Global Payments, Inc. GPN [NYSE] | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
51.87 USD	45.00 USD	31.50 USD	60.80 USD	Medium	Narrow	C	—	Business Services

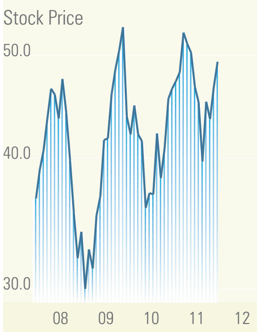
Increased credit and debit card use means sustainable long-term growth for Global Payments.

by Morningstar Equity Analysts

Analysts covering this company do not own its stock.

Pricing data through February 14, 2012. Rating updated as of February 14, 2012.

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.



Thesis Nov. 08, 2011

Global Payments provides merchants the ability to accept debit and credit cards as a form of payment. The firm's recent acquisitions abroad provide entry in emerging market regions like China and Russia, areas we believe will provide increased transaction volumes over time. Further, we think Global's ability to operate as a profitable merchant acquisitor gives the company a narrow economic moat.

Global's core competency is providing debit and credit card processing services to small and medium-size merchants (with less than $300,000 annually in bank card sales volume). The firm makes money every time a customer uses a debit or credit card at a merchant's store. Smaller, independent merchants are typically more profitable than larger merchants for processors, as these smaller customers generally have less ability to push back on price increases. Additionally, the opaque pricing schemes of card processors make it difficult for merchants to successfully decipher, let alone negotiate, their processing costs. Finally, smaller merchants are typically underserved by larger industry players, providing a profitable niche for Global.

Scale is extremely important in the processing business, as it allows Global to spread its fixed cost structure over a larger revenue base. While Global is not a big player in the acquiring market, it has established sufficient scale within its small merchant clientele. Global has increased its scale primarily through the use of independent sales organizations. ISOs are outside companies used to acquire new merchant relationships. While ISOs have vast networks and can rapidly procure new merchants for Global, they can also easily switch to Global's competitors and take business with them at a moment's notice. Despite this risk, Global has had success using the ISO channel for sales growth and is increasing its use in an effort to boost sales.

We think Global will benefit from secular tailwinds as credit and debit card use becomes more prevalent, and its acquiring business is the main driver for the business as a whole. Global has expanded its merchant business at a 19% compound annual growth rate over the past five years, and according to the Nilson Report, industrywide card processing volume should increase at a 13% annual rate until 2013. Further, emerging markets--where Global has several processing joint-venture relationships--are in their infancy. Most individuals in these regions do not carry a debit or credit card, which could be a significant growth driver as cards become more ubiquitous and lower and middle class incomes rise. Global has a roughly 5% market share in the processing industry and should continue to maintain, if not increase, its share during the next several years.

Valuation, Growth and Profitability

Our fair value estimate for Global Payments is $45 per share. Global's historical growth has been fueled by strong debit and credit card purchase volume, which has increased at a 16% compound annual rate since 2005. We expect this rate of growth to slow to a more modest rate during our forecast horizon. Our forecast assumes a 9% five-year revenue CAGR, however, we believe near-term pressures on consumers justifies a slightly lower top-line growth estimate in the near term, as consumers continue to spend less at the register. Despite the lower near-term growth, the company stands to benefit from increased debit and credit card use over the long term. Operating margins have held at about 20% over the last few years, but we are anticipating slight operating margin expansion to 22% by 2015. Our expectation is that the company will grow its current level of profitability in the higher-margin merchant acquiring business, especially in emerging market regions.

Risk

Global relies heavily on its ISOs for revenue growth

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Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
Global Payments, Inc.	USD	4,065	2,049	372	232
Heartland Payment Systems, Inc.	USD	1,122	2,004	72	39

Morningstar data as of February 14, 2012.

opportunities. If a key ISO switches to another transaction processor, Global risks losing existing merchants, and profitability could be materially affected. An economic downturn affects small merchants through bankruptcies and lower processing volume, directly affecting Global's revenue. Global's money transfer business is exposed to fluctuations in foreign currency, potentially affecting profits. Additionally, Global handles sensitive credit and debit card information, and a data breach may cause a loss of confidence in Global's processing capability.

Bulls Say

- A data breach at main rival Heartland Payments HPY may offer Global an opportunity to gain share.
- Global targets small merchants, which are typically underserved by large industry players.
- Global's merchant base is fairly diversified (sales are derived from industries such as finance, government, academic, retail, heath care, and more), insulating it from a slowdown in any one industry.
- In 2007, Global acquired a 56% stake in HSBC's card-processing unit in Asia. This relationship provides Global with access to a rapidly growing part of the world.

Bears Say

- The Canadian Imperial Bank of Commerce has stated they will not renew their sponsorship agreement with Global, which expires in March 2011. Failure to establish a loan company that can serve as a bank sponsor in Canada or procure a new bank sponsorship would result in the loss of Visa merchant customers in Canada and lead to a material impairment in growth and profitability.
- Global's small-merchant customers could fail in large numbers during the recession.
- A recessionary environment brings lower consumer spending, which reduces the amount of debt and credit card transactions.

Financial Overview

Financial Health: Global is in fine financial shape. Historically the company has not used debt in its capital structure, but recently it issued roughly $300 million in debt to pay for its joint venture with HSBC . Leverage ratios remain virtually at zero, and management has stated its intention to pay down this debt with free cash flow.

Company Overview

Profile: Global Payments' core competency is in merchant acquiring and payment processing. The company markets its services to small and midsize merchants (those processing less than $300,000 a year) throughout the United States, Canada, Europe, Latin America, and Asia Pacific. About 55% of revenue is earned domestically; 45% comes from the firm's Canadian, Asian, and European operations.

