

Global Payments Inc.(GPN)

\$173.40 (As of 08/13/20)

Price Target (6-12 Months): **\$182.00**

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: C

Growth: C

Momentum: A

Summary

Global Payments' earnings of \$1.31 per share beat the Zacks Consensus Estimate by 14.91% but declined 13% year over year. Shares of the company have outperformed the industry in a year's time. Its acquisition of Total System Services gave it a vast exposure to the fast-evolving payments market, globally. The company dominates the space of providing payment software, e-commerce and omni-channel solutions too. Further, its operating cash flow has been improving over the years, which provides it with ample scope for investments in technology. Moreover, a strong solvency position implies sufficient cash reserves to meet its debt obligations. However, the company's revenues are under pressure. In addition, it was forced to withdraw its 2020 earnings guidance due to the COVID-19 outbreak.

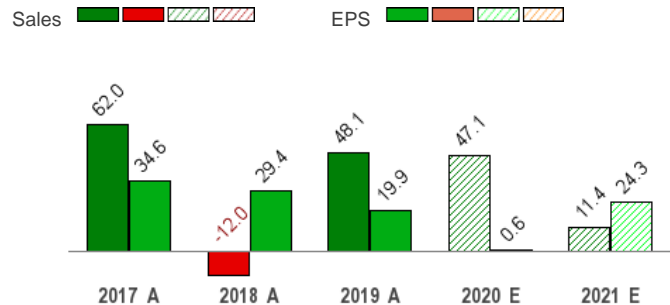
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$209.62 - \$105.54
20 Day Average Volume (sh)	1,794,539
Market Cap	\$51.9 B
YTD Price Change	-5.0%
Beta	1.12
Dividend / Div Yld	\$0.78 / 0.4%
Industry	Financial Transaction Services
Zacks Industry Rank	Top 40% (102 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	14.9%
Last Sales Surprise	8.0%
EPS F1 Est- 4 week change	5.6%
Expected Report Date	10/29/2020
Earnings ESP	0.0%
P/E TTM	27.9
P/E F1	27.7
PEG F1	1.6
P/S TTM	7.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,782 E	1,843 E	1,931 E	1,943 E	7,520 E
2020	1,729 A	1,521 A	1,714 E	1,777 E	6,750 E
2019	1,043 A	1,114 A	1,306 A	1,804 A	4,588 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.80 E	\$1.86 E	\$2.03 E	\$2.08 E	\$7.78 E
2020	\$1.58 A	\$1.31 A	\$1.63 E	\$1.79 E	\$6.26 E
2019	\$1.34 A	\$1.51 A	\$1.70 A	\$1.62 A	\$6.22 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 08/13/2020. The reports text is as of 08/14/2020.

Overview

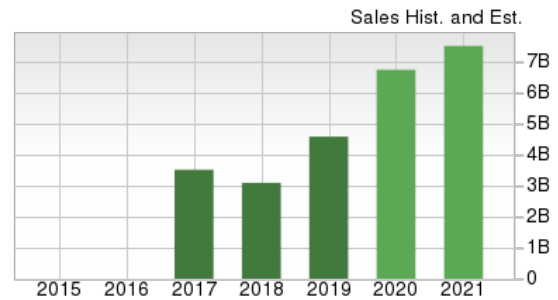
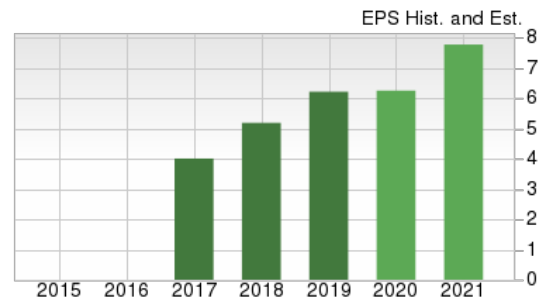
The company was incorporated in Georgia as Global Payments Inc. in 2000 and spun-off from its former parent company in 2001. Including its time as part of its former parent company, it has been in the payment technology services business since 1967.

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.

The company operates via four reportable segments: North America (accounted for about nearly 73% of the company's total consolidated 2019 revenues), Europe (18%), Asia Pacific. (9%) and Total System .

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. The company expects to realize \$350 million of expense synergies over the next three year (2020-2023). It also expects at least \$125 million of annual run rate revenue benefits over the same period. The acquisition also added \$2.1 billion to revenues for the six months ended Jun 30, 2020.

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

▲ **Investment in Technology:** Ongoing investments in technology have led to the shift of the company's 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. The same was up 288% year over year in the first six months of 2020. A strong financial flexibility will help the company to make investments in business, which will drive long-term growth.

▲ **Cost-Control Measures:** The company implemented additional cost initiatives to help address the anticipated impact of COVID-19 on its business. It is focusing on streamlining discretionary spend that includes cuts to G&E and marketing budgets, reductions in executive pay and other salary initiatives and additional targeted actions across the organization. These actions are expected to deliver at least an incremental \$400 million in annualized savings over the next 12 months. The company already initiated these expense efficiency actions in a number of ways beginning early second quarter.

