J. Koning

*Analyst, Robert W. Baird & Co., Inc.*

Yeah. Hey, guys. Congrats on a great year.

Q

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## Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

Thanks, Dave.

A

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## Paul Michael Todd

*Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.*

Thanks, Dave.

A

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## David J. Koning

*Analyst, Robert W. Baird & Co., Inc.*

Q

Yeah. And I guess, first of all, just because it is a new revenue, kind of mechanism that you've given to us, what was Merchant growth – organic constant currency growth in Q4?

And then, I mean should that immediately kind of accelerate into Q1 and through the year, just given the synergies coming on?

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**Paul Michael Todd**

*Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.*

A

Yeah. Dave, this is Paul and Cameron may want to add. But we saw a high single-digit organic growth on the Merchant segment in the fourth quarter. And yes, we're expecting that kind of growth rate to continue and accelerate throughout the year next year.

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**Cameron M. Bready**

*President & Chief Operating Officer, Global Payments, Inc.*

A

Yeah. Dave. It's Cameron. The only thing I would add to that is remember, in Q4 we were impacted a little bit by the Hong Kong situation. That probably was about a point of drag on that growth.

As we entered 2020, we see really good momentum, in the Merchant business. And as we begin to generate revenue synergies across the Merchant business, as we get towards the back half of 2020, I would expect that number to be close to double-digits.

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**David J. Koning**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Okay. Great. And secondly, your leverage is in a really good spot even after buying the Canadian asset. So, is it in guidance basically to assume that you use the full cash flow of the year to either make [indiscernible] (31:15) Spanish acquisition coming up now and/or buybacks kind of using the full amount of cash? Or would that be upside, if you do do that?

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**Paul Michael Todd**

*Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.*

A

Yeah. So Dave, obviously, we're thrilled to be in the position that we're in from a capital structure standpoint. And as we said in our prepared remarks, we do have good capacity to be able to do the kind of strategic things we wanted to do to continue the growth of the business.

Obviously, in our guidance we have kind of capital deployment assumptions around various kind of scenarios. And so, you'll see us throughout the year do a combination of things kind of like we did in the fourth quarter where there'll be some acquisitions, there'll be some deleveraging, there'll be some share repurchase and that is kind of baked into the overall guide.

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**David J. Koning**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Okay, great. Thanks, guys.

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**Paul Michael Todd**

*Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.*

A

Thanks, Dave.

**Operator:** Thank you. Our next question comes from Ashwin Shirvaikar of Citigroup. Your line is open.

**Ashwin Vasant Shirvaikar**

*Analyst, Citigroup Global Markets, Inc.*

Q

Thanks. Good morning, folks. Congratulations on the quarter. Appreciate the commentary that provided the bridge to prior outlook, and the prior way of reporting, that's helpful. I want to just ask about the underlying, say, macro assumptions in your outlook. I know you do tend to set up each year so you can do well against the initial guide. But to what extent have you already taken into account conditions in Asia, UK? Is the MoneyToPay piece already in there? If you could break that out in terms of impact?

**Jeffrey Steven Sloan**

*Chief Executive Officer & Director, Global Payments, Inc.*

A

Yeah, Ashwin. It's Jeff. I'll start, and I'll ask Cameron to join in a minute on the back part of your question as well. I would say the consumer is very healthy. I think as Paul alluded to in his prepared remarks, we saw a continuing health through the fourth quarter and we expect that momentum to continue into 2020.

As I mentioned in the prepared comments, we saw record peak volumes for us, 7 billion transactions during peak period, up high-single-digits year-over-year despite the shorter holiday period. And I think our confidence in our guidance and kind of where we are as a company reflects the underlying health of the consumer.

We also pointed out, particularly in Paul's commentary the strength of our business in Europe. We continue to be pleased with how we're outperforming in the United Kingdom despite a more difficult macro environment there. But I would say, it's probably been six or seven months of that outperformance in the UK, and of course, we remain very pleased with Erste in Continental Europe and Caixa in Spain.

Cameron alluded to this in response to Dave's question a minute ago, but we do expect in the back half of 2020, our Asia Pacific business relative to the Hong Kong riots that we saw in the back half of 2019 to improve. So certainly, we've been reporting that ex-Hong Kong for the last number of quarters that number has been double-digits. We certainly expect to lap that in 2020 and that would certainly be an improvement over where we were.

