

## Global Payments Inc

## Everything you ever wanted to know about GPN, but were afraid to ask

Maintain Rating: BUY | PO: 165.00 USD | Price: 133.23 USD

## De-mystifying the “black box” of GPN

For the past few years, GPN's stock has lagged its closest comp Fiserv (FI) and the S&P500. In addition to macro/consumer spending uncertainty, we think some opaque elements of GPN's business model have contributed to its relative stock underperformance. To help investors de-mystify the “black box” of GPN, this report analyzes GPN's evolution since its IPO and de-constructs its Merchant and Issuer businesses. GPN was a top pick in our Year Ahead '24 report given its growth profile, competitive position, and attractive valuation of 11.4x '24 P/E; maintain Buy.

## More than meets the eye in Merchant segment

The primary source of fundamental controversy at GPN lies in the Merchant segment (76% of revs). We believe that GPN's technology-led offerings and distribution, sizeable portfolio of owned software assets in select verticals, and a high concentration of more lucrative SMB volume represents a source of competitive differentiation. We believe GPN's restaurant POS products are largely on par with other major players (Exhibits 7-8).

## Conservative '24 guide would be welcomed

We expect steady 4Q Merchant segment organic revs growth of ~9% with Issuer at ~5%. Total 4Q revs consensus of \$2,183M (inline w/ BofAe) looks doable but we do not expect material upside. Consensus 4Q margin expansion of ~80bps could be slightly high vs. BofAe at 50bps. BofAe adj. EPS of \$2.62 is \$0.02 below Street. For initial '24 guide, we expect new CEO to take a conservative approach, which we believe would be welcomed by Street. '24 consensus revs/adj. EPS growth of 7.2%/13.0% looks achievable assuming soft landing. We think a commitment to ample share buybacks this year would be positive for shares, while also taking concern of large M&A off the table.

## Anticipate updated cycle guidance at potential Analyst Day

Consistent with past practice, we think GPN will update multi-year cycle guidance at an Analyst Day (likely in 1H24) rather than on the 4Q call. We think reasonable and credible ranges for new cycle guide (organic growth) would be 6-9% for Merchant and ~5% for Issuer (total growth of 6-8% vs. Street at 7.8%/6.7% in '25/'26), coupled with 50+bps of annual margin expansion and capital deployment, yielding EPS growth of roughly low double-digits (vs. Street at 14%/10.6% '25/'26).

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	8.16	9.33	10.40	11.77	13.53
GAAP EPS	3.29	0.44	3.95	6.68	7.50
EPS Change (YoY)	27.5%	14.3%	11.5%	13.2%	15.0%
Consensus EPS (Bloomberg)			10.42	11.72	13.34
DPS	0.88	0.99	0.98	1.02	1.03
Valuation (Dec)					
P/E	16.3x	14.3x	12.8x	11.3x	9.8x
GAAP P/E	40.5x	302.8x	33.7x	19.9x	17.8x
Dividend Yield	0.7%	0.7%	0.7%	0.8%	0.8%
EV / EBITDA*	14.1x	13.0x	11.8x	10.9x	10.0x
Free Cash Flow Yield*	6.6%	4.7%	6.0%	8.5%	9.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 26.

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## Stock Data

Price	133.23 USD
Price Objective	165.00 USD
Date Established	15-Dec-2023
Investment Opinion	B-1-8
52-Week Range	94.05 USD - 138.07 USD
Mkt Val (mn) / Shares Out (mn)	34,692 USD / 260.4
Free Float	99.1%
Average Daily Value (mn)	268.61 USD
BofA Ticker / Exchange	GPN / NYS
Bloomberg / Reuters	GPN US / GPN.N
ROE (2023E)	12.0%
Net Dbt to Eqty (Dec-2022A)	54.2%
ESGMeter <sup>TM</sup>	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

HSD: High single digits

IPO: Initial public offering

LDD Low double digits

POS: Point-of-sale

SMB: Small medium business

# iQprofile<sup>SM</sup> Global Payments Inc

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	6.6%	4.4%	7.6%	9.2%	10.2%
Return on Equity	9.1%	10.7%	12.0%	12.6%	13.5%
Operating Margin	31.5%	32.8%	33.7%	36.6%	38.0%
Free Cash Flow	2,288	1,628	2,084	2,944	3,289

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.2x	0.9x	1.0x	1.2x	1.2x
Asset Replacement Ratio	1.2x	1.5x	1.4x	1.4x	1.5x
Tax Rate	16.2%	74.3%	22.6%	15.0%	15.0%
Net Debt-to-Equity Ratio	38.6%	54.2%	60.0%	51.0%	42.0%
Interest Cover	9.7x	8.5x	6.0x	6.2x	7.3x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	7,738	8,092	8,666	9,331	10,090
% Change	14.7%	4.6%	7.1%	7.7%	8.1%
Gross Profit	5,257	5,579	6,243	6,541	7,063
% Change	20.0%	6.1%	11.9%	4.8%	8.0%
EBITDA	3,631	3,933	4,328	4,694	5,114
% Change	19.5%	8.3%	10.1%	8.4%	8.9%
Net Interest & Other Income	(314)	(399)	(536)	(520)	(480)
<b>Net Income (Adjusted)</b>	<b>2,397</b>	<b>2,571</b>	<b>2,754</b>	<b>3,012</b>	<b>3,355</b>
<b>% Change</b>	<b>24.7%</b>	<b>7.3%</b>	<b>7.1%</b>	<b>9.4%</b>	<b>11.4%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	849	20	968	1,652	1,802
Depreciation & Amortization	396	399	460	473	473
Change in Working Capital	(168)	(738)	590	(345)	(97)
Deferred Taxation Charge	(189)	(315)	(1,323)	13	13
Other Adjustments, Net	1,893	2,878	2,021	1,805	1,805
Capital Expenditure	(493)	(616)	(632)	(653)	(706)
<b>Free Cash Flow</b>	<b>2,288</b>	<b>1,628</b>	<b>2,084</b>	<b>2,944</b>	<b>3,289</b>
<b>% Change</b>	<b>21.8%</b>	<b>-28.8%</b>	<b>28.0%</b>	<b>41.3%</b>	<b>11.7%</b>
Share / Issue Repurchase	(2,575)	(2,916)	(411)	(947)	(1,067)
Cost of Dividends Paid	(260)	(274)	(261)	(260)	(256)
Change in Debt	2,359	2,154	1,153	(1,600)	(1,600)

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1,979	1,998	1,066	1,178	1,447
Trade Receivables	946	998	649	699	756
Other Current Assets	1,785	3,318	2,264	2,438	2,636
Property, Plant & Equipment	1,688	1,839	2,129	2,309	2,542
Other Non-Current Assets	38,881	36,656	38,433	37,505	36,341
<b>Total Assets</b>	<b>45,280</b>	<b>44,809</b>	<b>44,541</b>	<b>44,129</b>	<b>43,722</b>
Short-Term Debt	563	1,916	790	790	790
Other Current Liabilities	3,900	4,856	3,662	3,943	4,264
Long-Term Debt	11,415	12,289	14,628	13,028	11,428
Other Non-Current Liabilities	3,532	3,081	1,790	1,834	1,882
<b>Total Liabilities</b>	<b>19,410</b>	<b>22,143</b>	<b>20,870</b>	<b>19,595</b>	<b>18,364</b>
<b>Total Equity</b>	<b>25,869</b>	<b>22,540</b>	<b>23,934</b>	<b>24,798</b>	<b>25,622</b>
<b>Total Equity &amp; Liabilities</b>	<b>45,280</b>	<b>44,683</b>	<b>44,805</b>	<b>44,393</b>	<b>43,986</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 26.

## Company Sector

Payments, Processors & IT Services

## Company Description

Global Payments was spun out of National Data Corporation in 2001, as a separately traded public company. GPN has provided payment processing and merchant acquiring services for merchants worldwide since 1967. It operates three primary geographic segments: North America, Europe, and Asia Pacific. After acquiring EVO, GPN plans to have two reportable segments, Merchant and Issuer.

## Investment Rationale

Among merchant acquirers, GPN was an early mover into higher-growth, technology distribution channels, such as integrated payments. By year-end, these channels are expected to comprise 40%+ of total company net revenue, growing mid-teens-plus. We believe this favorable mix shift positions GPN well to achieve its cycle guidance of high-single-digit organic top-line growth, up to 75bps of annual margin improvement, and mid-teens EPS growth, bolstered by recent portfolio reshaping.

## Stock Data

Average Daily Volume 2,016,109

## Quarterly Earnings Estimates

	2022	2023
Q1	2.07A	2.40A
Q2	2.36A	2.62A
Q3	2.48A	2.75A
Q4	2.42A	2.62E

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# A Deep-Dive on GPN

For the past few years, GPN's stock has lagged its closest comp Fiserv (FI) and the S&P500. In addition to macro/consumer spending uncertainty, we think some opaque elements of GPN's business model have contributed to its relative stock underperformance.

To help investors de-mystify the "black box" of GPN, this report analyzes GPN's business model evolution since its IPO, and de-constructs its Merchant and Issuer businesses. We also take a closer look at GPN's valuation, capital deployment priorities, and present a preview of 4Q23 earnings and a potential Analyst Day in 1H24.

