

Global Payments Inc.(GPN)

\$182.56 (As of 01/01/20)

Price Target (6-12 Months): **\$195.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 12/31/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: C

Summary

Global Payments' shares have outperformed its industry in a year's time. Its acquisition of Total System Services has given it a vast exposure to fast growing payments market globally with physical and virtual presence in more than 100 countries. The company remains a leader in providing payment software, e-commerce and omni-channel solutions. The company's operating cash flow has been increasing over the years, which provides room for investment. Its 2019 guidance, which reflects earnings growth, is impressive. The Zacks Consensus Estimate for the company's earnings has been revised 1.1% and 4.6% upward over the past 60 days for 2020 and 2021. However, the company suffers from a rising debt level. Its earnings are also expected to face currency volatility, owing to its worldwide presence.

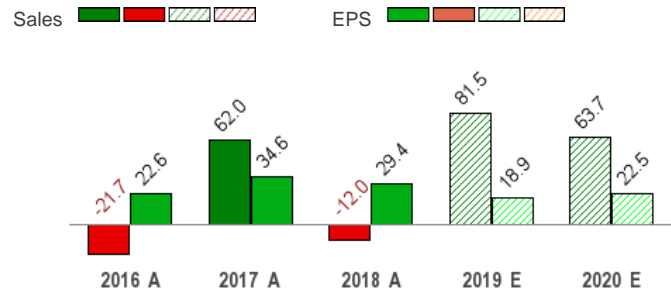
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$186.67 - \$98.56
20 Day Average Volume (sh)	1,588,351
Market Cap	\$54.9 B
YTD Price Change	77.0%
Beta	0.95
Dividend / Div Yld	\$0.78 / 0.4%
Industry	Financial Transaction Services
Zacks Industry Rank	Top 28% (72 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.4%
Last Sales Surprise	13.0%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	02/12/2020
Earnings ESP	-1.2%
P/E TTM	31.1
P/E F1	29.6
PEG F1	1.7
P/S TTM	14.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,206 E	2,293 E	2,362 E	2,345 E	9,206 E
2019	1,043 A	1,114 A	1,306 A	2,158 E	5,622 E
2018	924 A	983 A	1,025 A	819 A	3,097 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.71 E	\$1.85 E	\$1.99 E	\$1.96 E	\$7.56 E
2019	\$1.34 A	\$1.51 A	\$1.70 A	\$1.59 E	\$6.17 E
2018	\$1.13 A	\$1.29 A	\$1.44 A	\$1.33 A	\$5.19 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/01/2020. The reports text is as of 01/02/2020.

Overview

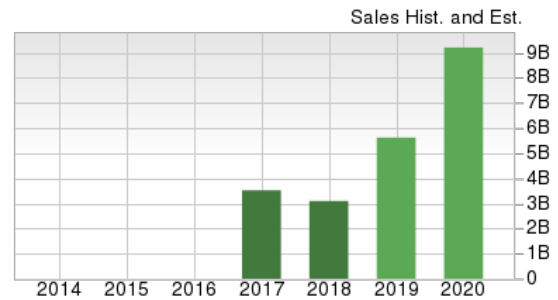
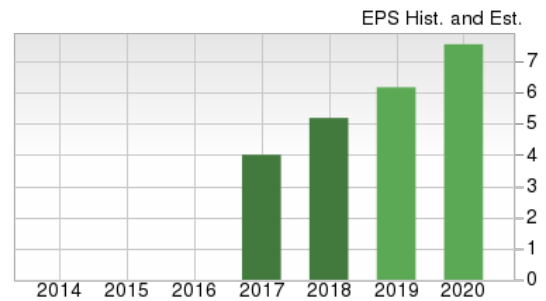
The company was incorporated in Georgia as Global Payments Inc. in 2000 and spun-off from its former parent company in 2001. Including its time as part of its former parent company, it has been in the payment technology services business since 1967.

Since its spin-off, the company has expanded in existing markets and into new markets internationally by pursuing further acquisitions and joint ventures. In 2016, it merged with Heartland Payment Systems, Inc. ("Heartland"), which significantly expanded its small and medium-sized enterprise distribution, customer base and vertical reach in the United States. For the year ended Dec 31, 2018, its revenues were \$3.4 billion.

The company operates via three reportable segments: North America (accounted for about nearly 73% of the company's total consolidated 2018 revenues), Europe (18%) and Asia Pacific. (9%).