So I would say, Ashwin, we think the consumer is pretty healthy. I think our expectations heading into this year assume that continued momentum that we had, really coming out last year that we see coming into this year. So, we're very optimistic about our ability to continue to drive enhanced growth. Cameron, do you want to add any color?

**Cameron M. Bready**

*President & Chief Operating Officer, Global Payments, Inc.*

A

Yeah. I'll just add maybe just a couple of points Ashwin. North America, which is 80% of the Merchant business, obviously to Jeff's point, I think, remains very healthy. We have very strong momentum across both volume, transactions and obviously revenue growth in the North American business heading into 2020 and feel good about the outlook just as a macro matter for the balance of the year.

You asked about UK specifically. I think we envision an environment relatively similar to what we saw in the back half of 2019. They continue to muddle through the Brexit process. Obviously as you get closer to the end of the year and the Brexit becomes more of a reality on the ground, we'll see how trends continue to hold up.

But as we sit here today, I think our outlook is they'll continue to maintain a reasonably stable environment, albeit not a growth environment.

We've been benefiting by a very strong sales performance in the UK, which has helped offset what's been a, obviously, slow to no growth macro-environment in that market. And of course, Asia is a little bit of a wildcard.

I would note that, Greater China is less than 2% of our combined revenues, as a company. There will be some impact on the business from the coronavirus outbreak, across the region. A little early to tell how much of an impact that will be, but given the relatively small size of that, given Global Payments as a whole, we certainly think we'll be able to absorb that and move through.

And as Jeff highlighted, as you get to the back half of the year, assuming things settle out from a coronavirus standpoint. We do expect Asia to return to more normalized growth in that low double-digit range, as we lap the Hong Kong protest impact from last year.

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**Jeffrey Steven Sloan**

*Chief Executive Officer & Director, Global Payments, Inc.*

A

And Ashwin, it's Jeff again. On MoneyToPay on your question there, it's important strategically to us, because we think part of our [ph] differentiated (36:25) strategy involves bringing our Netspend business into lesser penetrated and more attractive underlying markets outside the United States, so it's important, but it is immaterial to us as it relates to any financial revenue or other impact to the company. I'll just be clear.

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**Ashwin Vassant Shirvaikar**

*Analyst, Citigroup Global Markets, Inc.*

Q

Got it. And then, just strategically do you intend overtime to do the same sort of whittling down with the original TSYS ISO business that you did from a pricing type standpoint, to the GPN business? Or what's the intent there? And is that in your numbers?

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**Paul Michael Todd**

*Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.*

A

Yeah. I would say the intent as a combined business, Ashwin, is a little bit different than Global's historical stance around the wholesale channel. Today wholesale represents about 8% of the Merchant business.

So a little bit less than that obviously on a consolidated basis for Global Payments as a whole. Our view on that is, we're very happy to stay in that business around that same level.

We're not actively looking to exit the business. We have very good partners in that business, that we want to continue to serve well. And we'll continue to support. And we'll continue to renew.

We're not going to go out and aggressively seek to sign new, sort of wholesale customers through that channel. We may sign a few new, in select circumstances. But I think by and large, our strategy is continue to maintain that business largely as it is.

It's roughly a flattish kind of growth business, for us going forward. And we'll continue to really focus most of our energy around our direct distribution channels of which we have a plethora of good opportunities, clearly in the US market as a combined business that Jeff talked about in his script.

**Ashwin Vasant Shirvaikar**

*Analyst, Citigroup Global Markets, Inc.*

Got it. Thank you, guys.

Q

**Paul Michael Todd**

*Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.*

Thanks, Ashwin.

A

**Operator:** Thank you. Our next question comes from Tien-Tsin Huang. Your line is open.

**Tien-Tsin Huang**

*Analyst, JPMorgan Securities LLC*

Hey, thanks so much. Good morning. Just some question for you, just on industry consolidation still going on around you and all of us, so appetite to do a deal has that changed in any way? And I'm curious if the type of asset also that you might consider has changed as well?

