

Global Payments Inc.(GPN)

\$134.56 (As of 03/18/20)

Price Target (6-12 Months): **\$142.00**

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:F

Value: D

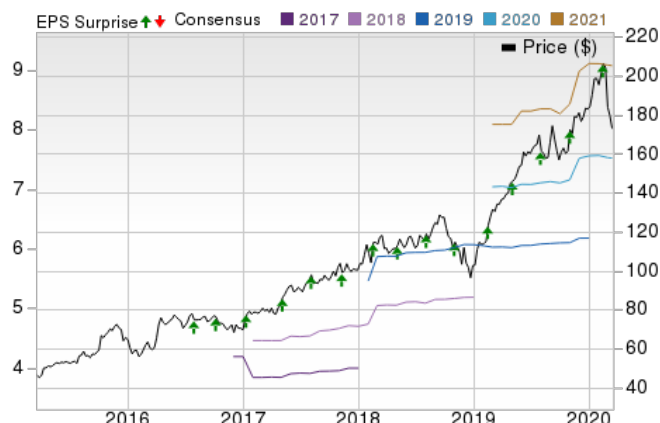
Growth: D

Momentum: B

Summary

Global Payments' shares have outperformed its industry in a year's time. The company has maintained its 2020 earnings guidance intact in the backdrop of coronavirus-led losses in the industry. 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. Consistent top-line growth over the years look impressive. Its operating cash flow has been increasing over the years, which provides room for investment. However, the company suffers from a rising debt level. Its earnings are also expected to face currency volatility, owing to its worldwide presence.

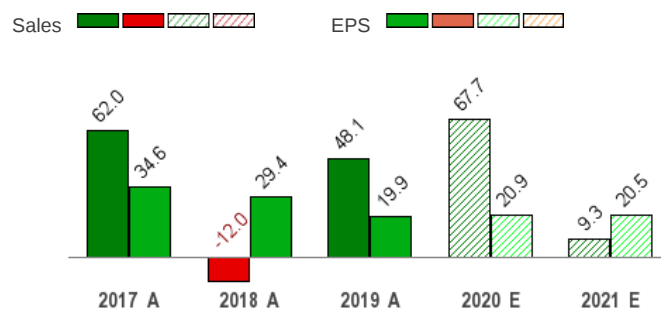
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$209.62 - \$116.24
20 Day Average Volume (sh)	3,129,985
Market Cap	\$40.4 B
YTD Price Change	-26.3%
Beta	1.00
Dividend / Div Yld	\$0.78 / 0.6%
Industry	Financial Transaction Services
Zacks Industry Rank	Bottom 29% (179 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.9%
Last Sales Surprise	-16.5%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	05/07/2020
Earnings ESP	0.0%
P/E TTM	21.8
P/E F1	17.9
PEG F1	1.1
P/S TTM	8.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,992 E	2,098 E	2,176 E	2,159 E	8,406 E
2020	1,843 E	1,909 E	1,982 E	1,968 E	7,694 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	\$1.98 E	\$2.22 E	\$2.46 E	\$2.44 E	\$9.06 E
2020	\$1.66 E	\$1.84 E	\$2.02 E	\$2.00 E	\$7.52 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 03/18/2020. The reports text is as of 03/19/2020.

Overview

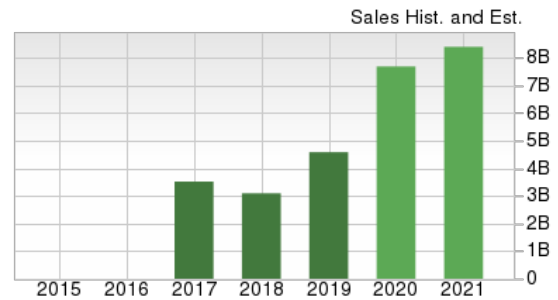
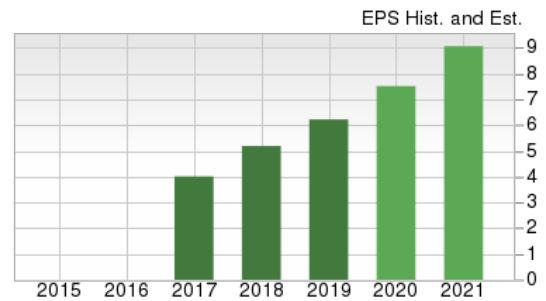
The company was incorporated in Georgia as Global Payments Inc. in 2000 and spun-off from its former parent company in 2001. Including its time as part of its former parent company, it has been in the payment technology services business since 1967.