This report is divided into the following sections:

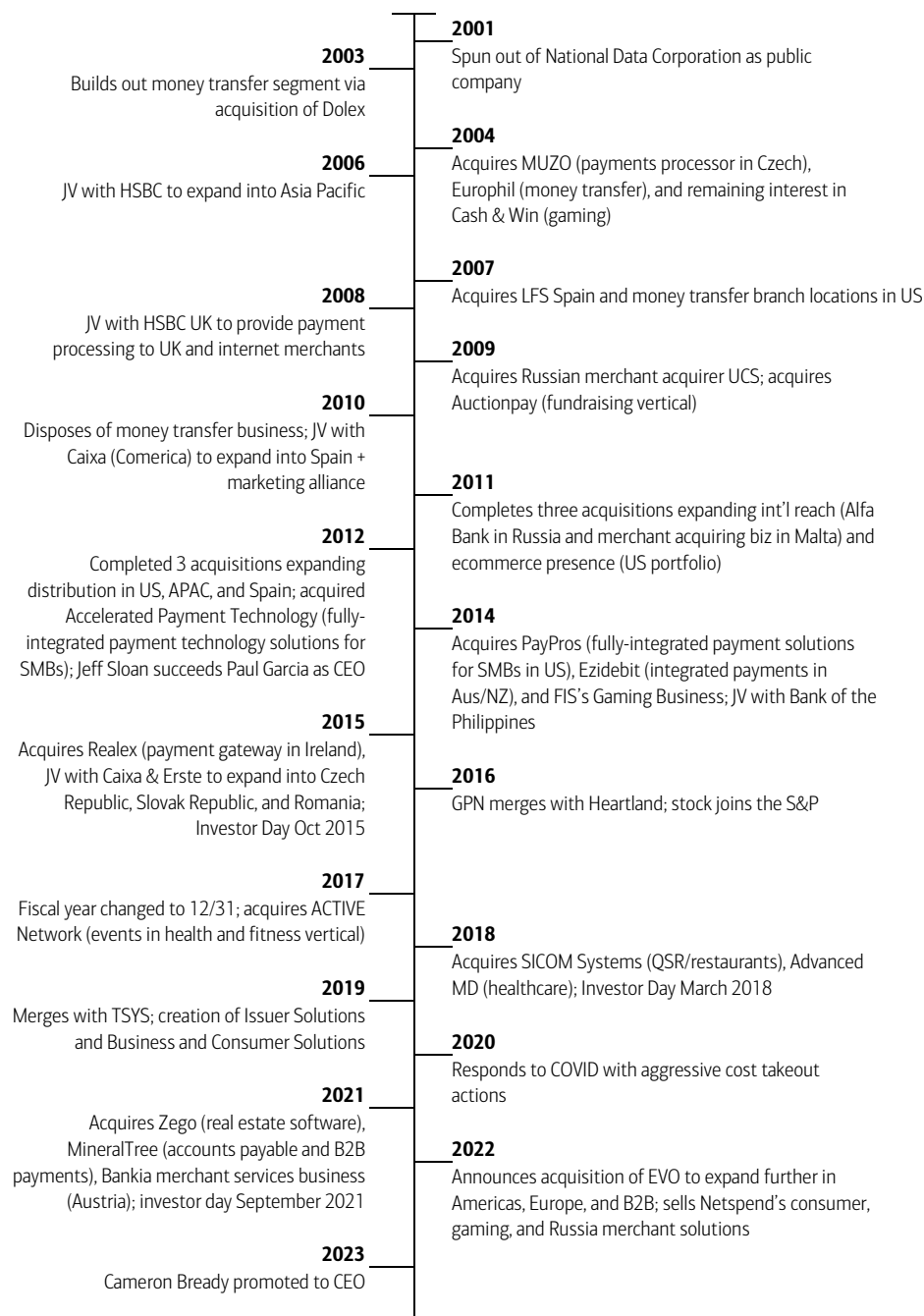
- **Evolution of GPN:** We summarize the key events in GPN's history from its IPO in 2021 to present day. The firm has a history of expanding into new markets and geographies via acquisitions and joint ventures with banks.
- **Deconstructing Portfolio Merchant Solutions:** The primary source of fundamental controversy at GPN lies in the Merchant segment (76% of revs). We discuss the components of Merchant Solutions revenues and its tech-enabled distribution channels.
- **Issuer Solutions Overview:** We unpack the various components of Issuer Solutions, including GPN's B2B offerings.
- **Valuation:** Among large cap payment names, we find GPN's valuation to be relatively compelling. GPN currently trades at ~11.4x '24 EPS, a ~40% discount to the S&P500 at ~20x and ~30% discount to its closest comp FI at ~16.6x.
- **Potential Analyst Day Topics:** Consistent with past practice, we think GPN will update multi-year cycle guidance at an Analyst Day. We think reasonable and credible ranges for new cycle guide (organic growth) would be 6-9% for Merchant and ~5% for Issuer, coupled with ~50bps of annual margin expansion and capital deployment, yielding EPS growth of roughly low double-digits.
- **Capital Deployment Priorities:** We think GPN's capital deployment in '24 will focus on returning cash to shareholders in the form of share buybacks, potentially using an accelerated share repurchase program.
- **Drivers of lagging stock performance:** Since 1/1/21, GPN's stock has lagged its closest comp FI by 60%. We think the somewhat opaque elements of portions of GPN's business model, potential collateral damage from FIS' underperforming Merchant business, and cyclical concerns around consumer spending have contributed to GPN's lagging stock performance.
- **4Q23 Preview:** For 4Q, we expect steady Merchant segment organic revs growth of ~9% with Issuer at ~5%. Consensus 4Q margin expansion of ~80bps could be slightly high vs. BofAe at 50bps. BofAe adj. EPS of \$2.62 is \$0.02 below Street. For initial '24 guide, we expect GPN's new CEO (former CFO) to take a conservative approach, which we believe would be welcomed by Street. '24 consensus total revs/adj. EPS growth of 7.2%/13.0% with Merchant revs growth of 10.1% (including inorganic contribution from EVO which laps late March) and Issuer at 5.3% - for 2024 looks achievable assuming soft landing. BofAe is at 7.7%/13.2%.

# Evolution of GPN

We summarize key events in GPN's history post-IPO in Exhibit 1 below, followed by additional detail.

## Exhibit 1: Timeline of Significant Events 2001-2023

GPN has a rich history of expanding into new markets and geographies via acquisitions and joint ventures.



Source: BofA Global Research, Company Filings

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## 2001-2009: Starting out as a stand-alone public company

GPN has provided payment processing and merchant acquiring services for merchants worldwide since 1967. In 2001, GPN spun out of National Data Corporation as a



separate publicly traded company. At the time of the IPO, GPN was led by CEO Paul Garcia, and the business consisted primarily of merchant services (credit and debit card transaction processing, check guarantee/verification, gaming software, and terminal management) and funds transfer services (financial electronic data exchange, account balance reporting, management information and deposit reporting). GPN marketed its products and services in the US, Canada and Europe through a variety of distinct sales channels that include a large, dedicated sales force, independent sales organizations (ISO), independent sales representatives, an internal telesales group, alliance bank relationships, and financial institutions.

In 2003, GPN acquired Dolex, a provider of consumer-to-consumer electronic money transfer services in the US. Over the next few years, GPN continued to expand its money transfer segment via acquisitions. In 2004, GPN acquired Europhil, a provider of money transmittal and ancillary services to settlement locations in Latin America, Morocco and Philippines. GPN also acquired the remaining interest in Cash & Win, a provider of credit and debit card cash advance services to patrons of the gaming industry.

During this time, GPN also began expanding internationally into Asia Pacific and Europe, primarily through joint ventures (JVs) and partnerships with banks. For example, GPN entered into a JV with HSBC to provide payment processing services to merchants in the Asia Pacific region in 2006 and in the UK in 2008. In 2009, GPN acquired ZAO United Card Services (UCS), a leading merchant acquirer and payment processor in Russia.

#### **2010-2015: CEO change + entry into integrated payments/ecommerce**

In 2010, GPN disposed of its Money Transfer business (~9% of FY09 revenues), simplifying its model to focus on Merchant Services. GPN continued its push into Europe via a JV with Caixa bank in 2010. GPN acquired a 51% interest in the JV, a new legal entity known as Comerica, for \$125M. Caixa, which owns the other 49% of Comerica, contributed its merchant acquiring business in Spain and formed a 20-year marketing alliance whereby Caixa refers customers to Comerica for payment processing services in Spain and provide sponsorship into the card networks.

In October 2013, Jeff Sloan was promoted from President of GPN to CEO, succeeding Paul Garcia. Mr. Sloan, a former investment banker, led GPN's push into the integrated payments market. GPN acquired Accelerated Payments Technology (integrated payments for US SMBs) in October 2012, Ezidebit (integrated payments focused on recurring payments in Australia and New Zealand) in October 2013, and PayPros (integrated payments for US SMBs) in March 2014. GPN also expanded its ecommerce presence with an US ecommerce portfolio acquisition in January 2011 and Pay and Shop Limited (Realex Payments) in Europe in March 2015.