The company distributes its integrated payment solutions primarily through the following businesses:

- OpenEdge – via this the company offers integrated payment solutions through technology partners across numerous vertical markets, primarily in North America.
- Ezidebit – Through Ezi Holdings, the company offers integrated payment technology solutions in the Asia-Pacific region. Ezidebit focuses on recurring payments verticals and markets its services through a network of integrated software vendors and direct channels to numerous vertical markets.
- ACTIVE Network – Through ACTIVE Network, the company delivers cloud-based enterprise software, including payment technology solutions, to event organizers in the communities and health and fitness markets.
- Education Solutions – The company offers integrated payment solutions specifically designed for all levels of educational institutions from kindergarten to university level.
- AdvancedMD – Through AdvancedMD, the company provides cloud-based enterprise solutions to small-to-medium sized ambulatory physician practices in the United States.
- Xenial and SICOM – Through Xenial and SICOM, the company offers leading-edge enterprise software solutions, integrated with its payment services and other adjacent business service applications, to the restaurant and hospitality and retail vertical markets.



Reasons To Buy:

- ▲ **Acquisition of Total System:** Global Payments has completed the acquisition of Total System Services. The deal has given it a significant exposure to fast growing markets globally with physical and virtual presence in more than 100 countries. The highly complementary nature of these leading payments-focused businesses provides significant revenue enhancement opportunities.
- ▲ **Consistent Top-line Growth:** Global Payments' revenues witnessed a CAGR of 10.5% between 2008 and 2018 and were further up 17.6% in the first nine months of 2019. Given that the company consistently pursues acquisitions, enters into alliances and makes joint ventures, these factors are likely to fuel business growth and add to the top line. Moreover, there is ever-increasing demand for electronic payment transactions, which provide the company with abundant scope for growth. For 2019, it expects adjusted net revenues plus network fees in the band of \$5.6-\$5.63 billion, suggesting growth of 41-42%.
- ▲ **Strong Guidance:** The company raised its earnings outlook in the range of \$6.12-\$6.20, indicating growth of 18-20% over 2018 (compared with the earlier guidance of \$6.00-\$6.15). For 2019, it expects adjusted net revenues plus network fees in the band of \$5.6-\$5.63 billion, suggesting growth of 41-42%.
- ▲ **Investment in Technology:** Ongoing investments in technology have led to the shift of its business mix toward technology enablement, which is expected to represent 60% of the company's revenues (up from 30% in 2015) and drive a significant portion of total growth by the end of 2020, with a balanced portfolio across owned SaaS, partnered software, and ecomm and omni-channel assets. The acquisitions of APT in 2012, PayPros in 2014 and Heartland in 2016 have expanded the company's technology platform. Very recently, the company expanded its open software portfolio with the acquisitions of AdvancedMD and SICOM. The company's robust technology solutions will continue to differentiate it in the marketplace and position it for continued growth.
- ▲ **Increasing Cash Flows:** The company's operating cash flows have been increasing over the years. In 2018, the same was up by a good 116%. The same was up 104% year over year for the period ended Sep 30, 2019. Its operating cash flow per share, a measure that signifies financial strength, is 8.7, which is higher than the industry average of 5. A strong financial flexibility will help the company to make investments in business, which will drive long-term growth.
The company has also closed a new unsecured investment-grade credit agreement recently, consisting of a \$2 billion term loan and a \$3 billion revolving credit facility, which became effective at the closing to the Total System merger. This new facilities will also reduce the company's interest expense, double its revolving credit capacity and extent its loan maturities. This new financial facility will provide the company will enough financial flexibility.
- ▲ **Share Price Performance:** In a year's time, shares have outperformed its industry. The company's strong fundamentals should keep the rally in the stock alive in the coming quarters.

The company's investments for future growth, a number of acquisitions and successfully refinancing its credit facilities bodes well for the long term growth.

Reasons To Sell:

- ▼ **High Debt:** The company has incurred significant debt to fund acquisitions. Long-term debt increased to \$9 billion in the first nine months of 2019 from \$1.74 billion in 2015. High debt levels also drove interest expenses over the quarters. The same was up 58% in the first nine months of 2019. Also its times interest earned of 2.8x is very low compared with the industry average of 24.1x. A high debt and low interest coverage increases financial risk for the company.
- ▼ **Exposure to Currency Volatility:** Global Payments derives nearly 30% of its revenues from international operations, which include Europe and the Asia Pacific. Therefore, it remains exposed to changes in currency exchange rates. In 2017, currency exchange movements hurt revenues by 1.3%. The company expects foreign currency headwinds of roughly 50 basis points for the full-year 2019.
- ▼ **Weak ROE:** Further, Global Payments' trailing 12-month return on equity (ROE) undermines its growth potential. ROE of 9.5% reflects decline since 2015 and remains significantly below the ROE of 48% for the industry. This implies the company's inefficiency in using shareholders' funds.

