



Global Payments Unloved and Undervalued

Price \$117.35

Growth Holding

February 16, 2023

- Movement toward B2B payments, a historically under-penetrated sector for payment processors.
- Strong background for growth in megatrends, 15% 5-year-CAGR expected for eCommerce.
- #1 player in card issuance, top 5 in payment processing globally.
- Expecting 6% company-wide revenue growth in 2023, and 15% growth in merchant solutions.

Investment Thesis

Global Payments (GPN) is an omnichannel payment processor with 4 million customers across 100 countries. 4Q22 saw many moving parts for GPN, focusing on a shift toward capturing some of the estimated \$125 trillion B2B (business to business) payment processing market. This included acquiring EVO payment processing and divestiture from the [Casino Gaming](#) business.

GPN's share price has been crushed by continuing economic uncertainty, falling 20% since 1Q22. However, the growth in payments has been nothing short of explosive. Banks are looking to move legacy systems to the cloud, and consumers want to move away from cash. McKinsey estimates that global eCommerce volumes and emerging market digital payments will have a 5-year CAGR of 15%.

GPN is well-positioned to capitalize on these movements with a strategic partnership with AWS. Additionally, GPN has long-standing banking and retail industry relationships. GPN has committed significantly to its B2B offerings in FY22, capping it off with the acquisition of EVO. We expect GPN to offer strong mid-term growth, consistently increasing its earnings but only paying out a token \$1.00 per year dividend.

Estimated Fair Value

EFV (Estimated Fair Value) = E24 EPS (Earnings Per Share) times PE (Price/EPS)

EFV = E24 EPS X P/E = \$11.81 X 14.0 = \$165.34

Given GPN's existing position and the shift toward new ground in the B2B sector, we put our P/E at 14.0x. This is the middle range for the 10-20x multiple payment processors typically trade.

Global Payments (GPN)	E2023	E2024	E2025
Price-to-Sales	3.7	3.5	3.3
Price-to-Earnings	11.4	10.0	8.6

Segments

Merchant Solutions is the settlement, customer support, PoS (Point of Sale), billing, and payroll component of GPN. GPN offers a wide breadth of software and hardware solutions that are scalable to the business size. In this way, it performs much like a vertically integrated company. It offers clients everything from customer relationship management software to individual point-of-sale terminals and payment processing.

Merchant Solutions saw \$5.63 billion in revenues for FY22, a 9.6% increase over FY21. This growth is primarily based on increased transaction volumes due to the wind-down of COVID-19 related lockdowns and retail slowdowns. FY23 guidance is expected to grow 15% to \$6.5 billion in revenue. This much larger growth expectation rests on a more aggressive posture in breaking into the B2B market.

Issuer Solutions is an end-to-end credit, debit, and gift card provider. The issuer segment had its best results since its inception, with 816 million accounts on file.

GPN's most significant partnership is with AWS. Since 2020, GPN and AWS have leveraged each other's relationships to offer a more scalable and quicker version of the issuer solutions core service. This ideally allows a more digital consumer experience, with additional flexibility for fintech and bank developers to issue cards more quickly.

Issuer Solutions saw \$1.94 billion in revenue for FY22, a 1.9% year-over-year growth. 4Q22 highlights include a 20% estimated growth in commercial card transactions and 5% core issuer growth. Consumers have not changed credit card spending habits as interest rates rise and credit balances are surging. This does pose a risk to growth, but GPN does not take on any credit risk. FY23 guidance for issuer solutions is expected to grow 4.5% to \$2.03 billion in revenue.



Retail Dominant but Focused on B2B Growth

The existing retail payment processing opportunity is estimated at \$60 trillion globally. GPN is represented in industries accounting for 50% of total US GDP. GPN is targeting additional market penetration in the B2B (Business-to-Business) payments sector, estimated to have a total addressable market of \$125 trillion. Additionally, B2B is under-digitized relative to the ubiquity of digital payments at points of sale. GPN's accounts payable service, MineralTree, saw 30% growth in 4Q22 alone. McKinsey estimates that 53% of global payments revenues lie within the commercial/B2B market.

According to McKinsey, IT budgets by banks dedicated to maintaining legacy systems are expected to drop to 10% by 2024. Based on the 2021 survey conducted by McKinsey, 50% of current bank IT budgets go toward legacy systems. This carves out a huge gap and desire for cloud solutions and infrastructure modernizations. There is an apparent demand for increased outsourcing and automation of banking systems.

On August 1st, GPN entered into a merger agreement with EVO payments, for \$34 per share, or \$3.4 billion in cash to EVO shareholders. EVO has extensive partnerships with global financial institutions including German bank Deutsche Bank and Spanish bank Santander. The acquisition is driven by EVO's existing experience and relationships in the B2B sector in Europe and provides GPN with a beachhead. The acquisition will add 550,000 merchants, in new and existing geographies. Should it be approved, the transaction is expected to close at the end of 2Q23 and add 2% to EPS.