#### **2016-2018: M&A heats up further with Heartland deal and others**

In April 2016, GPN completed its acquisition of Heartland Payments, in a transaction valued at \$4.4B. Prior to the merger, Heartland was one of the largest payment services companies in US, delivering merchant acquiring services and offering integrated commerce, point-of-sale, omnichannel, marketing, payroll and other solutions.

This acquisition significantly expanded GPN's presence in the US SMB market while broadening its vertical reach. Following the Heartland deal, GPN continued to acquire assets aligned with its technology-enabled, software-driven strategy, including ACTIVE Network (events vertical) in September 2017, plus SICOM Systems (restaurant vertical) and AdvancedMD (healthcare vertical) in the fall of 2018.

#### **2019-2022: Mega-merger with TSYS expands business model**

In September 2019, GPN completed its merger with Total System Services, Inc. (TSYS), valued at \$24.5B. TSYS was a leading global payments provider, offering seamless, secure and innovative solutions to issuers, merchants and consumers. This large-scale transaction followed two others in the space in 2019: FIS' acquisition of Worldpay and Fiserv's acquisition of First Data.

Following the acquisition, GPN added two new business segments: Issuer Solutions and Business and Consumer Solutions. Issuer Solutions enables card issuers to process transactions, and also offers value-added services such as card production and customer support. TSYS' Netspend business became the Business and Consumer Solutions segment, primarily offering reloadable general purpose prepaid debit cards directly to consumers. GPN's acquisition activity paused during the pandemic, as management responded to COVID with aggressive cost takeout actions, and managed to grow adjusted EPS by 3% in 2020. In 2021, GPN acquired MineralTree, a leading provider of accounts payable automation and B2B payments solutions, for \$500M in cash.

### 2022-Present: Portfolio re-shaping and CEO transition

In 2022, GPN announced a series of acquisitions and dispositions. GPN entered into an agreement to acquire EVO Payments, a payment technology and services provider, to expand its geographic presence in Americas and Europe as well as augment its B2B software and payments solutions.

GPN also entered into an agreement to sell the consumer portion of its Netspend business and its gaming business to focus on core corporate customers. These transactions all closed by April 2023. In May 2023, GPN announced that President and COO Cameron Bready would replace Jeff Sloan as CEO, effective 6/1/23. Mr. Bready joined GPN in 2014 as CFO.

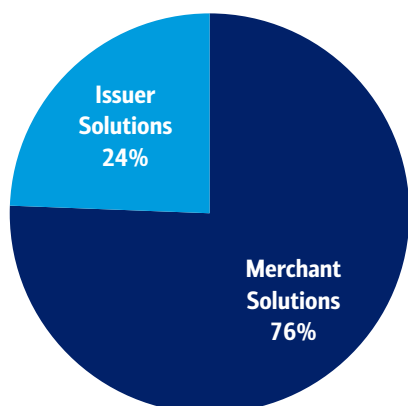
On his inaugural earnings call as CEO in August 2023, Mr. Bready outlined the following strategic priorities: 1) pursuing the key pillars of GPN's strategy set forth at its September 2021 Investor Day, 2) proving more commerce enablement solutions that deepen relationships with customers, 3) maintain focus on execution, and 4) ensuring GPN's culture is second to none.

### Present Day GPN

Following the close of the EVO acquisition and divestitures of its Consumer and Gaming businesses, GPN's reportable segments now consist of Merchant Solutions and Issuer Solutions. As shown in Exhibit 2, in 3Q23, Merchant Solutions accounted for 76% of GPN's total revenues and Issuer was 24%. As shown in Exhibit 3, 80% of GPN's 3Q23 revenues were from the Americas (US and Canada), 17% from Europe (biggest markets are UK, Spain, and Central Europe), and 3% from Asia Pacific.

**Exhibit 2: GPN 3Q23 Revenues by Business Segments**

Merchant solutions was 76% of 3Q23 revenues.

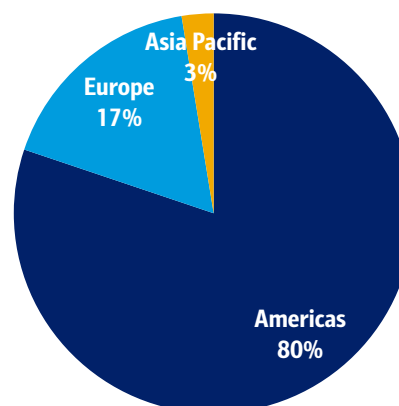


Source: BofA Global Research, Company Filings

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**Exhibit 3: GPN 3Q23 Revenues by Geography**

80% of GPN's 3Q23 revenues were from the Americas.



Source: BofA Global Research, Company Filings

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### Exhibit 4: Disaggregation of Merchant Solutions Revenues

Software Type	Percentage
Payment Processing	82%
Owned Software	18%

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## Products/Services

## Payments technology

### Exhibit 5: Payments Distribution Channels

Payments Processing						
Ecomm / Omni	Integrated (ISV)	Owned/vertical software	Direct		ISO	Bank JVs
					Technology-enabled	
					Relationship-led	

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## Credit and Debit processing





funds settlement or accessing merchant settlement funds) as well as a direct membership model (where GPN routes/clears transactions directly through the card brands’ network and is not restricted from performing funds settlement).

Software solutions

Software solutions, ~18% of Merchant Solutions adjusted net revenue, include enterprise software that streamlines business operations in numerous vertical markets (see below), specialty point-of-sale software, analytics and customer engagement, human capital management and payroll and reporting. Customers of these owned software assets represent cross-sell opportunities for GPN to sell payment processing, and as seen in Exhibit 6, GPN’s software assets include both point-of-sale (POS) and non-POS applications.

**Exhibit 6: Owned Software Assets**  
GPN’s owned software assets can be disaggregated into POS and non-POS software

Owned/vertical software	
POS	Non-POS

Source: BofA Global Research

BofA GLOBAL RESEARCH

Digging deeper into POS software business

On its 3Q23 earnings call, management highlighted GPN’s POS software business, which delivered 20%+ y/y growth in the quarter and collectively accounts for nearly \$400M of adjusted net revenue annually (~6% of total Merchant segment revenues). GPN expects to launch its next-generation, mobile-first POS offerings in early 2024, which will deliver an improved user interface and more intuitive experiences across its iOS and Android-based solutions.

GPN’s POS solutions are used by 80,000+ merchant locations globally. GPN’s solutions leverage a common technology stack that enable merchants to easily add functionality as they expand, enabling GPN to serve businesses of all sizes from SMBs to enterprise customers, and increase software revenues along the way.

GPN offers complete cloud-based POS software platforms targeting three distinct segments of the market with solutions purpose-built for commerce enablement in key verticals, primarily restaurant and retail.

- **General Purpose (GP) POS:** GPN’s entry-level product is a general-purpose, cloud-based point of sale solution branded as GP POS. This is a self-service platform, from onboarding to full configuration of the functionality. A merchant can easily enable GP POS and begin accepting payments in less than 24 hours. GP POS launched last year in numerous international markets including Canada, the UK, Spain, and Central Europe. GPN plans to further expand to Poland, Germany and Ireland over the next 12 to 24 months.
- **Heartland** (Restaurant/Retail focused, SMB to-mid market): In North America, GPN has distinct vertical-specific restaurant and retail focused cloud-based POS solutions, Heartland Restaurant and Heartland Retail. GPN leverages its Heartland direct sales channel to target SMB and mid-market customers with these solutions, typically those with 2 to 20 locations, but can scale to larger customers as well.
  - Capabilities include mobile POS, PIN on glass solutions, guest and table management, order and kitchen management, pricing matrices, discounting functionality, cash discount programs, predictive analytics, AI-driven marketing and loyalties programs, and human capital management and payroll solutions. Exhibit 7 illustrate a few of GPN’s Heartland Restaurant offerings.

- Additionally, integration with dozens of software partners allows customers to enable various delivery services, accounting applications, inventory management software, and other technologies.

#### Exhibit 7: Examples of Heartland Solutions

Heartland Restaurant is GPN's cloud-based POS solution for this vertical.



Source: BofA Global Research, Company Materials

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- **Xenial** (Enterprise-size restaurants): Xenial solutions offer solutions for the world's largest quick-service restaurants, food service management companies, and sports and entertainment venues. Xenial provides the complete technology stack required to run these operations, fully integrated at point-of-sale. Examples of enterprise merchants include franchisees for Golden Corral, Wendy's, Popeyes, A&W Restaurants, Jack in the Box, and Panda Express.
  - Other solutions include dynamic digital menu boards, kiosk and mobile ordering solutions, and customer engagement. Xenial enables drive-thru technology for its enterprise QSR customers, serving 26 of the top 50 QSR brands on a global basis.
  - Xenial also operates the food and beverage, suite, and retail environments for some of the most complex stadiums in the world. As of 3Q23, Xenial served almost 100 stadiums and event venues. At its 2021 Investor Day, GPN highlighted Atlanta's Mercedes-Benz Stadium as an example of a complex stadium customer in which GPN provides the software and hardware solutions to run the food and beverage and retail operations in the stadium. More recent announcements include Truist Park (with the Braves) and State Farm Arena (with Atlanta Hawks). Exhibit 8 illustrate a few of GPN's Xenial offerings.

**Exhibit 8: Examples of Xenial Solutions**

Xenial offers solutions for the world's largest quick-service restaurants and sports and entertainment venues.