▲ **Strong Solvency Position:** The company's strong investment-grade balance sheet in combination with its stable free cash flow generation provides it with ample capital and financial flexibility to navigate these challenging times. Its debt is 30.5% of its total equity as of Jun 30, 2020, which is lower than the industry average of 55.7%. With \$2.3 billion liquidity including its available cash and undrawn revolving credit facility at its disposal and no significantly required debt repayments until its maturity in April 2021, the company looks financially strong. As of Jun 30, 2020, the company's current portion of long-term debt stood at \$83.3 million, which is much lower than its cash and cash equivalents of \$1.8 billion. This implies that the company has sufficient cash reserves to meet its short-term debt obligations.

▲ **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.

Reasons To Sell:

- ▼ **Impact of Coronavirus:** The company experienced significant revenue declines related to COVID-19 due to a reduction in consumer spending and closures of its certain merchant customer businesses throughout North America, Europe and the Asia Pacific. The company expects that the negative impacts of the COVID-19 pandemic on its financial results will continue until economic conditions improve. Consequently, management scrapped its earlier-provided guidance for 2020, citing a lack of clarity in accurately gauging the economic impact of the COVID-19 pandemic on its business. For the six months ended Jun 30, 2020, the company's revenues declined 7.7% on a pro-forma basis.
- ▼ **Suspension of Share Buyback:** The company also temporarily halted activity under its share repurchase program and reduced planned capital investments in the business. Thus, the bottom line will be bereft of the cushion provided by the share buyback activity.
- ▼ **Weak ROE:** Further, Global Payments' trailing 12-month return on equity (ROE) undermines its growth potential. ROE of 5.9% reflects decline since 2015 and remains significantly below the ROE of 28.8% 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 Q2 Earnings Beat Estimates'

Global Payments' earnings of \$1.31 per share beat the Zacks Consensus Estimate by 14.91%. However, the bottom line was down 13% year over year.

Adjusted net revenues declined 14% year over year to \$1.521 billion but the top line surpassed the Zacks Consensus Estimate of \$1.41 billion.

Adjusted operating margin was 37%, down 40 basis points year over year.

Quarter Ending 06/2020

Report Date	Aug 03, 2020
Sales Surprise	7.97%
EPS Surprise	14.91%
Quarterly EPS	1.31
Annual EPS (TTM)	6.21

Segmental Strength

Merchant Solutions: Adjusted revenues of \$905.7 million decreased 21.3% year over year. Operating income of \$371.5 million fell 28.8% year over year.

Issuer Solutions: Adjusted net revenues plus network fees of \$414 million dipped 5.4% year over year. Operating income of \$177.1 million increased 11.3% year over year.

Business and Consumer Solution: This segment was formed after the acquisition of Total System. It reported adjusted net revenues plus network fees of \$216.7 million, up 10.5% year over year. Operating income was \$70.1 million, up 45.4% year over year.

Balance Sheet Position (as of Jun 30, 2020)

Total cash and cash equivalents were \$1.83 billion, up 8.8% from the level as of Dec 31, 2019.

Long-term debt was \$8.4 billion, down 7.2% from the level at 2019 end.

Net cash provided by operating activities for the first six months was \$960.3 million, up 288% year over year.

Dividend Announcement

The company approved a dividend of 19.5 cents per share, payable Sep 24, 2020 to its shareholders of record as of Sep 10.

Recent News

Global Payments Joins Forces with AWS - Aug 3, 2020

Global Payments and Amazon Web Services (AWS), an Amazon.com company have announced a new, multi-year collaboration agreement to provide a cloud-based issuer processing platform to financial institutions around the world. As part of this agreement, Global Payments and AWS will strategically collaborate to transform Global Payments' core issuing platform to deliver secure, innovative solutions for the payment industry at scale.

Global Payments to Extend Credit Card Services to Truist - May 6, 2020

Global Payments announced that its Issuer Solutions unit, Total System Services (TSYS) has inked a long-term deal with Truist Financial Corporation (TFC). However, terms of the deal have been kept under wraps. Notably, Global Payments had teamed up with TSYS last year. Apart from leveraging innovative payment solutions of TSYS, the agreement will also provide Truist access to the TS2 processing platform of TSYS. This, in turn, will help Truist to transform its existing suite of credit card programs and boost payments business.

Valuation

Global Payments shares are down 5% in the year-to-date period, but up 10.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are up 2.2% and 3.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 8.1% and 5.9%, respectively.

The S&P 500 index is up 4.8% in the year-to-date period and 18.8% in the past year.

The stock is currently trading at forward 12-month earnings of 24.12x, which compares to 31.2x for the Zacks sub-industry, 30.06x for the Zacks sector and 22.91x for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.86x and as low as 15.4x, with a 5-year median of 22.44x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$182 price target reflects 25.33x forward earnings.