High debt and exposure to currency volatility are some offsetting factors to the company's growth.

Last Earnings Report

Global Payments Beats on Q3 Earnings, Ups 2019 View

Global Payments, Inc. came up with third-quarter 2019 adjusted earnings of \$1.70 per share, beating the Zacks Consensus Estimate by 2.4% and improving 18.1% year over year.

The quarterly results reflect higher revenues, partly offset by increase in expenses.

Behind the Headlines

The company's revenues of \$1.11 billion were up 27% year over year. The top line beat the Zacks Consensus Estimate by 13%.

Total operating expenses of \$931.9 million increased 47% year over year, led by higher cost of services as well as selling, general and administration expenses.

Adjusted operating margin expanded 80 basis points to 33.8%.

Growth Across Segments

North America: Adjusted net revenues plus network fees of \$877.1 million increased 16% year over year. Operating income of \$312.5 million was up 21% year over year.

Europe: Adjusted net revenues plus network fees of \$204.7 million grew 5.6% year over year. Operating income of \$99.4 million rose 7.9% year over year.

Asia-Pacific: Adjusted net revenues plus network fees of \$79.1 million climbed 4.9% year over year. Operating income of \$26.7 million improved 5.3% year over year.

Balance Sheet Position

Total cash and cash equivalents as of Sep 30, 2019 were \$2.13 billion, up 75% from Dec 31, 2018.

Long-term debt as of Sep 30, 2019 was \$9 billion, up 79% from year-end 2018 level.

Net cash provided by operating activities for the third quarter of 2019 was \$1.35 billion, up 104% year over year.

Business Update

During the quarter, the company completed the acquisition of Total System Services. The company expects annual run-rate revenue synergies of at least \$125 million and annual run-rate expense synergies of at least \$325 million within three years.

Global Payments also forged partnership with Desjardins, one of Canada's leading financial institutions, and Citi, one of the largest money center banks globally in the quarter.

2019 Outlook

The company raised its earnings outlook to the range of \$6.12-\$6.20, indicating growth of 18-20% over 2018 (compared with the earlier guidance of \$6.00-\$6.15). For 2019, it expects adjusted net revenues plus network fees in the band of \$5.6-\$5.63 billion, suggesting growth of 41-42%.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	12.95%
EPS Surprise	2.41%
Quarterly EPS	1.70
Annual EPS (TTM)	5.88

Recent News

Global Payments Partners With Desjardins Group - Oct 31, 2019

The company has announced an agreement with Desjardins Group to acquire its existing merchant acquiring business and portfolio of approximately 40,000 merchants. As part of the transaction, Global Payments will enter into an exclusive 10-year marketing alliance agreement under which Desjardins will refer members to Global Payments for payment technology and acquiring solutions.

Global Payments Expands its Mobile Integration Payments Solution to Samsung - Oct 8, 2019

Global Payments has announced that the technology behind its Netspend general purpose reloadable Mastercard has been integrated into Samsung's digital wallet, Samsung Pay, and will drive its Samsung Pay Cash1 service.

Samsung smartphone users with Samsung Pay eligible devices² will be able to access an auto-provisioned prepaid card called Samsung Pay Cash. This Netspend mobile-integrated digital Mastercard allows smartphone users to establish a digital prepaid card within their mobile wallet to hold funds for a variety of use cases, including spending and budgeting. The prepaid card also uses Mastercard token services that enable users to store and use the card without ever exposing card details to ensure safety for digital payments.

Global Payments Establishes New Credit Agreement - Jul 15, 2019

Global Payments has successfully closed a new senior unsecured \$2 billion term loan and an unsecured \$3 billion revolving credit facility on Jul 9, 2019 in connection with its previously announced merger with Total System Services, Inc. The facilities will be available for borrowing on the date the merger becomes effective and are expected to replace Global Payments' existing secured credit facilities and Total System unsecured revolving credit facility.

Valuation

Global Payments shares are up 85% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks Business sector are up 50.3% and 36.7%, respectively. The S&P 500 index is up 30.7% in the past year.

The stock is currently trading at forward 12-month price to earnings of 29.55X, which compares to 31.62X for the Zacks sub-industry, 28.5X for the Zacks sector and 20.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.55X and as low as 16.58X, with a 5-year median of 21.93X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$195 price target reflects 30.95X forward 12-month price to earnings.