Source: BofA Global Research, Company Materials

BofA GLOBAL RESEARCH

Aside from the POS products described above, other GPN-owned, vertical market software solutions include:

- **ACTIVE network:** Cloud-based enterprise software, including payment technology solutions for event organizers in communities, government services, and health and fitness markets. 3Q23 was one of ACTIVE Network's best booking quarters since the pandemic, including new partnerships with YMCA Vancouver, Alterra Mountain Company, the New York Triathlon, and the Sydney Half Marathon.
- **AdvancedMD:** Cloud-based enterprise solutions for small-to-medium sized ambulatory care physician practices in the US. During the pandemic, AdvancedMD saw robust growth, facilitating ~500,000 tele-doc visits vs. de minimis levels before.
- **Education Solutions:** Integrated payment solutions for K-12 as well as colleges and universities.
  - K-12 offerings (under the Heartland Education brand) include ecommerce and in person-payments, cafeteria POS solutions, and back-office management software, hardware, technical support and training.
  - GPN's core offering for colleges and universities, TouchNet, includes integrated commerce software solutions, payment services, loan services, credentialing services, open-and closed-loop payment solutions, hardware, technical support and training. In 3Q23, TouchNet signed a new partnership with Langara College in Vancouver and extended relationships with the Texas State University System. Other customers include the University of British Columbia, Sheridan College in Canada, and the Arkansas State University System.
- **Zego:** Comprehensive resident experience management software and digital commerce solutions for property managers primarily in the US. In 3Q23, Zego saw bookings growth of 15% and expanded the scope of existing partnerships to include

additional payment solutions with global real estate management firm Harbor Group and multifamily management company ResProp, while furthering its expansion in the student housing vertical by signing an additional partner, Domus Student Living.

In its September 2021 Investor Day presentation (Exhibit 9), GPN disclosed representative owned software companies by vertical.

#### Exhibit 9: Overview of GPN's Owned Software as of September 2021 Investor Day

GPN's owned software assets span multiple verticals – note that Gaming was divested in 2023

VERTICAL	Real Estate	Govt.	Commerce / Retail	Healthcare	Food & Hospitality	Education	Gaming	Field Services
REPRESENTATIVE SOFTWARE COMPANIES	ZE GO	Heartland Bill Pay  ACTIVE network	Heartland Retail POS   Genius	AdvancedMD	Heartland Restaurant POS  xenial	touchnet  Heartland Education  SENTRAL EDUCATION	gaming global payments	Heartland For Service Professionals
U.S. GDP BY INDUSTRY	\$3.0T	\$2.7T	\$2.6T	\$1.6T	\$600B	\$300B	\$100B	\$100B

Source: GPN September 2021 Analyst Day presentation

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## Comprehensive distribution channels

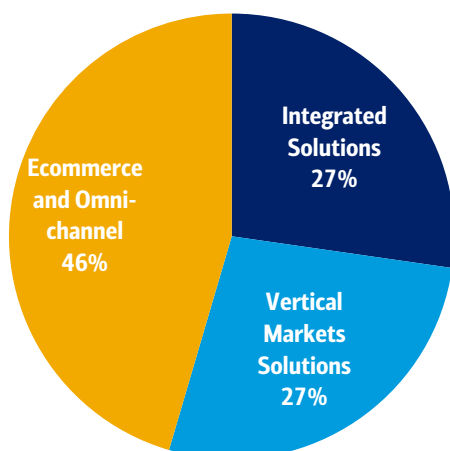
GPN distributes its Merchant Solutions through a variety of technology-enabled and relationship-led channels.

### Technology-enabled

Technology-enabled distribution, ~65% of 3Q23 adjusted net revenues, includes integrated solutions, vertical market software solutions, and ecommerce and omni-channel solutions. At its 2021 Investor Day, GPN set a goal (timing not defined) of ~75% tech-enabled revenues. As shown in Exhibit 10, based on past management disclosures, we estimate e-commerce and omni comprise ~46% of tech-enabled revenues, with integrated solutions and vertical markets solutions both at ~27%.

#### Exhibit 10: Disaggregation of Technology-enabled Revenues

We estimate E-comm/omni comprise 46% of tech-enabled revenues



Source: BofA Global Research, Company Filings

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- **Integrated solutions (~18% of '22 merchant revenues):** GPN partners with software/technology providers in 70+ verticals, embedding its payments technology

into business management software solutions, primarily in North America. GPN grows its integrated solutions business when new or existing merchants enable payment services through enterprise software solutions sold by its partners. In 3Q23, GPN cited record new quarterly bookings in this channel while signing 16 new integrated partners, a 33% increase y/y. At a conference appearance on 3/15/23, management commented GPN earns \$1B of payments revenue from its partnered software business. GPN offers three distinctive integrated payments models to partners:

- **Traditional, direct integrated model:** GPN provides the most comprehensive suite of products, services, and support for both the independent software vendor (ISV) and its customers. GPN shares a portion of its processing revenue with the ISV partner.
- **Full payments facilitation (PayFac model):** ISV partners have access to GPN's payment technologies, although much of the operating complexity including compliance and regulatory requirements reside with the ISV, who retains a higher percentage of transaction economics in this model vs. the traditional model.
- **Progressive payment facilitation (ProFac model):** On the 2Q23 earnings call, GPN announced the launch of its ProFac model, hybrid option which provides many of the benefits of a PayFac relationship with less of an operational burden.
- **Vertical Markets Software solutions (~18% of '22 merchant revenue):** GPN owns software solutions in various verticals, including government, healthcare, education, restaurant and hospitality, and real estate. At a conference appearance on 3/15/23, management commented that GPN sells \$1B a year of owned software not tied specifically to transactions.

Primary distribution channels for POS solutions in North America include local dealer network representing nearly major metro market in the US and Canada, over 300 partners who provide sales, support, and services. Additionally, local sales professionals across the US and Canada are solution-oriented domain experts and serve as relationship partners to our customers.

- **E-commerce and Omnichannel (~30% of '22 merchant revenue):** GPN sells e-commerce and omnichannel solutions (a unified commerce platform with payment gateway services, retail payment acceptance infrastructure, and payment technology service capabilities) to customers of all sizes, from SMBs in a single country to multinational businesses operating retail and online businesses in multiple countries. On GPN's 2Q23 earnings call, management cited ~30% of GPN's volumes were from e-commerce, and at a 3/15/23 conference appearance, management disclosed \$1.6B of annual revenues were tied to e-commerce and omni.

### Strategic Partnership with Google

In February 2021, GPN announced a multi-year strategic partnership with Google. Key elements of the partnership include:

1. Google is a payment processing customer of GPN in North America and Asia Pacific, and GPN uses Google as its preferred cloud provider for back-end payment processing technology.
2. GPN has the exclusive ability to bring Google software (e.g. Gmail, calendaring, remote ordering via OpenTable, remote shopping via Shopify) into GPN's merchant portal.



3. GPN co-sells with Google, e.g. existing Google Cloud customers have a required minimum spend with Google, and any business merchants do with GPN counts towards that amount committed to Google.

To date, GPN has not quantified the revenue contribution from the Google relationship.

### Relationship-led

There are three main elements of GPN's relationship-led distribution strategy to sell its payments technology services, software and other value-added solutions: direct sales, bank referral partners (including JVs), and independent sales organizations (ISOs). GPN employs a direct salesforce of about 3,500+ (at the time of September 2021 Analyst Day) around the world.

Bank partnerships and joint ventures are also a key part of GPN's distribution strategy, particularly for international markets (Exhibit 11). GPN announced joint ventures with HSBC to provide merchant acquiring services in Asia Pacific (2006) and the UK (2008). In 2010, GPN acquired a controlling financial interest in Comercia, a newly formed company in which Caixa contributed its merchant acquiring business in Spain. In 2015, GPN announced an agreement with Caixa and Erste Group to form a JV to provide merchant acquiring to Czech Republic, Slovak Republic, and Romania.

Most recently in January 2024, GPN announced a joint venture (expected to launch in 1H24) with Commerzbank to offer digital payment solutions to small and medium sized business customers across Germany. GPN will hold a 51% stake in the new entity Commerz Globalpay GmbH, with Commerzbank holding the other 49%. This JV enhances distribution for GPN's payment offerings/solutions in Germany.

#### Exhibit 11: GPN's Bank Joint Ventures

GPN has expanded internationally primarily through JVs with Banks

Partner	Year	Region
HSBC	2006	Asia Pacific
HSBC UK	2008	UK
Caixa	2010	Spain
Caixa / Erste	2015	Central Europe
Commerzbank	2024E	Germany

Source: BofA Global Research

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GPN has significantly de-emphasized the ISO channel over time. We believe the channel became more commoditized, so GPN wisely shifted its efforts over 10 years ago to emphasize alternative channels (ie, ISVs). Today we estimate the ISO channel represents <10% of Merchant segment revenues.