The table below shows summary valuation data for GPN

Valuation Multiples - GPN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.12	31.2	30.06	22.91
	5-Year High	31.86	31.68	30.06	22.91
	5-Year Low	15.4	20.78	18.68	15.25
	5-Year Median	22.44	23.31	20.89	17.58
P/S F12M	Current	7.22	11.31	4.2	3.7
	5-Year High	11.02	11.31	4.2	3.7
	5-Year Low	2.92	7.18	3.07	2.53
	5-Year Median	4.27	8.78	3.6	3.05
P/B TTM	Current	1.88	7.03	4.81	4.7
	5-Year High	10.29	12.78	6.72	4.71
	5-Year Low	1.24	5.23	3.28	2.83
	5-Year Median	4.46	8.08	5.22	3.74

As of 08/13/2020

Industry Analysis Zacks Industry Rank: Top 40% (102 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
American Express Company (AXP)	Neutral	4
Bank of America Corporation (BAC)	Neutral	3
Diebold Nixdorf, Incorporated (DBD)	Neutral	3
Discover Financial Services (DFS)	Neutral	4
Fiserv, Inc. (FISV)	Neutral	3
FleetCor Technologies, Inc. (FLT)	Neutral	3
Mastercard Incorporated (MA)	Neutral	3
U.S. Bancorp (USB)	Neutral	3

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	GPN	X Industry	S&P 500	BAC	MA	USB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	F	D	D
Market Cap	51.89 B	2.51 B	23.58 B	228.30 B	326.54 B	56.29 B
# of Analysts	15	6	14	10	16	13
Dividend Yield	0.45%	0.00%	1.68%	2.73%	0.49%	4.50%
Value Score	C	-	-	C	D	B
Cash/Price	0.03	0.07	0.07	4.30	0.04	0.93
EV/EBITDA	33.10	15.69	13.34	-8.89	28.14	4.91
PEG Ratio	1.63	1.62	2.99	2.38	2.84	2.46
Price/Book (P/B)	1.88	4.39	3.20	0.94	50.25	1.21
Price/Cash Flow (P/CF)	24.67	14.84	12.83	7.18	34.22	7.58
P/E (F1)	27.70	27.11	21.99	16.68	49.54	14.73
Price/Sales (P/S)	7.78	4.69	2.53	2.15	20.13	2.11
Earnings Yield	3.61%	3.65%	4.35%	6.00%	2.02%	6.80%
Debt/Equity	0.31	0.32	0.77	1.08	1.92	0.92
Cash Flow (\$/share)	7.03	2.39	6.94	3.67	9.53	4.93
Growth Score	C	-	-	F	C	F
Hist. EPS Growth (3-5 yrs)	20.99%	17.88%	10.41%	21.29%	23.16%	6.78%
Proj. EPS Growth (F1/F0)	0.57%	-6.86%	-6.32%	-42.55%	-15.27%	-41.56%
Curr. Cash Flow Growth	50.80%	13.06%	5.20%	3.02%	13.13%	2.66%
Hist. Cash Flow Growth (3-5 yrs)	39.74%	14.80%	8.55%	27.50%	15.42%	3.99%
Current Ratio	1.03	1.28	1.33	0.93	1.95	0.84
Debt/Capital	23.40%	33.48%	44.59%	49.62%	65.88%	44.79%
Net Margin	5.68%	6.22%	10.13%	19.09%	45.12%	19.70%
Return on Equity	5.61%	16.87%	14.51%	9.11%	129.52%	11.82%
Sales/Assets	0.15	0.47	0.51	0.04	0.55	0.05
Proj. Sales Growth (F1/F0)	28.15%	-3.07%	-1.43%	-5.24%	-7.78%	-1.23%
Momentum Score	A	-	-	C	D	B
Daily Price Chg	0.23%	0.00%	-0.44%	-1.42%	-0.44%	-1.16%
1 Week Price Chg	-1.79%	3.57%	2.30%	4.94%	6.32%	1.68%
4 Week Price Chg	4.11%	5.54%	4.38%	10.11%	8.97%	-0.51%
12 Week Price Chg	-1.71%	15.28%	13.59%	15.07%	10.85%	13.52%
52 Week Price Chg	10.92%	6.97%	5.75%	0.38%	19.97%	-27.13%
20 Day Average Volume	1,794,539	549,696	1,984,154	59,598,932	3,691,474	6,424,054
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	5.56%	2.09%	2.08%	9.38%	2.07%	7.05%
(F1) EPS Est 12 week change	5.60%	4.14%	2.66%	10.49%	2.84%	16.29%
(Q1) EPS Est Mthly Chg	11.40%	3.03%	0.94%	8.23%	-1.03%	23.29%

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	C
Growth Score	C
Momentum Score	A
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.