Q

**Jeffrey Steven Sloan**

*Chief Executive Officer & Director, Global Payments, Inc.*

Yeah. Tien, it's Jeff. I would say, and as we said before, I think ongoing consolidation we think is something that provides further validation really of the strategy that we've had and have adopted over many years. So, no that's a surprise.

A

It's stuff we certainly thought, heavily about and I think just reinforces the competitive position we're in. As Paul mentioned a few minutes ago, I think given our balance sheet and our leverage levels, coming out of the partnership with TSYS, I think we're as well positioned as we ever have been, to think about more transactions.

I think the, gating item for us really has been how do we feel about the integration, with TSYS. I would say as you've heard us now in this call and also last quarter, having raised our estimates twice on the expense side and obviously, you can judge for yourself the quality of the operating performance seems very good today. And our guidance, I think, is great. I think we feel really good about kind of where we are heading into 2020.

So, our pipeline is full. It's full of a variety of types of transactions, other large or naturally large consolidations, software-related businesses, et cetera. As always, we're pursuing everything to see where we think the right angle is for shareholder value creation. But I would say we're in as good a position today as we really have been and right where we want to be in terms of our appetite to pursue more transactions.

**Tien-Tsin Huang**

*Analyst, JPMorgan Securities LLC*

Okay. Good. Then, maybe just a quick follow-up. Just with the interchange adjustments in the US, I'm curious if there's any impact there? And maybe just comment on pricing overall on the Merchant side, any change there? Thanks.

Q

**Jeffrey Steven Sloan**

*Chief Executive Officer & Director, Global Payments, Inc.*

Yeah, Tien-Tsin. This is Jeff. I'll start and I'll ask Cameron on to comment in more detail on the Merchant side. But twice a year at least – by twice a year, usually in April and October, as you know, the networks change,

A

interchange-related pricing, if not more of often than that. So that's something we expect in our management of the business and that's true globally for us. So really that's not a surprise.

As we said before, any change in interchange pricing is good for us as a company. We prefer of course it to go down at the margin, because that's better for our customers, our merchants. But at the end of the day, we provide value-added services and the more complexity and the more value we can provide, really, just the better for us over time.

I would say as it relates to adjustments in pricing before I turn it over to Cameron, any pricing action that we would [ph] ever take (41:03) and Paul used to say this too when he was running that company, it's a very efficient competitive market, we'll be competed away over time at the end of the day and those are obviously very transparent.

So, I think this is kind of nothing new for us. It's something we see all the time in our markets around the world. So, as I mentioned, this is all good news in the scheme of things. We, of course, prefer prices to our customers to come down. But it's not something that's unexpected from us. And it's obviously something we're very well prepared to accommodate. Cameron, do you want talk a little bit about on the pricing trends in Merchant?

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**Cameron M. Bready**

*President & Chief Operating Officer, Global Payments, Inc.*

A

Yeah. I would say pricing trends kind of across the board are relatively stable. I think we continue to see a strong market for our offerings. And I think our model of providing what we believe to be a superior level of product service capability to our customers, allows us to get paid fairly for delivering those services.

And to Jeff's point earlier, our ability to continue to drive more value-added services and deliver more innovative capabilities to our product is only providing more of a tailwind for us to be able to maintain a stable pricing environment across the core part of the processing solutions that we deliver.

So, I think we feel very good about how we're positioned in the market and I think the overall pricing behavior in the market continues to be relatively rational. We're not seeing a lot of sort of irrational behavior in the marketplace, which is certainly a comforting as well.

And just lastly on Jeff's point as it relates to changes in interchange, we're seeing these – we see these all the time. This is a part of running the business. We're not in the business of absorbing those. And obviously, any time Visa, Mastercard or any other networks make a change we have work that we have to do to accommodate that and to be able to pass that along to our customers.

And obviously, we look to do that in a very efficient way. But obviously, we're not in the business of absorbing that in our different businesses around the globe. So, it's just part of running the business. It's getting more headlines this year, but it's something that we see obviously every single year.

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**Tien-Tsin Huang**

*Analyst, JPMorgan Securities LLC*

Q

Right. It's terrific. Thank you for the update.

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**Paul Michael Todd**

*Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.*

A



Thanks, Tien-Tsin.