## Competitive positioning

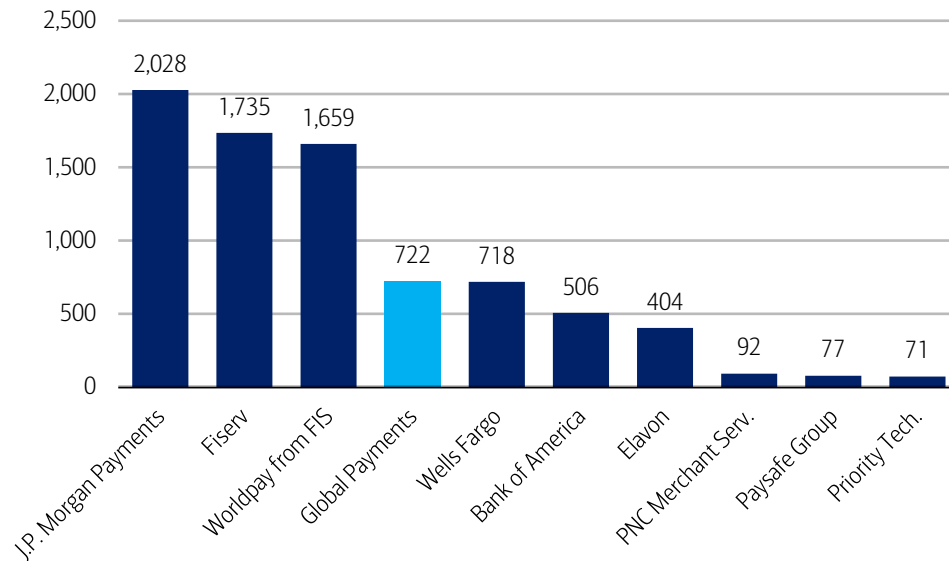
In Merchant Solutions, GPN competes with financial institutions, merchant acquirers and other financial technology companies who provide businesses with acquiring/processing services.

In US merchant acquiring space, GPN competes primarily with Fiserv, Worldpay, Chase Paymentech, Elavon (a subsidiary of U.S. Bancorp), Bank of America Merchant Services, Wells Fargo Merchant Services, Toast, Shift4, Stripe, Shopify and Block. GPN also competes with numerous other providers in their vertically focused software solutions businesses in the US. The vast majority of GPN's US Merchant business is concentrated in the SMB market, while in Canada a more meaningful percentage of GPN's business comes from larger merchants.

As shown in Exhibits 12-13, the largest US acquirers by purchase volume as well as transactions in 2022 were J.P. Morgan, Fiserv, Worldpay, followed by Global Payments.

**Exhibit 12: Top 10 US Acquirers by Purchase Volume - 2022 (in \$billions)**

GPN was the fourth largest US acquirer by purchase volume in 2022

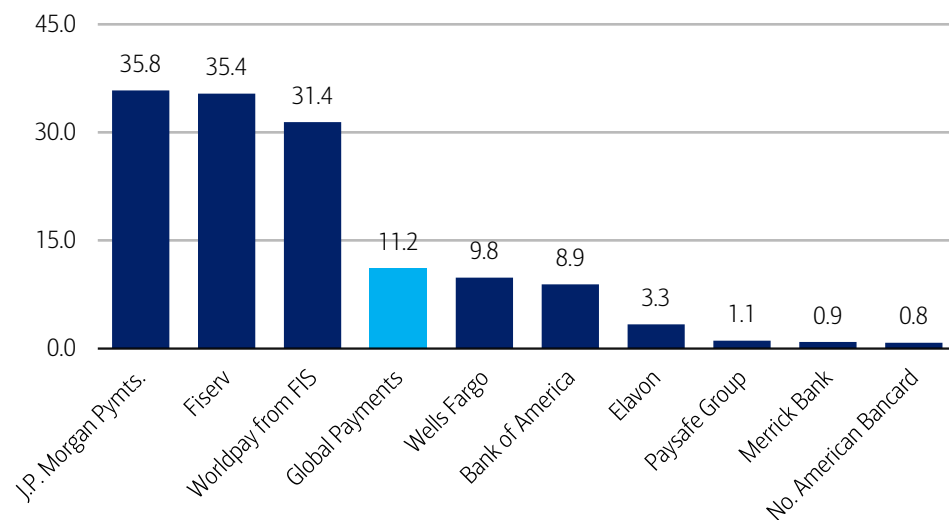


Source: BofA Global Research, Nilson

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**Exhibit 13: Top 10 US Acquirers by Purchase Transactions - 2022 (in billions)**

GPN was the fourth largest US acquirer by transactions in 2022



Source: BofA Global Research, Nilson

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GPN operates owned software in real estate, government, commerce/retail, healthcare, food & hospitality, education, gaming, and field services verticals. GPN also has partnered software in 70+ verticals, including dental, automotive, veterinary, dry cleaning, childcare, wineries, and many others.

On its 2Q23 call, management cited that roughly 50% of revenues are from more discretionary verticals, such as retail and restaurant. We also note that GPN is under-indexed to travel relative to V/MA and some other merchant acquirers (ie, Worldpay, Adyen). Examples of key less discretionary verticals would include gas and healthcare.





Internationally, financial institutions remain the primary providers of payment technology services to merchants, although the outsourcing of these services to third-party service providers has become more prevalent over time. In addition to financial institutions, outside the US, GPN also competes with traditional acquirers including Worldpay, Worldline, Nexi) and newer entrants (such as Adyen, Block and Stripe). GPN has seen competition internationally increase and expects that trend to continue.

The restaurant vertical is known to be particularly competitive. As shown in Exhibit 14, GPN's offerings (including those available via integrations/partners) in the restaurant vertical closely match those of its main competitors.

#### Exhibit 14: Comparison of Restaurant POS Capabilities

GPN's offerings in the restaurant vertical closely match those of its main competitors

Capability	GPN	Fiserv	Toast	Square
Point of Sale	x	x	x	x
Mobile Ordering	x	x	x	x
Payment Processing	x	x	x	x
Kitchen Display System	x	x	x	x
Drive-Thru	x		x	
Reservations	x	x	x	x
Payroll / Employee Management	x	x	x	x
Inventory Management	x	x	x	x
Marketing	x	x	x	x
Loyalty	x	x	x	x
Capital/Financing	x	x	x	x

Source: BofA Global Research, Company Filings

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## Issuer Solutions Overview

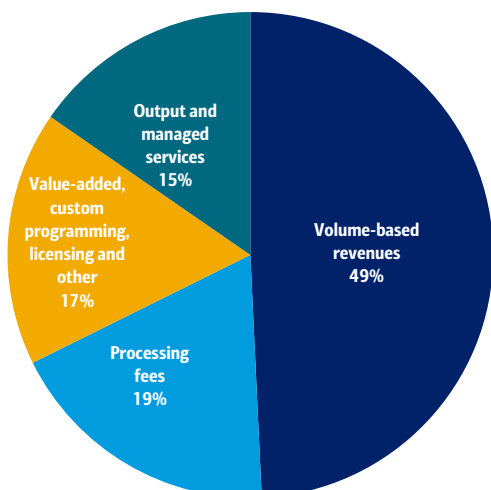
GPN provides solutions for financial institutions to manage card portfolios, reduce technical complexity/overhead, and offer a seamless cardholder experience on a single platform. GPN entered the issuer solutions business with its TSYS merger in 2019. At that time, TSYS was a top 2 global provider of issuer processing, second only to First Data, which was acquired by Fiserv in 2019.

The majority of GPN's Issuer Solutions revenues comes from card processing and related services for banks, and is concentrated more in credit than debit. We believe Issuer Solutions processes transactions for a mix of general-purpose consumer and commercial cards, as well as private label cards and virtual cards. GPN uses a direct sales model to distribute its Issuer offerings to financial institutions. Ideally, financial institutions serve as GPN's customers on the issuing side and distribution partners on the merchant side.

GPN does not disclose any sub-segmentation of Issuer segment revenue. However, as a rough proxy, we can look at the last public disclosures that TSYS provided for its Issuer Solutions segment prior to be acquired by GPN. As seen in Exhibit 15, about half of Issuer Solutions revenue in 2018 was from volume-based processing services, with the rest from a mix of output/managed services (ie, card production, call center) and other offerings. Exhibit 16 illustrates the mix of account on file (AOF) by card type, as of TSYS' last disclosure in 2018. About 70% were general-purpose consumer cards.

**Exhibit 15: TSYS' 2018 Net Revenue Disaggregation – Issuer Solutions**

~49% of TSYS's 2018 net revenues were volume-based

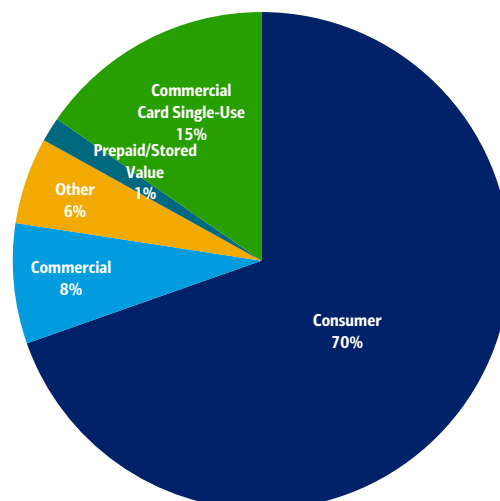


Source: BofA Global Research, Company Filings

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**Exhibit 16: TSYS' 2018 Accounts-on-File Disaggregation**

70% of TSYS' accounts-on-file were from consumer cards



Source: BofA Global Research, Company Filings

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In the Issuer segment, GPN also provides commercial payments, accounts payable and electronic payment alternatives solutions that support B2B payments processes for businesses and governments. Other services include account management and servicing, fraud solution services, analytics and business intelligence, cards, statements and correspondence, customer contact solutions and risk management solutions.