The table below shows summary valuation data for GPN

Valuation Multiples - GPN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	29.55	31.62	28.5	20.3
	5-Year High	29.55	31.62	28.5	20.3
	5-Year Low	16.58	20.78	18.75	15.17
	5-Year Median	21.93	22.91	20.55	17.44
P/S F12M	Current	9.74	10.82	4.12	3.51
	5-Year High	11.02	11.65	5.13	3.51
	5-Year Low	1.89	7.19	3.09	2.54
	5-Year Median	3.98	8.67	3.63	3
P/B TTM	Current	1.96	7.82	4.98	4.41
	5-Year High	10.29	12.79	6.72	4.42
	5-Year Low	1.67	5.34	4.13	2.85
	5-Year Median	4.8	7.83	5.34	3.6

As of 12/31/2019

Industry Analysis Zacks Industry Rank: Top 28% (72 out of 253)



Top Peers

American Express Company (AXP)	Neutral
Bank of America Corporation (BAC)	Neutral
Diebold Nixdorf, Incorporated (DBD)	Neutral
Discover Financial Services (DFS)	Neutral
Fiserv, Inc. (FISV)	Neutral
FleetCor Technologies, Inc. (FLT)	Neutral
Mastercard Incorporated (MA)	Neutral
U.S. Bancorp (USB)	Neutral

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	GPN Neutral	X Industry	S&P 500	BAC Neutral	MA Neutral	USB Neutral
VGM Score	C	-	-	F	D	C
Market Cap	54.87 B	2.51 B	23.93 B	316.81 B	301.24 B	92.60 B
# of Analysts	14	5.5	13	7	16	11
Dividend Yield	0.43%	0.00%	1.78%	2.04%	0.44%	2.83%
Value Score	D	-	-	C	D	B
Cash/Price	0.04	0.08	0.04	2.20	0.02	0.16
EV/EBITDA	46.34	17.71	13.95	-2.18	33.30	11.83
PEG Ratio	1.76	1.95	2.12	1.46	2.43	2.27
Price/Book (P/B)	1.96	4.22	3.33	1.29	60.62	1.94
Price/Cash Flow (P/CF)	20.62	16.59	13.67	10.79	36.28	12.77
P/E (F1)	29.88	24.64	19.66	13.10	38.85	13.65
Price/Sales (P/S)	14.42	4.94	2.69	2.76	18.51	3.37
Earnings Yield	3.38%	4.01%	5.08%	7.64%	2.58%	7.32%
Debt/Equity	0.32	0.33	0.72	0.99	1.55	0.86
Cash Flow (\$/share)	8.85	2.62	6.94	3.26	8.23	4.64
Growth Score	B	-	-	F	B	F
Hist. EPS Growth (3-5 yrs)	21.58%	16.43%	10.56%	30.95%	20.73%	7.62%
Proj. EPS Growth (F1/F0)	19.16%	0.00%	0.00%	5.80%	19.32%	5.94%
Curr. Cash Flow Growth	25.04%	10.67%	14.83%	25.85%	33.76%	14.80%
Hist. Cash Flow Growth (3-5 yrs)	24.12%	10.92%	9.00%	14.04%	16.01%	3.37%
Current Ratio	1.17	1.14	1.23	0.92	1.39	0.83
Debt/Capital	24.33%	34.31%	42.92%	47.56%	61.08%	43.26%
Net Margin	10.59%	10.25%	11.08%	24.16%	42.50%	26.54%
Return on Equity	9.05%	19.33%	17.10%	12.05%	146.92%	15.39%
Sales/Assets	0.17	0.44	0.55	0.05	0.66	0.06
Proj. Sales Growth (F1/F0)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Momentum Score	C	-	-	F	C	A
Daily Price Chg	0.67%	0.52%	0.33%	0.20%	0.29%	0.20%
1 Week Price Chg	-0.31%	0.00%	0.13%	1.12%	0.73%	-0.07%
4 Week Price Chg	2.90%	2.50%	3.67%	7.25%	4.01%	0.61%
12 Week Price Chg	15.90%	3.34%	10.64%	27.47%	11.80%	13.19%
52 Week Price Chg	77.02%	44.26%	27.46%	42.94%	58.28%	29.74%
20 Day Average Volume	1,588,351	408,360	1,693,267	41,805,104	2,587,551	6,061,835
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.13%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.07%	0.00%	0.00%	-0.17%	-0.05%	0.03%
(F1) EPS Est 12 week change	0.34%	0.46%	0.14%	2.12%	1.02%	1.07%
(Q1) EPS Est Mthly Chg	-0.14%	0.00%	0.00%	-1.03%	-0.29%	-0.26%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.