**Operator:** Thank you. Our next question comes from Steven Kwok of KBW. Your line is open.

**Steven Kwok**

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Great. Thanks. A good quarter and thanks for taking my questions. Just the first one was around the \$25 million of incremental cost synergies. Can you elaborate around like where that's coming from, and if there's potential upside? And also, a follow-up around – for the \$125 million of revenue and \$350 million of cost synergies how much of that is embedded within your 2020 guidance? Thanks.

**Cameron M. Bready**

*President & Chief Operating Officer, Global Payments, Inc.*

A

Yeah. Steven, it's Cameron, good morning. I'll start on the first part. And maybe ask Paul to jump in on the specific guidance, that's no longer my business.

On the first part, I would say, it's broadly across really operating environments and technology. I think most of the corporate overhead savings and public company expenses that we expected to realize. I think we remain very much on track with our initial estimates there.

I think as we continue to align operating environments, we continue to work through our technology, architecture and make decisions about what we want future-state technology environment to be for the Merchant business specifically.

Obviously, I think we've been able to find more opportunities to rationalize expenses and improve upon the original estimates that we had for cost synergies from the transaction.

So, having just up them today, another \$25 million is a little premature to talk about, future upside to that new raised number. But obviously, we're working very hard to make sure that we deliver on the commitments that we've already made. And obviously to the extent that we can do better than that, we will.

The last point I would make on that. And I would more call as a reminder, relative to what we talked about when we announced the transactions, our synergies have been designed to ensure that we do a couple of things.

One is, position the business for the success long-term. Two, realize the value that we saw in the transaction, combining the companies. And three, most importantly, not disrupt the momentum in the business.

We've been very careful as we're making these decisions that we don't disrupt the strong momentum, and the strong growth. We're seeing in the Merchant business in particular.

So we're very cautious, as we think about taking costs out of the business to ensure that we don't do that. We also lastly want to position the business for long-term, sort of margin expansion.

So, we're going to take the actions we're going to take over the next three years. But I think even beyond that, we'll have a lot of opportunities, continue to scale the business, drive sustainable margin expansion for the long-term. And that's an important part of our thesis, as well.

Paul, do you want to touch on the second part?

**Paul Michael Todd**

*Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.*

A

Sure. And Steven on the guidance and how much of the synergy is built into the guidance. On the expense side you heard us on the last call talk about, the \$100 million that we've already actioned on the expense side. So fully obviously, that's fully baked into the guidance.

And we have obviously actioned more than that and are going to continue to action throughout the year, additional items and so those will be coming in as the year progresses. So, the \$100 million is fully baked in and then there's some more that's coming in throughout the year.

On the revenue side, we have said really from the start that, a lot of the revenue synergies are really more of a 2021. And so we will as we mentioned earlier on the merchant side, we will start seeing some in the back half of the year on the revenue side that is embedded in. But the significant items on the revenue synergy side or have more of a longer tail to them.

**Steven Kwok**

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Got it. And just a quick follow-up around the Unified Commerce Platform, what's the current uptake among your customers? And then, are there other geographies that you can expand the product into? Thanks.

**Jeffrey Steven Sloan**

*Chief Executive Officer & Director, Global Payments, Inc.*

A

Yeah. Steven, it's Jeff, I'll take the second question first. It's now worldwide. So I'm sure there are additional geographies we can go in, because we're currently, physically in 38 countries as a combined company and cross-border in 100. So 100 is not all the countries, but in terms of Global Payments and where we sit today as a company, UCP is live in every one of them. So, I would say worldwide, we're very pleased with where the footprint is.

And as a volume matter, that's by far the vast, vast majority where volumes are transacted around the world. So we're in the right markets. In terms of customer interaction, I think we mentioned this on the previous call, we're up and running with a number of customers, say, particularly overseas on UCP and the feedback has been really good.

I think, we mentioned, when we had time in the last call, a number of those wins, those companies are being booked into and booked online into UCP when they go live since the business is up and running.

So, I would say we feel very good about kind of where we are today. It's selling very well competitively. We had some real bright spots this past quarter, which – just to point out a few of them, in particular in Spain, in Russia, in Canada, in terms of our e-commerce growth. Paul mentioned in his prepared remarks, our Omnichannel business in Asia Pacific, which grew 30% in the fourth quarter year-over-year. So clearly, I think in the Omnichannel business, we're exactly where we want to be and UCP is a big part of that story.