B2B payment services for enterprises include SaaS offerings that automate key procurement processes, provide invoice capture, coding and approval, and enable virtual card and integrated payments options cross a variety of key vertical markets. GPN categorizes its B2B business in three segments:

- 1) **Software-driven workflow automation:** Workflow automation consists of automating accounts payable and accounts receivables processes for corporates. GPN's acquisitions of MineralTree/EVO helped enhance its accounts payable/accounts receivable offerings, respectively.
- 2) **Money-in and money-out fund flows:** Fund flows consists primarily of issuing virtual cards. GPN is one of the largest virtual card issuers in the world and virtual cards contributed to the ~20% growth in GPN's commercial business in 3Q23. In 2Q23, GPN announced it had issued nearly 80 million virtual cards over the past 12 months, enabling roughly \$47B in spend. GPN sees strong growth on the money-in side with B2B payment acceptance solutions as more and more spend shifts towards digital channels.
- 3) **Employer solutions:** Employer solutions within Issuer Solutions consist of pay cards and earned wage access. Human capital management and payroll solutions sit in the Merchant Solutions segment.

At its 2021 Investor Day, GPN cited worldwide B2B payment flows (TAM) of \$125T. At that time, GPN's B2B annual revenues were \$600M+. While B2B revenue disclosures haven't been explicitly updated, assuming an annual growth rate of 15% since then would imply revenues of \$790M+ in 2023, reflecting ~39% of '23 issuer solutions net revenues and ~9% of '23 total net revenues.

Issuer Solutions segment revenues are primarily derived from long-term processing contracts with financial institutions and other financial services providers. Payment processing services revenues are generated primarily based on the number of accounts on file, transactions and authorization processed, statements generated and/or mailed,

managed services, cards embossed and mailed, and other processing services for cardholder accounts on file. Revenues also include software subscription, licensing fees, loyalty redemption services and professional services.

### **MineralTree acquisition**

In October 2021, GPN acquired MineralTree, a leading provider of accounts payable automation and business-to-business (B2B) payments solutions, for \$500M cash. MineralTree's SAAS offerings automate key procurement processes, including invoice capture, coding and approval, and enable virtual cards and integrated payments options across a variety of key vertical markets to digitize payables for thousands of customers.

In combination with GPN's existing B2B payments capabilities (including commercial payments, domestic/ international acquiring, payroll, data and analytics, access to non-card based rails and virtual card provisioning), MineralTree's cloud native solutions substantially expand GPN's target addressable markets and provide significant growth opportunities in one of the largest and most underpenetrated markets in software and payment. At its September 2021 Investor Day, GPN disclosed MineralTree had a \$100B+ captive payments volume opportunity with 2,200 active customers and \$18B+ in monetized payments volume.

### **B2B assets of EVO Payments**

In March 2023, GPN completed the acquisition of EVO Payments for \$4B. In addition to expanding GPN's geographic footprint and enhancing its integrated payments offers, GPN's acquisition of EVO also added leading accounts receivable automation software capabilities that complement GPN's existing B2B and accounts payable offerings. Further, EVO brings an array of key technology partners and proprietary integrations, including with widely used enterprise resource planning (ERP) software providers.

### **Collaboration with AWS**

On August 3, 2020, GPN and Amazon Web Services (AWS) announced a multi-year collaboration to provide a cloud-based issuer processing platform to financial institutions around the world. The collaboration enables product flexibility with API-centric tech (i.e. unbundling GPN's existing platform and related services so customers can pick and choose specific solutions), improves speed to market worldwide (GPN can build, test, deploy, and scale specific capabilities quicker using AWS), and creates frictionless digital customer experiences (customers have more reliable, secure, and flexible solutions in a cloud-based issuing environment).

### **Competitive positioning**

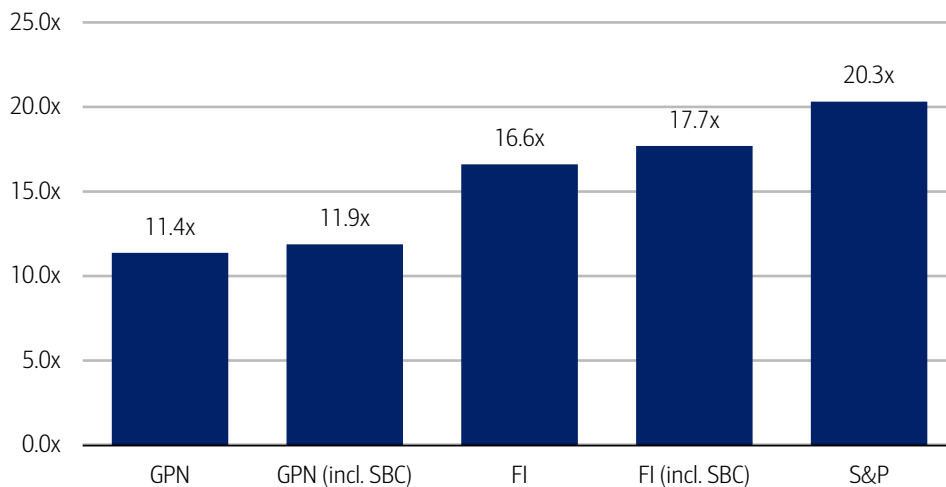
In Issuer Solutions, GPN competes with other third-party payment card processors, the card brands, core banking platform providers, ISVs, B2B providers, and various other firms that deliver services to payment card issuers, as well as financial institutions who provide such services in-house. Competitors in this segment include Fiserv, FIS, Marqeta, Nexi, Worldline, i2c, Bill.com, AvidExchange, Billtrust, Adyen and Stripe.

## **Valuation**

Among large cap payment names, we find GPN's valuation to be relatively compelling. GPN currently trades at ~11.4x '24 EPS, a ~45% discount to the S&P500 at ~20x and ~30% discount to its closest comp FI at ~16.6x. On '25 EPS, GPN is trading at a ~40% discount to its historical 5-year average.

**Exhibit 17: '24 P/E Ratios for GPN, FI, SPX**

GPN (both including and excluding stock-based compensation) trades significantly below its closest comp FI and the S&P500

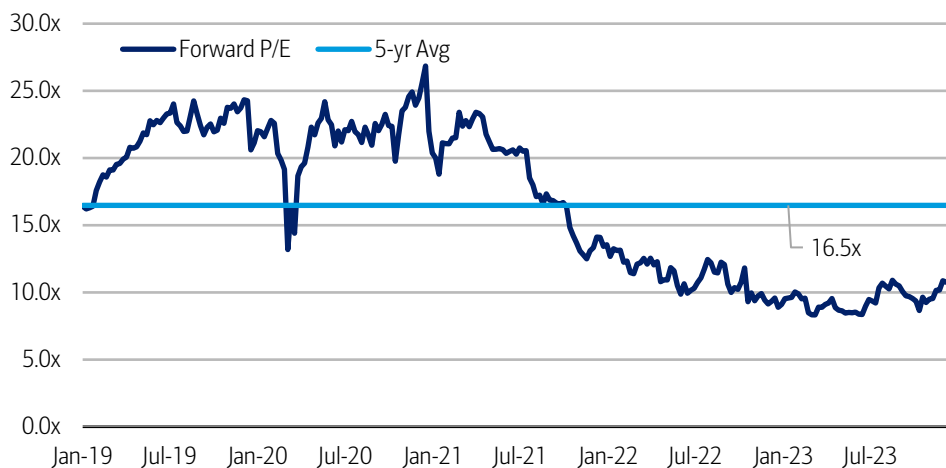


Source: BofA Global Research, Bloomberg, Company Filings

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**Exhibit 18: GPN's Forward P/E vs. 5-year Historical Average**

GPN trades below its historical average of 16.5x



Source: BofA Global Research, Bloomberg, Company Filings

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## Potential '24 Analyst Day Topics

On the 4Q23 earnings call, we think GPN will likely announce plans for an Analyst Day in 1H24, given last year's CEO change and the fact that the company's last Analyst Day was awhile ago (September 2021).

At its prior Analyst Days in March 2018 and September 2021, GPN set the following financial targets (Exhibit 19):

**Exhibit 19: Cycle guidance from prior investor days**

GPN's last two Analyst Day events were in 2018 and 2021

Metric	2018 Cycle Guide	2021 Cycle Guide
Adj. net revenue	HSD to LDD growth	LDD growth
Adj. operating margins	Expanding up to 50bps annually	Expanding 50-75 bps annually
Adj. earnings per share	Mid-to-high teens growth	High teens to 20% growth
Merchant revenue	--	LDD growth
Issuer revenue	--	Mid-single digits

Source: BofA Global Research, Company Filings



**Exhibit 19: Cycle guidance from prior investor days**

GPN's last two Analyst Day events were in 2018 and 2021

Metric	2018 Cycle Guide	2021 Cycle Guide
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For GPN's 2021 cycle guide, the overall low double-digit growth rate for Merchant was supported by expected double-digit growth in integrated and vertical markets businesses as well as in e-commerce channels. GPN also set a 75% technology-enabled distribution target. We believe the LDD growth target for Merchant included a couple of points for M&A, implying a HSD organic target range. Exhibit 20 shows how GPN has performed against its cycle guidance, in 2022 and 2023E.

