

Global Payments Inc.(GPN)

\$180.10 (As of 05/18/20)

Price Target (6-12 Months): **\$193.00**

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: B

Summary

Shares of Global Payments 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. Consistent revenue growth over the years also looks impressive. Its operating cash flow has been increasing over the years, which provides it with ample scope for investment. Its earnings are also expected to face currency volatility due to its worldwide base. The company was forced to withdraw its 2020 earnings guidance due to the COVID-19 outbreak, which affected some parts of its business. Nevertheless, the company's earnings of \$1.58 per share beat the Zacks Consensus Estimate by 9.7% and grew 17.9% year over year, led by higher revenues.

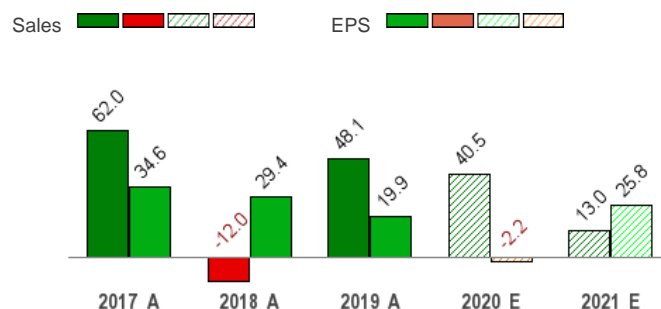
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$209.62 - \$105.54
20 Day Average Volume (sh)	1,725,033
Market Cap	\$53.9 B
YTD Price Change	-1.4%
Beta	1.14
Dividend / Div Yld	\$0.78 / 0.4%
Industry	Financial Transaction Services
Zacks Industry Rank	Bottom 25% (190 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.0%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	-4.1%
Expected Report Date	08/04/2020
Earnings ESP	-0.6%
P/E TTM	28.1
P/E F1	29.6
PEG F1	1.7
P/S TTM	9.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,778 E	1,788 E	1,847 E	1,894 E	7,283 E
2020	1,729 A	1,408 E	1,576 E	1,734 E	6,447 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	\$1.85 E	\$1.78 E	\$1.97 E	\$2.06 E	\$7.65 E
2020	\$1.58 A	\$1.22 E	\$1.56 E	\$1.79 E	\$6.08 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 05/18/2020. The reports text is as of 05/19/2020.

Overview

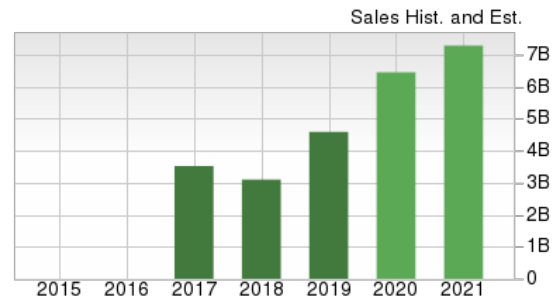
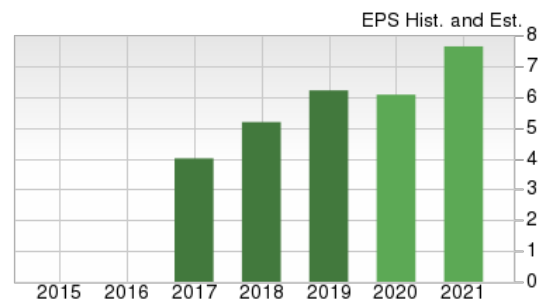
The company was incorporated in Georgia as Global Payments Inc. in 2000 and spun-off from its former parent company in 2001. Including its time as part of its former parent company, it has been in the payment technology services business since 1967.

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.

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

▲ **Consistent Top-line Growth:** Global Payments' revenues have been rising over the past several years and inched up 0.2% in the first quarter 2020 too. Despite this marginal revenue increase, we are impressed that the company could prevent a topline erosion despite the difficult operating environment created as a COVID-19 fallout. 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.

▲ **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 extend its loan maturities. This new financial facility will provide the company will enough financial flexibility.