**Steven Kwok**

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Great. Thanks for taking my questions.

**Jeffrey Steven Sloan**

*Chief Executive Officer & Director, Global Payments, Inc.*

Thanks, Steven.

A

**Operator:** Thank you. Our next question comes from Glenn Greene of Oppenheimer. Your line is open.

**Glenn Greene**

*Analyst, Oppenheimer & Co. Inc.*

Thank you. Good morning. First, just going back to the – maybe for Jeff, the revenue synergy potential. We obviously sort of raised the cost synergy goal and the revenue synergy aligned where it was before, but maybe a little bit more color on sort of your early conversations with clients putting combined solutions together, just sort of the update in the last three months from what you're seeing?

Q

**Jeffrey Steven Sloan**

*Chief Executive Officer & Director, Global Payments, Inc.*

Yeah. Glenn, it's Jeff and I'll start and I'll ask Cameron to add too. We feel really good as I said in the prepared remarks about where we are on the revenue synergies. Part of the reason we didn't increase them now, as Paul mentioned just in response to Steven's question is by nature those tend to be long-dated. So whereas expense synergies as Cameron alluded to the detail are kind of in front of us right now and easier to quantify, time and see, obviously revenue takes time to kind of come in. So that really gets to the \$125 million and how we're thinking that.

A

But I would say, as it relates to that I mentioned in my prepared remarks, we're starting to book those this year. So I gave a few examples of that selling Vital POS into the Heartland base. I think we said in the call, it's going to be in the second quarter, which obviously is in, like, six weeks. So that's near dated. Selling the Paycard into the – from the Netspend into the Heartland base, also I think tied to the second quarter. Towards the back half of the year, selling these legacy Xenial, Global Payments data and analytics and customer engagement platform into the TSYS base.

So, those are things that will be realized throughout the year. We also have made significant progress, Glenn, in, what we'll call transaction optimization, which is finding ways to marry, as I mentioned in my prepared remarks, the issuing and acquiring benefits. We have active ongoing discussions with multiple large corporations, primarily outside the United States, in Europe and in Canada, about ways to match issuing and acquiring and to provide more efficiencies in terms of customer engagement costs, data and analytics and reporting together, we made a ton of progress on that since our last call in October. But of course, those two remains long-dated because that will take time to do.

I'd also say as I mentioned in my prepared remarks, Global Payments acquiring outside of the United States where TSYS did not have a business in Merchant before the merger also is making a lot of headway in signing new customers on competitive takeaways from other providers, because TSYS was not in that business overseas. So, I would say Glenn, we feel very confident and clear line-of-sight into the \$125 million. We'll obviously revisit upping that in the future, but those are long-dated and do take some time and that plays into our thinking as to what the timing is.

**Glenn Greene**

*Analyst, Oppenheimer & Co. Inc.*

Q

And then a follow-up question just maybe for Paul, at a high-level sort of appreciating the second-half skew in Issuer and Consumer, sort of segment growth and profitability expectations in calendar 2020 in Merchant, [ph] will you still shooting these sort of thinking (51:03) high-single-digits? And can we get back to mid-single digits in Issuer on a combined year basis? Or is that too optimistic?

**Paul Michael Todd**

*Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.*

A

No, Glenn, That's – you're thinking about it right. On the Merchant side, the longer-term kind of, growth rates are still intact, from a go-forward standpoint. As I said those kind of progress throughout the year, particularly as some of the synergies come in. As we talk about Issuer, obviously we've still got another quarter and half of headwind related to this one single product de-conversion.

Once we anniversary that in the back half of the year, we get back to that strong mid-single-digit growth there in – really in the sweet spot of the longer-term growth range there.

And then on the Business and Consumer side, obviously for the first quarter, the headwinds still continue for the CFPB. But once we get past there also a mid-single-digit kind of story there.

So when you blend that together, that's the overall kind of growth, the underpinning behind the 8% to 9% guidance that we gave. And obviously, at the beginning of the year, we're a little bit lower. And at the end of the year, we end up more at the higher-end of the range.

**Glenn Greene**

*Analyst, Oppenheimer & Co. Inc.*

Q

Okay. Thank you.