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.
- ▲ **Consistent Top-line Growth:** Global Payments' revenues witnessed a CAGR of 10.5% between 2008 and 2018 and were further up 48% in 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 2020, the company expects adjusted net revenues of \$7.68 billion to \$7.75 billion, indicating growth of 67-69% or 8-9% on a combined basis.
- ▲ **Strong Guidance:** For 2020, the company expects adjusted net revenues of \$7.68 billion to \$7.75 billion, indicating growth of 67-69% or 8-9% on a combined basis. Annual adjusted operating margin for the year is expected to expand by up to 250 basis points on a combined basis and 75 basis points on a reported basis. The company expects adjusted earnings per share growth of 20-23% over 2019 to \$7.43 to \$7.62.
- ▲ **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 27% year over year in 2019. 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:

- ▼ **Consumer Financial Protection Bureau (CFPB) Rule:** Due to exposure of the company's Business & Consumer (10% of revenue) segment to the CFPB rule, revenues are expected to be under pressure till the second quarter of 2020, after which the segment should see a retrieval.
- ▼ **Weak ROE:** Further, Global Payments' trailing 12-month return on equity (ROE) undermines its growth potential. ROE of 7.3% reflects decline since 2015 and remains significantly below the ROE of 33% 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 Q4 Earnings Beat Estimates, Rise Y/Y

Global Payments came up with fourth-quarter 2019 adjusted earnings of \$1.62 per share, beating the Zacks Consensus Estimate by 7.3% and improving 21.8% year over year.

The quarterly results reflect higher revenues driven by the acquisition of

Total System in the second quarter, partly offset by increase in expenses.

Quarter Ending **12/2019**

Report Date	Feb 12, 2020
Sales Surprise	-16.52%
EPS Surprise	1.89%
Quarterly EPS	1.62
Annual EPS (TTM)	6.17

Behind the Headlines

The company's adjusted revenues of \$1.8 billion were up 120% year over year.

Total operating expenses of \$1.79 billion increased 151% year over year, led by higher cost of services as well as selling, general and administration expenses.

Growth Across Segments

Merchant Solutions: Adjusted revenues of \$1.16 billion increased 42.7% year over year. Operating income of \$522.5 million was up 46.9% year over year.

Issuer Solutions: Adjusted net revenues plus network fees of \$459 million grew from \$5.3 million in the year-ago quarter. Operating income was \$184.7 million compared with \$3.4 million in the year-ago quarter.

Business and Consumer Solution: This segment was formed after the acquisition of Total System. It reported adjusted net revenues plus network fees of \$199.5 million. Operating income was \$42.8 million.

Balance Sheet Position

Total cash and cash equivalents as of Dec 31, 2019 were \$1.68 billion, up 38.8% year over year.

Long-term debt as of Dec 31, 2019 was \$9.1 billion, up 82% from year-end 2018 level.

Net cash provided by operating activities for 2019 was \$1.39 billion, up 25.2% year over year.

Dividend Announcement

The company approved a dividend of 19.5 cents per share payable Mar 27, 2020 to shareholders of record as of Mar 13, 2020.

2020 Outlook

For 2020, the company expects adjusted net revenues of \$7.68 billion to \$7.75 billion, indicating growth of 67-69% or 8-9% on a combined basis. Annual adjusted operating margin for the year is expected to expand by up to 250 basis points on a combined basis and 75 basis points on a reported basis. The company expects adjusted earnings per share growth of 20-23% over 2019 to \$7.43 to \$7.62.

Recent News

Global Payments Keeps View Intact - Mar 12, 2020

The company's management has kept its 2020 earnings guidance intact and mentioned that it has not witnessed any major negative impact on Europe, America, Australia and New Zealand businesses.

The company, however, estimates an impact of nearly \$15 million on its Asia-Pacific business, or about 80 basis points impact on first-quarter revenue growth. But this will not have an effect on the company's 2020 earnings.

The company expects to grow its business in the first quarter of 2020. Moreover, NetSpend segment is expected to add a few hundred basis points to its revenue growth, due to the CFPB rule, which went into effect last April.

Valuation

Global Payments shares are down 26.3% in the year-to-date period, but up 0.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 24.6% and 26.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 7.5% and 18.3%, respectively.

The S&P 500 index is down 25.4% in the year-to-date period and 15.8% in the past year.

The stock is currently trading at forward 12-month price to earnings of 17.9X, which compares to 21.2X for the Zacks sub-industry, 19.2X for the Zacks sector and 14.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.9X and as low as 16.6X, with a 5-year median of 22.2X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$142 price target reflects 18.9X forward 12-month earnings.