**Exhibit 20: Performance vs. 2021 Cycle Guidance**

GPN performance vs. cycle guidance was stronger in 2022 than in 2023.

Metric	2021 Cycle Guide	2022A	2023E
Adj. net revenue	LDD growth	+10% organic CC	+8% organic CC
Adj. operating margins	Expanding 50-75 bps annually	+190bps	up to 120bps
Adj. earnings per share	High teens to 20% growth	+17% CC	+11%-12%
Merchant revenue	LDD growth	+13% organic CC	~9% organic CC
Issuer revenue	Mid-single digits	+5% CC	~5%-6%

Source: BofA Global Research, Company Filings

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At its next Analyst Day, we expect GPN's new management team to provide a modestly more conservative outlook to boost the credibility of cycle guidance. In our opinion, it would also make sense for GPN to guide the Merchant segment organically without any M&A, and we think roughly 6-9% would be a reasonable range that would be well-received, especially if it is framed as having some conservatism. For the Issuer segment, we would expect cycle guidance in the ~5% range, consistent with prior cycle guidance and what we have seen GPN deliver the past couple of years.

This would yield a total company organic revenue growth cycle guide of about 6-8% (Street is modeling average revs growth of 7.2%/7.8% for 2024/2025). Assuming that is coupled with an outlook for annual adj. operating margin expansion of at least 50bps (last cycle guide was 50-75bps, and consensus is modeling an average of ~87bps/year in 2024/2025), and an active capital deployment strategy titled more to buybacks than M&A, we think that would be a positive outcome for the stock.

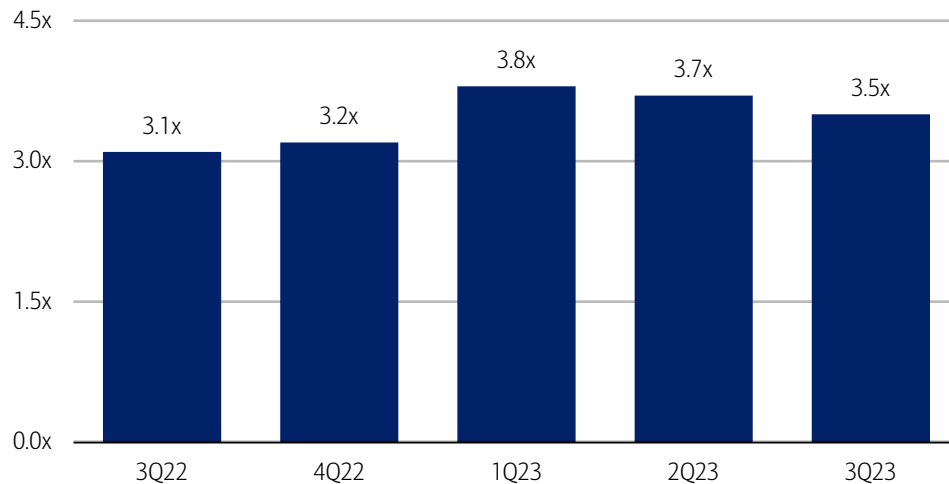
We think it also very important for GPN to use its next Analyst Day as an opportunity to unpack and bring to life the various products and distribution channels within the Merchant business. We believe the investment community would appreciate a deeper dive into this segment, to better understand GPN's competitive profile and differentiation, both on the payments and software side.

## Expect near-term capital deployment focused on buybacks

We think GPN's capital deployment in '24 will focus on returning cash to shareholders in the form of share buybacks. Following the EVO acquisition, which drove GPN's leverage to 3.8x in 1Q23, GPN is on track to return to leverage levels consistent with long-term targets in the low-3x by year-end 2023 (Exhibit 21).

**Exhibit 21: GPN Leverage Ratio 3Q22-3Q23**

GPN is on track to de-levering to the low-3s following its acquisition of EVO in 1Q23.



Source: BofA Global Research, Company Filings

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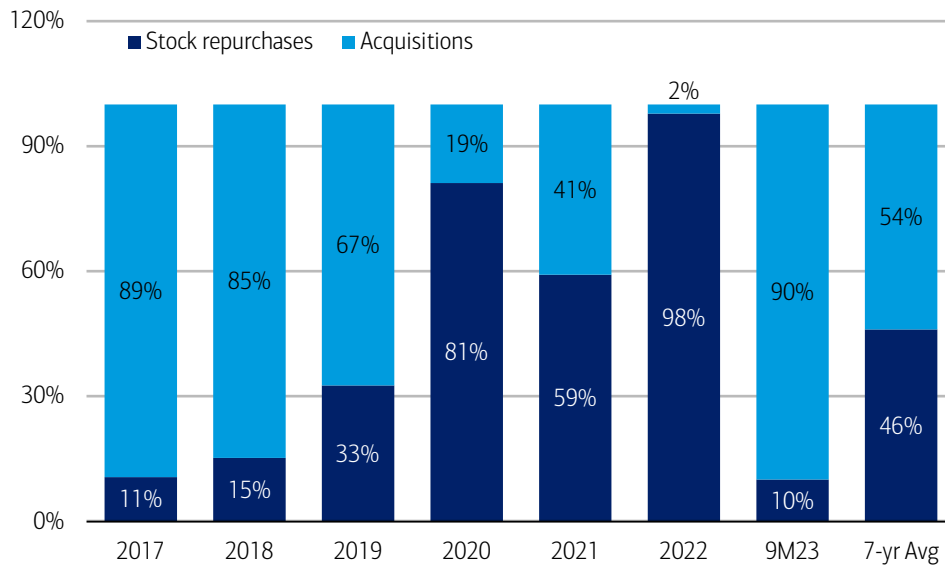
Management commentary on GPN's 3Q23 call also suggested there is a high bar for M&A to compete with the risk-adjusted returns of share buybacks at GPN's current multiple. As such, we could see big buybacks in '24, also considering that GPN continues to enjoy a high degree of free cash flow generation (BofAe ~\$2.8B in 2023, representing adj. net income conversion of ~101%). We note that in February 2021, GPN initiated an accelerated share repurchase (ASR) program, so it is plausible management could use this type of structure again in 2024.

M&A will likely focus on opportunities to support the scaling of GPN's businesses and increase exposure to faster-growth markets. On its 2Q23 earnings call, management commented that M&A can help build GPN's toolkit to win across three segments of its B2B opportunity. Media reports in December 2023 suggested that GPN could be looking at Shift4 (FOUR) as a possible acquisition target, though GPN subsequently denied this.

In our opinion, investors would prefer for GPN to not engage in large-scale M&A transactions. Following the portfolio reshaping after the EVO Payments acquisition and Netspend divestiture, the GPN story has become cleaner, and we think an organic growth-led strategy would be most beneficial for the valuation multiple going forward, augmented with periodic tuck-in M&A.

**Exhibit 22: Capital deployment between buybacks and acquisitions**

Over the past 7 years, GPN's ratio of capital deployment between buybacks and M&A was 46%/54%.



Source: BofA Global Research, Company Filings

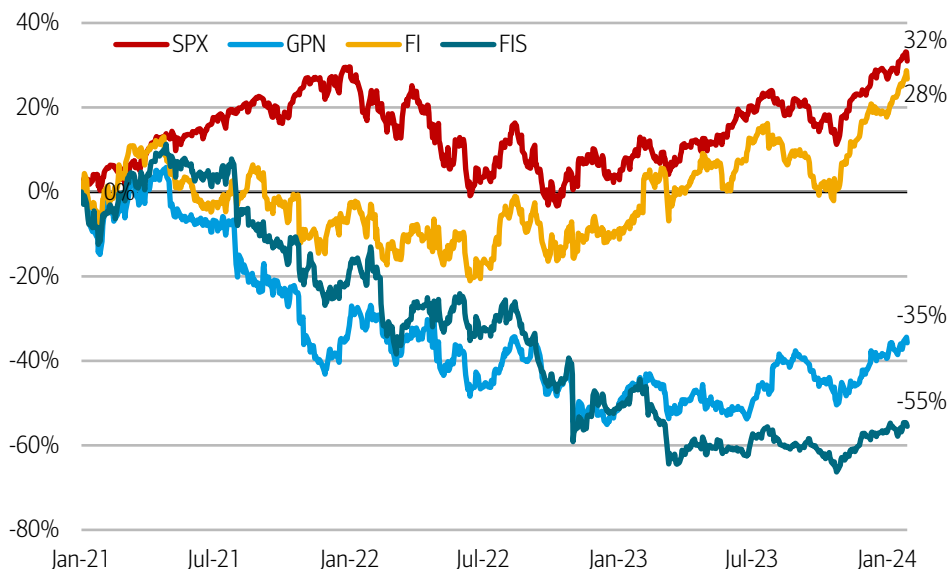
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## Drivers of lagging stock performance

Since 1/1/21, GPN's stock has lagged its closest comp FI by ~60% (Exhibit 23), while outperforming FIS. We think the somewhat opaque elements of portions of GPN's business model, potential collateral damage from FIS' underperforming Merchant business, and cyclical concerns around consumer spending have contributed to GPN's lagging stock performance.