**Paul Michael Todd**

*Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.*

A

Thanks, Glenn.

**Operator:** Thank you. Our next question comes from Darrin Peller of Wolfe Research. Your line is open.

**Darrin Peller**

*Analyst, Wolfe Research LLC*

Q

Hey. Thanks, guys. So just a follow-up on the revenue synergies, we have had some feedback from the industry that you guys have had some early successes around Vital and Genius being, I think you mentioned Jeff, being cross-sold through the Heartland and the OpenEdge platforms. I'd be curious to hear where you believe you are? Is it actually – where is the sales process in that now? Are your people actually selling it already? Is it – how has it been going so far?

What kind of ramp do you expect on that? It seems like a competitive opportunity versus the others that have done well like Clovers and others. And then, just curious what the attrition and price points you can get for those versus your current levels?

**Cameron M. Bready**

*President & Chief Operating Officer, Global Payments, Inc.*

A

Yeah, Darrin, it's Cameron. I'll start here. And then ask Jeff and Paul to jump in, if they have anything they want to add. You're right. We have had some early success.

We're rolling Vital out through the Heartland distribution channel as we said on the call, actually in early March, that we'll be the launching of it. And we do expect that obviously to continue to position our direct distribution, relationship led channel in the US very well competitively in the marketplace.

We think Vital is a terrific solution. We think it obviously compete very well, for that register replacement part of the POS market, as a specialty POS solution, we think its capabilities are robust. And our team is delighted to have the opportunity to sell that. We're rolling it out at our Diamond Conference, the first week of March. And they'll be in the market selling it, thereafter.

On the integrated side, we've had really good success thus far, really with Genius integrated into the OpenEdge, the legacy OpenEdge environment. We have two new partner wins that, I think we would have a good shot at winning on our own. But certainly, the combined capabilities of Genius with our integrated solutions, put us over-the-top with two large partners, that we're very excited about.

We're exchanging contracts now and expect those to be done here shortly. And we'll obviously look to ramp those up, as we get into the back half of 2020. But very excited about the prospects of being able to leverage Genius across the integrated business to drive new wins on that front, the other thing we're particularly excited about already supporting legacy TSYS' integrated partners in Canada.

So, we've already been able to turn that on for them. And obviously look to be able to expand that into other markets, internationally, that TSYS historically didn't have the opportunity to do, just given the footprint of their Merchant business was in the US.

And then the last thing I would highlight, that we're particularly excited about. And we've already seen some early wins coming out of this. And Jeff highlighted in his script as well is, the ability to leverage the capabilities of ProPay, across both our integrated business as well as our relationship-led business has already led to some early success. And obviously, we expect to see that ramp over the course of the year.

To the second part of your question, I would just simply say, and this reflects a little bit on the comments I made earlier. When we could add more value around the transaction, when we can deliver more innovative technological capabilities, whether it's Genius integrated into our integrated environment or ProPay being used as a disbursement engine or self-select onboarding engine. Leveraging those capabilities, selling Vital as a POS solution, allows us to add more value to our customers, allows us to get paid and continue to be paid fairly and appropriately for the level of innovation, products, service we're delivering to them. So, it creates a nice tailwind, and obviously is very important in terms of our ability to continue to drive sustained growth in the Merchant business at the levels we're targeting.

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**Darrin Peller**

*Analyst, Wolfe Research LLC*



That's great. Thanks, guys. Just a quick follow-up Jeff on Netspend or the legacy Netspend business, [indiscernible] (56:03) I mean just any updated thoughts on your strategic process going forward? I mean is it going as well as you would have thought that you'd want to keep it and keep cross-selling? Or do you have any other thoughts about the business? Thanks.

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**Jeffrey Steven Sloan**

*Chief Executive Officer & Director, Global Payments, Inc.*

A

Yeah, Darrin. It's Jeff. I would say it's exactly in line with our expectations. I think we've said this on the October call that we expected to see improvement, and in fact we did to flattish in the fourth quarter. And of course, now here in the first quarter, as Paul mentioned, we're about to anniversary starting in the second quarter the CFPB action.

I think we have two strategies that are differentiated for that business. The first is to expand overseas, our partnership with Caixa, which we're always looking to extend in any direction we can, I think successfully positions that for success heading into the middle of the year as Paul described.