▲ **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. With \$2.9 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 Mar 31, 2020, the company's current portion of long-term debt stood at \$70.5 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's business started to deteriorate toward the end of March when large-scale lockdown and social distancing measures were adopted across North America and Europe to contain the spread of the pandemic. Consequently, management has suspended its earlier-provided guidance for 2020, citing lack of clarity in accurately gauging the economic impact of the COVID-19 pandemic on its business. The company previously expected adjusted net revenues in the range of \$7.68-\$7.75 billion, suggesting 8-9% growth from the 2019 reported figure and adjusted earnings per share in the \$7.43-\$7.62 band, implying 20-23% growth from the prior-year reported number. The company also hinted at maintaining its costs to protect margins since its top line is already under pressure.
- ▼ **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 through the second quarter of 2020, after which the segment should see a retrieval. In the first quarter of 2020, the segment's revenues declined 7% year over year due to headwinds from the CFPB prepaid rule and seasonal tax impacts.
- ▼ **Weak ROE:** Further, Global Payments' trailing 12-month return on equity (ROE) undermines its growth potential. ROE of 6.8% reflects decline since 2015 and remains significantly below the ROE of 38.6% 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 Q1 Earnings Beat Despite Coronavirus Woes

Global Payments, Inc. came up with first-quarter 2020 adjusted earnings of \$1.58 per share, beating the Zacks Consensus Estimate by 9.7% and also improving 17.9% year over year.

The quarterly results reflect higher revenues, driven by the acquisition of

Total System made in second-quarter 2019, partly offset by an increase in expenses.

The company's first-quarter results bettered the projections provided in its early-April announced preliminary results wherein it estimated adjusted net revenues for the first quarter to be up slightly on a combined basis and adjusted earnings per share to grow approximately in mid-teens compared with the prior year, on constant currency basis.

Adjusted revenues of \$1.73 billion inched up 0.2% year over year but missed the Zacks Consensus Estimate by 1%.

Segmental Strength

Merchant Solutions: Adjusted revenues of \$1.10 billion increased 1.7% year over year. Operating income of \$500.4 million was up 46.9% year over year.

Issuer Solutions: Adjusted net revenues plus network fees of \$459 million rose 0.7% year over year. Operating income of \$174.6 million increased 13.1% 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 \$203.9 million, down 6.9% year over year. Operating income was \$52.5 million, down 9.1% year over year.

Balance Sheet Position (as of Mar 31, 2020)

Total cash and cash equivalents were \$1.8 billion, up 7.3% from the level as of Dec 31, 2019.

Long-term debt was \$9.6 billion, up 6% from the level at 2019 end.

Net cash provided by operating activities for 2020 was \$0.44 million, up 90% year over year.

Dividend Announcement

The company approved a dividend of 19.5 cents per share, payable Jun 26, 2020 to its shareholders of record as of Jun 12.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	-0.96%
EPS Surprise	3.95%
Quarterly EPS	1.58
Annual EPS (TTM)	6.41

Recent News

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 8.3% in the year-to-date period, but up 16.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are down 8.7% and 12.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry are up 8.6% but the sector is down 4.1%.

The S&P 500 index is down 10.9% in the year-to-date period but up 1.8% in the past year.

The stock is currently trading at forward 12-month earnings of 28.84x, which compares to 31.02x for the Zacks sub-industry, 28.16x for the Zacks sector and 21.52x 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 22.22x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$193 price target reflects 30.26x 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	28.84	31.02	28.16	21.52
	5-Year High	31.86	31.02	28.16	21.52
	5-Year Low	15.4	20.78	18.68	15.23
	5-Year Median	22.22	23.16	20.69	17.45
P/S F12M	Current	5.6	8.52	3.94	2.68
	5-Year High	11.02	10.7	3.05	3.43
	5-Year Low	2.11	7.19	3.57	2.54
	5-Year Median	4.04	8.69	3.06	3
P/B TTM	Current	1.57	7.13	3.48	3.33
	5-Year High	10.29	12.79	6.68	4.56
	5-Year Low	1.24	5.34	3	2.85
	5-Year Median	4.7	7.87	5.19	3.63