**Exhibit 23: FI/FIS/GPN/S&P500 Stock Performance 1/1/2021-1/31/2024**

Indexed to 1/1/21, GPN shares have underperformed FI's by ~60%.



Source: BofA Global Research, Company Filings

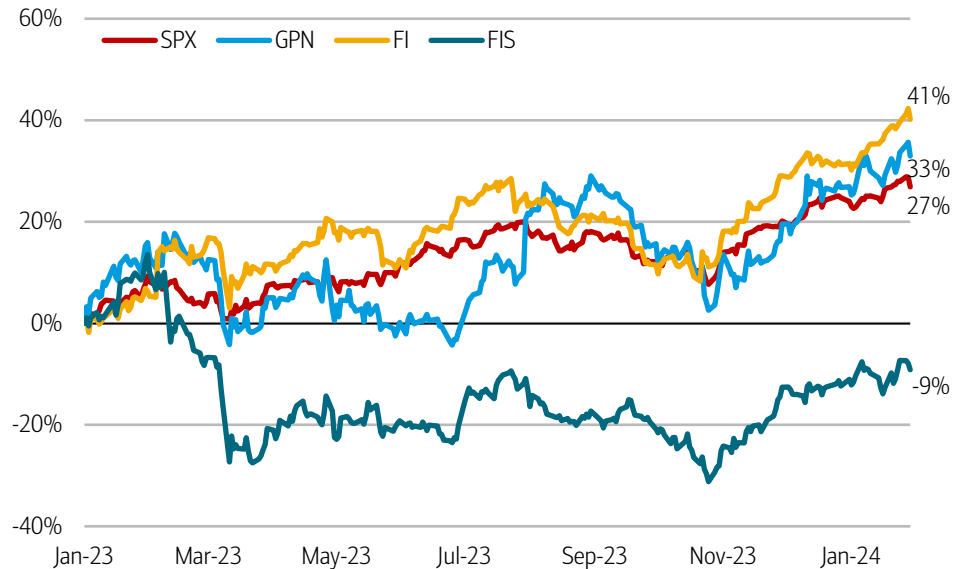
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However, we note in 2023 (Exhibit 24), GPN's stock performance improved, outperforming FIS/S&P500 by ~42%/~6% and underperforming FI by ~7%.



**Exhibit 24: FI/FIS/GPN/S&P500 Stock Performance 1/1/2023-1/31/2024**

Indexed to 1/1/2023, GPN outperformed FIS and the S&amp;P500



Source: BofA Global Research, Bloomberg

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**GPN's business model is somewhat of a "black box"**

While management has been highlighting different aspects of GPN's business in recent earnings calls since CEO Cameron Bready took over, we think GPN's story is less understood versus some peers because it lacks a "crown jewel" asset like Clover for FI. Additionally, GPN operates in numerous verticals outside of just restaurant/retail (e.g. education, healthcare, government, real estate) which investors may be less familiar with.

**Investors comparing GPN's SMB merchant business with FIS'**

Concerns that GPN's SMB merchant business could face a similar fate as that of FIS' merchant acquiring/Worldpay business may have also contributed to GPN's stock underperformance. In the past few years, FIS has been labeled a "legacy tech" company, as lack of adequate product investment in Worldpay has weighed on company growth and sentiment, ultimately leading FIS to sell a majority stake in Worldpay to private equity. We think some investors may have mistakenly lumped GPN in the same category as FIS. Unlike FIS, GPN has continually invested in its merchant business via acquisitions and organically developing its integrated/software assets. As a result, GPN has generated significantly higher organic revenue growth in its Merchant segment than FIS.

**Cyclical concerns (~50% of Merchant biz is in more discretionary verticals)**

Investors have also been concerned that ~50% of GPN's merchant business is levered to more discretionary verticals. On its 3Q23 call, management disclosed that GPN's business mix is roughly split evenly between discretionary and non-discretionary verticals. We think investor concerns about discretionary vertical exposure have proved to be somewhat overblown given the consumer's relative resilience over the past few years.

**4Q23 preview**

Key points for 4Q results:

- Amid a backdrop of continued resiliency in consumer spending, BofAe forecasts steady Merchant segment organic revs growth of ~9% in 4Q with Issuer at ~5%. We expect 4Q revs contribution from EVO Payments to be \$157M-\$158M, or down \$7M-\$8M q/q due to seasonality. We forecast total Merchant segment revs of



\$1,670M (Street at \$1,671M), up 18.5% y/y, and we anticipate a similar level of volume growth.

- Total revs consensus of \$2,183M (in-line w/ BofAe) looks doable but we do not expect material upside.
- Consensus 4Q margin expansion of ~80bps could be slightly high, and is above BofAe at 50bps. Our model reflects full year 2023 margin expansion of 100bps, consistent with guidance of “up to” 120bps. BofAe adj. EPS of \$2.62 is \$0.02 below Street.

Key points for initial 2024 guidance:

- On the 4Q call, new CEO Cameron Bready (promoted from President/COO in mid-2023) will initiate full year guidance for the first time. Given these circumstances, as well as Mr. Bready’s past role as CFO, we would anticipate a generally conservative approach to 2024 guidance. We believe this approach would be welcomed by Street, as for much of 2023 the investment community fretted that GPN’s guidance did not have sufficient headroom.
- Assuming a stable macro/consumer spending environment, we believe GPN’s current run-rate of organic constant-currency growth rates (HSD for Merchant and MSD for Issuer) are sustainable in 2024. We think it is plausible for GPN to guide for Merchant organic constant-currency growth of ~7-9%, with Issuer at 4-6%.
- Consensus total revs/adj. EPS growth of 7.2%/13% - with Merchant revs growth of 10.1% (including inorganic contribution from EVO which laps late March) and Issuer at 5.3% - for 2024 looks achievable assuming soft landing. BofA is at 7.7%/13.2%. With GPN having de-levered to its target range of low 3x, we see more opportunities for capital deployment in 2024. While we believe GPN remains interested in M&A opportunities, given the stock’s current multiple we think management will favor buybacks.
- BofAe is modeling ’24 adjusted operating margins of 45.2%, up 60bps y/y, vs. Street at 90bps. Our forecast is consistent with GPN’s cycle guidance, which calls for an average of 50-75bps per year of margin expansion.
- On the 4Q call, GPN could also announce plans for an Analyst Day in 1H. We believe this timing would be sensible given last year’s CEO change and the fact that GPN’s last Analyst Day was in September 2021.

## Price objective basis & risk

### Global Payments Inc (GPN)

We apply a 14x multiple to our '24 non-GAAP EPS estimate to calculate our 12-month price objective of \$165. Our multiple, which is a 30% discount to the S&P500, reflects GPN's outsized exposure to consumer spending and SMB relative to peers amid an uncertain macro backdrop.

Risks are 1) the ability to continue sourcing acquisitions, as M&A activity has been a significant part of its growth story (as GPN becomes larger it may become more of a challenge to find transformational deals), 2) M&A integration as GPN's acquisitive nature is not without risk, and 3) macro/cyclical conditions as merchant acquirers are most sensitive to consumer-related indicators, such as retail sales, consumer confidence and revolving credit.

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### US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
<b>NEUTRAL</b>				
	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	Marqeta	MQ	MQ US	Jason Kupferberg
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan



**US - Payments, Processors, Specialty Finance and IT services Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>UNDERPERFORM</b>				
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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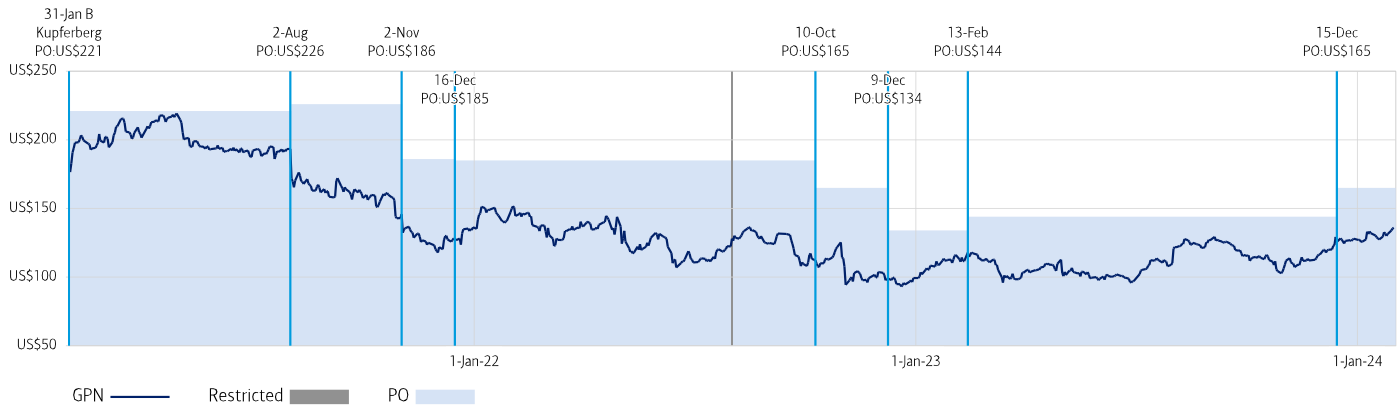
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### Global Payments (GPN) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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