And the second one is to go deeper into B2B and we mentioned Paycard wins that we've had the top bank over the last period of time. So certainly, I would say Darrin, consistent with our expectations as to where the business ought to be. But I've also said over time as it relates to all of our businesses, not specific to Netspend. We're here to maximize value for our shareholders and our stakeholders.

So, every one of our businesses need to be thought of in that context. I think it's exactly what we're doing right now with Netspend. So, we think we have a differentiated strategy. Obviously, we assess those things all the time. And if at some point facts change then we'll change with the facts.

**Darrin Peller**

*Analyst, Wolfe Research LLC*

Q

Okay. Thanks, guys.

**Jeffrey Steven Sloan**

*Chief Executive Officer & Director, Global Payments, Inc.*

A

Thanks, Darrin.

**Operator:** Thank you. Our next question comes from Jason Kupferberg of Bank of America. Your line is open.

**Jason Kupferberg**

*Analyst, Bank of America Merrill Lynch*

Q

Hey. Thanks, guys. So I just wanted to clarify the 8% to 9% growth in 2020, is that all organic? Or does that include the Canada acquisition? Does it include the headwind from wholesale, et cetera?

**Cameron M. Bready**

*President & Chief Operating Officer, Global Payments, Inc.*

A

Yeah, Jason. So yes, it is on a combined basis. So, it's on a like-for-like basis. We obviously are getting some small benefit as it relates to the Desjardins' portfolio. But that's relatively small and obviously there's some other impacts obviously that are playing through. But the way to think about it really is if you – as you going back to what I said earlier around the components, each one of the businesses from a fundamental standpoint is growing, once we anniversary these two items in the first quarter, are growing at those established kind of long-term expectation growth rate. And so, while the math is kind of 8% to 9% for this year, the key message is each one of those businesses and you're going to see this in the back half of the year, are performing exactly in line with those kind of long-term established growth rates that we've had for the business.



**Jason Kupferberg**

*Analyst, Bank of America Merrill Lynch*

Q

Okay. And then, just as a follow-up. I think you mentioned that Issuer grew 3.5% organic constant currency in Q4. Can you just quantify how much acceleration that represented? And then, to the extent there were any cost synergies realized in period in Q4, what those came in at? Thanks.

**Cameron M. Bready**

*President & Chief Operating Officer, Global Payments, Inc.*

A

Sure. Yeah. So we had about a 100-basis point acceleration in Issuer in the fourth quarter relative to the third quarter on kind of a like-for-like basis. So, it was exactly the kind of acceleration that we talked about, on our last call. I would say that if you kind of took out the governmental headwind and also, this one product and you kind of layered that on top of that 3.5%, you get squarely back in that mid-single-digit growth range that we've talked about this business. So, that kind of underlies the fundamental growth rate that we look at when we're managing the business.

And as it relates to cost synergies, yeah, we had a great margin quarter in Issuer for the fourth quarter. So we are getting some cost synergies in that business, just like we are throughout the company. So, that business is also positioned for great margin expansion in 2020, which is embedded in the guide.

**Jason Kupferberg**

*Analyst, Bank of America Merrill Lynch*

Q

Thank you.

**Paul Michael Todd**

*Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.*

A

Thanks, Jason.

**Operator:** Thank you. And our last question will come from George Mihalos of Cowen. Your line is open.

**George Mihalos**

*Analyst, Cowen and Company, LLC*

Q

Hey! Thanks for squeezing me in guys and I appreciate all the color. Maybe just two points of clarification, if we look at the fourth quarter 2019 performance.

Firstly, on a year-over-year pro forma basis was the growth rate roughly 7%? And then you're talking about the 7% accelerating to 8% to 9%, in 2020. And then, if we sort of disaggregate the Merchant Solutions business to the extent we can by legacy Global and TSYS. Is the right way to think about it that legacy Global grew in the low-double digits and TSYS sort of in the mid-single digits?

**Paul Michael Todd**

*Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.*

A

Yeah. So, I'll start. And then Cameron, you may want to add, as it relates to the overall kind of Merchant growth. So, as it relates to fourth quarter, yeah, George that's about the right range. That kind of 7%-ish is pretty close on a pure kind of apples-to-apples basis. And so, you would also want to think about that growth rate being somewhat similar just like we said in our prepared remarks for the first quarter. And then accelerate meaningfully throughout the year.