The table below shows summary valuation data for GPN

Valuation Multiples - GPN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.88	21.2	19.18	14.78
	5-Year High	31.86	28.03	25.11	19.34
	5-Year Low	16.62	20.78	18.67	14.78
	5-Year Median	22.15	23	20.47	22.15
P/S F12M	Current	5.13	8.13	3.03	2.71
	5-Year High	11.02	10.7	3.94	3.43
	5-Year Low	2.1	7.19	3.03	2.54
	5-Year Median	4.04	8.65	3.57	3
P/B TTM	Current	1.44	5.99	3.35	3.4
	5-Year High	10.29	12.79	6.68	4.55
	5-Year Low	1.44	5.34	3.22	2.85
	5-Year Median	4.71	7.97	5.19	3.63

As of 03/18/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (179 out of 253)



Top Peers

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

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	GPN Neutral	X Industry	S&P 500	BAC Neutral	MA Neutral	USB Neutral
VGM Score	F	-	-	C	C	F
Market Cap	40.39 B	1.48 B	16.02 B	181.39 B	229.09 B	50.20 B
# of Analysts	15	7	13	9	17	12
Dividend Yield	0.58%	0.00%	2.66%	3.46%	0.70%	5.09%
Value Score	D	-	-	B	F	B
Cash/Price	0.03	0.09	0.06	3.19	0.03	0.40
EV/EBITDA	27.05	9.66	10.21	-4.40	19.74	6.92
PEG Ratio	1.05	1.05	1.46	1.02	1.70	1.28
Price/Book (P/B)	1.44	2.48	2.18	0.77	38.79	1.11
Price/Cash Flow (P/CF)	19.15	11.49	8.79	5.67	23.91	6.69
P/E (F1)	17.89	13.68	12.92	7.12	25.73	7.70
Price/Sales (P/S)	8.22	2.68	1.74	1.60	13.57	1.84
Earnings Yield	5.59%	6.69%	7.70%	14.05%	3.89%	12.97%
Debt/Equity	0.32	0.35	0.70	1.00	1.44	0.86
Cash Flow (\$/share)	7.03	2.63	7.01	3.67	9.53	4.93
Growth Score	D	-	-	C	A	F
Hist. EPS Growth (3-5 yrs)	21.70%	17.05%	10.85%	26.87%	21.99%	8.14%
Proj. EPS Growth (F1/F0)	20.82%	14.62%	5.12%	6.22%	14.01%	-1.31%
Curr. Cash Flow Growth	50.80%	8.34%	6.03%	3.02%	13.13%	2.66%
Hist. Cash Flow Growth (3-5 yrs)	39.74%	10.92%	8.55%	27.50%	15.42%	3.99%
Current Ratio	1.22	1.11	1.23	0.91	1.42	0.83
Debt/Capital	24.47%	38.74%	42.57%	47.63%	59.24%	43.35%
Net Margin	8.77%	8.29%	11.57%	24.15%	48.08%	25.30%
Return on Equity	7.25%	19.57%	16.74%	11.95%	150.46%	15.23%
Sales/Assets	0.17	0.45	0.54	0.05	0.65	0.06
Proj. Sales Growth (F1/F0)	46.26%	8.64%	3.22%	-0.85%	13.19%	0.53%
Momentum Score	B	-	-	F	D	F
Daily Price Chg	-8.96%	-9.82%	-6.77%	-5.41%	-4.18%	-2.14%
1 Week Price Chg	-3.66%	-6.89%	-11.01%	-6.03%	-5.92%	-12.60%
4 Week Price Chg	-34.99%	-38.51%	-34.65%	-40.12%	-33.85%	-39.73%
12 Week Price Chg	-26.41%	-29.88%	-32.08%	-40.97%	-23.38%	-44.70%
52 Week Price Chg	0.90%	-24.63%	-23.52%	-27.41%	-0.85%	-34.49%
20 Day Average Volume	3,129,985	774,542	3,834,688	116,284,528	9,494,969	14,345,050
(F1) EPS Est 1 week change	-0.06%	0.00%	-0.06%	-1.13%	-0.43%	0.00%
(F1) EPS Est 4 week change	-0.15%	-0.59%	-0.74%	-4.32%	-1.60%	-2.10%
(F1) EPS Est 12 week change	-0.67%	-0.67%	-1.38%	-2.85%	-2.09%	-3.19%
(Q1) EPS Est Mthly Chg	0.00%	-0.22%	-0.85%	-1.36%	-3.23%	-1.27%

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	D
Momentum Score	B
VGM Score	F

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.

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