Risk

GPN operates globally, but revenues are reported in US Dollars. When the US Dollar is very strong, like the present, it can have an adverse effect on top line revenues. For example, the Merchant Solutions segment grew 13% in constant currency. However, exchange rates cut it down to 9.6%.

GPN has the #1 market share for the issuer solutions segment. Thanks to its extensive sector history, it was an early leader in digital payments. However, with digital payment growth expected to exceed 15% CAGR in some geographical areas, competition will be fierce. However, with the move toward B2B transaction processing, we believe GPN will again have an early lead.

With GPN deploying M&A as frequently as it does, share dilution is a concern. However, the most recent acquisition of EVO is expected to be accretive on an earnings per share basis.



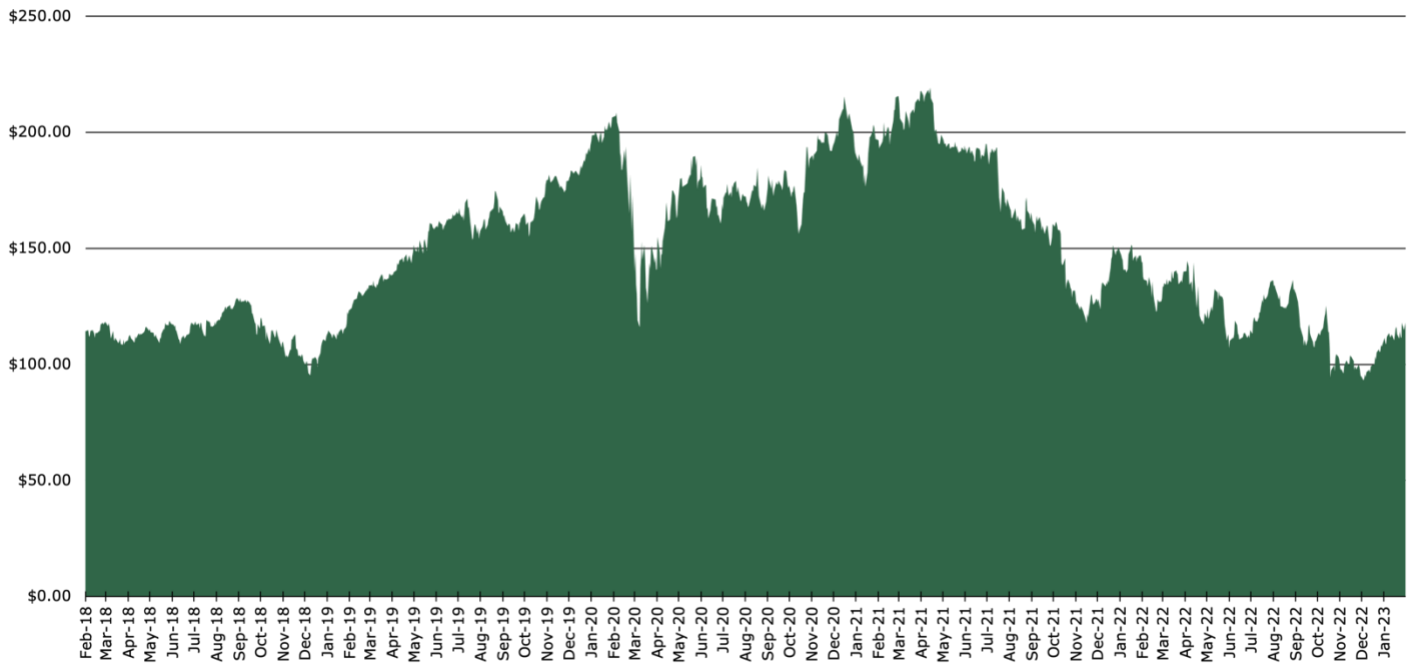
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Peer Comparisons

	Global Payments (GPN)	Fidelity National Information Services (FIS)	Fiserv (FISV)	Block (SQ)	Visa (V)	Mastercard (MA)	PayPal Holdings (PYPL)
Dividend Yield (FWD)	0.85%	3.08%	0.00%	0.00%	0.81%	0.63%	0.00%
Price-to-Earnings (FWD)	11.21	11.86	15.75	67.05	26.42	29.63	15.28
Price-to-Sales (TTM)	3.57	2.89	4.21	2.41	15.36	15.72	3.13
Price-to-Book (TTM)	1.37	1.51	2.39	2.71	13.17	54.82	4.18
Price-to-Cashflow (TTM)	13.64	13.64	13.64	13.64	13.64	13.64	13.64
Return on Total Capital (TTM)	3.26%	1.71%	4.30%	-1.51%	22.12%	36.48%	7.97%

Global Payments (GPN)



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