As of 05/18/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (190 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Diebold Nixdorf, Incorporated (DBD)	Neutral	4
Fiserv, Inc. (FISV)	Neutral	3
FleetCor Technologies, Inc. (FLT)	Neutral	3
Mastercard Incorporated (MA)	Neutral	4
American Express Company (AXP)	Underperform	3
Bank of America Corporation (BAC)	Underperform	5
Discover Financial Services (DFS)	Underperform	5
U.S. Bancorp (USB)	Underperform	5

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	GPN	X Industry	S&P 500	BAC	MA	USB
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	5	4	5
VGM Score	C	-	-	F	C	C
Market Cap	53.87 B	1.98 B	20.09 B	198.93 B	290.98 B	49.65 B
# of Analysts	15	6	14	9	16	12
Dividend Yield	0.43%	0.00%	2.1%	3.14%	0.55%	5.10%
Value Score	D	-	-	F	F	B
Cash/Price	0.04	0.10	0.07	4.07	0.04	1.01
EV/EBITDA	34.92	11.95	12.13	-5.39	25.15	5.72
PEG Ratio	1.78	1.94	2.72	2.22	3.29	2.48
Price/Book (P/B)	1.96	3.13	2.75	0.83	53.67	1.09
Price/Cash Flow (P/CF)	25.63	10.51	10.86	6.25	30.41	6.68
P/E (F1)	30.26	25.08	20.10	15.53	45.28	14.85
Price/Sales (P/S)	9.08	3.70	2.05	1.78	17.11	1.82
Earnings Yield	3.38%	3.57%	4.77%	6.45%	2.21%	6.74%
Debt/Equity	0.35	0.39	0.76	1.06	2.30	1.13
Cash Flow (\$/share)	7.03	2.63	7.01	3.67	9.53	4.93
Growth Score	B	-	-	F	A	C
Hist. EPS Growth (3-5 yrs)	21.71%	18.08%	10.87%	24.42%	23.08%	8.09%
Proj. EPS Growth (F1/F0)	-2.24%	-11.14%	-10.31%	-46.30%	-17.61%	-48.87%
Curr. Cash Flow Growth	50.80%	13.97%	5.51%	3.02%	13.13%	2.66%
Hist. Cash Flow Growth (3-5 yrs)	39.74%	14.60%	8.55%	27.50%	15.42%	3.99%
Current Ratio	1.34	1.18	1.28	0.92	1.87	0.86
Debt/Capital	25.93%	37.24%	44.46%	49.21%	69.81%	50.06%
Net Margin	7.79%	7.54%	10.59%	21.64%	46.75%	23.37%
Return on Equity	6.46%	19.53%	16.29%	10.64%	149.02%	14.15%
Sales/Assets	0.16	0.49	0.55	0.05	0.61	0.05
Proj. Sales Growth (F1/F0)	22.40%	-5.05%	-2.49%	-6.10%	-9.28%	-3.38%
Momentum Score	B	-	-	B	A	B
Daily Price Chg	6.02%	4.75%	5.21%	6.95%	3.93%	7.43%
1 Week Price Chg	-2.95%	-3.85%	-4.56%	-9.04%	-1.24%	-11.71%
4 Week Price Chg	21.52%	15.65%	4.12%	1.91%	15.16%	-3.77%
12 Week Price Chg	-10.14%	-17.53%	-16.39%	-29.94%	-10.71%	-37.91%
52 Week Price Chg	21.25%	-13.18%	-5.84%	-19.26%	14.36%	-36.27%
20 Day Average Volume	1,725,033	572,100	2,651,378	63,631,816	4,731,315	8,842,252
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.32%	-0.56%
(F1) EPS Est 4 week change	-4.05%	-11.09%	-4.48%	-6.28%	-13.44%	-4.14%
(F1) EPS Est 12 week change	-21.31%	-24.29%	-16.39%	-51.63%	-28.89%	-48.99%
(Q1) EPS Est Mthly Chg	-7.83%	-18.10%	-9.90%	-10.77%	-33.86%	-1.56%

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	B
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.

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