I'd just say that that is a high single-digit growth rate for the Merchant business and then, these two kind of headwind growth rates as it relates to the other two businesses. As it relates to kind of margin expansion, also, we did get good margin expansion in the fourth quarter, on an apples-to-apples basis.

And I said in our prepared remarks, we exceeded our margin expectation substantially in the fourth quarter and that gives us a nice tailwind, for the annual margin expansion, that we expect on a go-forward basis for 2020. Cameron, do you want to give color, on the legacy Merchant side?

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**Cameron M. Bready**

*President & Chief Operating Officer, Global Payments, Inc.*

A

Yeah. And George, it's Cameron, so obviously, we've combined the business. So it's hard to get a very clear definitive view of what legacy Global was versus legacy TSYS.

But what I would say is if you look at the legacy Global business obviously, on a constant currency basis and excluding Hong Kong which is about a point of headwind, we were in that low double-digit growth range which is very consistent with what we saw throughout the course of 2019.

So I would just say more of the same really on the legacy Global side, with Hong Kong being a little bit of a headwind in a quarter as we talked about previously. On the TSYS side, I think they were in that kind of, high single-digit range, accelerating from the third quarter as we indicated they would.

So when you blend that together, I think you get a high single-digit rate for the Merchant business, which is the jumping off point heading into 2020, which we feel very good about, and then accelerating through the course of the year as we begin to realize synergies within the Merchant business.

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**George Mihalos**

*Analyst, Cowen and Company, LLC*

Q

Got you. Very helpful and then, just one quick follow-up, Jeff, any more color on the M&A pipeline? Maybe to be more specific, is it software more traditional assets? And you referenced strength in restaurant, again, is that a vertical where you're interested in doing more M&A? Or do you think you're sort of fully built out there.

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**Jeffrey Steven Sloan**

*Chief Executive Officer & Director, Global Payments, Inc.*

A

Yeah. I would say, George that we're looking at everything. It's a mix of software asset, the mix of other merchant and processing assets. I would say, for the time being a lot of stuff is outside the United States. That's just kind of where it is, but some stuff, particularly in the software side is more likely to be inside the United States because there's larger targets in software are more likely inside the United States than outside.

But I would say, we have a full pipeline and we're kind of looking at everything. We're very proud of our restaurant business. And I think we called it out in the prepared remarks, the SICOM acquisition 1.5 years ago has been really grand slam for us. We, of course, now call it Xenial, which was the old part of the name of the Heartland business, has done terrifically well for us.

So look, we're at scale in that business. Obviously, when you're at scale in the business, you'd like to do more. So, more scale is a good thing. But I would also say though, I think part of the rationale behind this SICOM deal

was that we wanted to be end-to-end vertically integrated from the front to the middle to the back of house with payments, but also with hardware, software and data and analytics and anything else.

And we're really at that way today. We've invested about \$50 million of capital in Xenial more broadly, ex the acquisition of SICOM but including the pro forma company in the last period of years compared to some of our competitors who sank \$0.5 billion. We're in 400 locations operating today, which is what I said in our prepared remarks. And I think that speaks to our ability to invest wisely and scale our businesses.

So, yeah, and make sure if someone wants to sell their business cheap, we're always going to look, because we're in the market and we're at scale. But I do think we've done a good job executing there, and we're exactly where we want to be in the restaurant business. So, I don't think we need to do more. I think we'll be opportunistic.

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**George Mihalos**

*Analyst, Cowen and Company, LLC*

Q

Congrats guys.

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**Jeffrey Steven Sloan**

*Chief Executive Officer & Director, Global Payments, Inc.*

A

Thanks, George.

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**Cameron M. Bready**

*President & Chief Operating Officer, Global Payments, Inc.*

A

Thanks, George.

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**Jeffrey Steven Sloan**

*Chief Executive Officer & Director, Global Payments, Inc.*

On behalf of Global Payments, thank you for your interest in us today, and thanks for joining us this morning.

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**Operator:** Ladies and gentlemen, this concludes today's conference. You may all disconnect.

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