Management: Paul Garcia has been the CEO of Global since February 2001 and has held the position of chairman since October 2002. Garcia has many years of experience in the industry by way of First Data, where he was a group president from 1995 to 1997. Garcia received a base salary of $950,000 and a total compensation package of roughly $5.5 million in 2010, which is much higher than closest competitor Heartland Payments' executive compensation. Insiders as a whole own approximately 2% of outstanding shares including Garcia's 1.5% stake, which effectively aligns management and shareholder interests, in our opinion. While executive pay is not egregious, bonus and performance metrics are tied to vague individual performance objectives, revenue, and earnings-per-share goals. We would prefer to see performance tied to return on invested capital metrics, which incorporate management's ability to allocate capital. In our opinion, corporate governance is adequate, but it could be improved by removing takeover defenses such as a staggered board structure and a poison pill. Further, cash compensation is a major component of directors' board fees, which we would like to see replaced with restricted stock to further align directors' and shareholders' interests.

Global Payments, Inc. GPN

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
2,049	4,065	Business Services	Industrials

Global Payments' core competency is in merchant acquiring and payment processing. The company markets its services to small and midsize merchants (those processing less than $300,000 a year) throughout the United States, Canada, Europe, Latin America, and Asia Pacific. About 55% of revenue is earned domestically; 45% comes from the firm's Canadian, Asian, and European operations.

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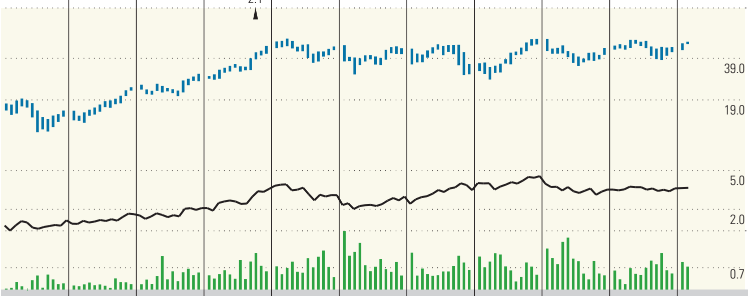
Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship Grade
★★	51.87	45.00	Medium	Narrow	C

per share prices in USD

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	
19.85	24.12	30.30	48.49	54.78	49.13	49.87	54.52	54.50	53.67	52.00	Annual Price High
11.00	13.00	20.70	27.40	36.48	30.00	29.67	27.48	34.61	38.26	45.20	Low
			2:1								Recent Splits



Price Volatility
Monthly High/Low
Rel Strength to S&P 500

52 week High/Low
53.67 - 38.26

10 Year High/Low
54.78 - 11.00

Bear-Market Rank
7 (10=worst)

Trading Volume Million

Stock Performance

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	Stock Performance
-6.4	47.5	26.3	57.3	-0.5	0.7	-29.3	64.5	-14.1	2.7	9.5	Total Return %
17.0	21.1	17.3	54.3	-14.1	-2.8	9.2	41.1	-26.9	2.7	2.1	+/- Market
13.5	18.2	16.5	51.5	-18.0	-5.4	1.8	36.8	-28.3	-1.2	3.7	+/- Industry
0.5	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.1	Dividend Yield %
1183	1760	2298	3693	3712	3671	2630	4388	3686	3712	4065	Market Cap USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Financials
463	516	629	784	908	1062	1274	1602	1642	1860	2049	Revenue USD Mil
45.5	49.6	54.0	57.0	60.6	60.9	62.7	62.6	64.4	64.2	64.0	Gross Margin %
82	93	113	160	201	218	251	161	323	332	372	Oper Income USD Mil
17.8	18.1	17.9	20.4	22.1	20.5	19.7	10.1	19.7	17.8	18.1	Operating Margin %
24	53	62	93	126	143	163	37	203	209	232	Net Income USD Mil
0.32	0.71	0.80	1.17	1.53	1.75	2.01	0.46	2.48	2.60	2.89	Earnings Per Share USD
0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	Dividends USD
76	76	78	80	82	82	81	81	82	80	80	Shares Mil
4.39	5.49	6.79	8.40	10.80	12.72	13.30	11.31	12.39	14.63	14.63	Book Value Per Share USD
160	36	92	230	235	191	272	383	466	710	457	Oper Cash Flow USD Mil
-22	-18	-25	-34	-25	-35	-45	-41	-56	-99	-82	Cap Spending USD Mil
138	18	68	195	210	156	227	342	410	611	375	Free Cash Flow USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Profitability
5.4	11.6	9.5	11.0	13.4	12.9	12.3	2.4	10.9	7.8	9.9	Return on Assets %
8.4	16.1	15.3	18.1	18.6	16.6	15.6	3.4	21.3	20.5	21.7	Return on Equity %
5.2	10.3	9.9	11.8	13.8	13.5	12.8	2.3	12.4	11.3	11.3	Net Margin %
1.04	1.13	0.96	0.93	0.97	0.96	0.96	1.03	0.88	0.69	0.88	Asset Turnover
1.5	1.3	1.9	1.5	1.3	1.3	1.3	1.6	2.4	2.8	2.3	Financial Leverage

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	11-11	Financial Health
-18	65	-83	7	199	302	400	259	296	404	383	Working Capital USD Mil
—	—	11	—	—	—	—	168	273	268	203	Long-Term Debt USD Mil
296	366	449	578	770	958	1127	1047	861	1185	1146	Total Equity USD Mil
0.02	0.01	0.03	0.00	—	—	—	0.16	0.32	0.23	0.18	Debt/Equity

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Valuation
27.9	32.1	29.6	35.3	27.3	25.3	14.2	142.9	19.1	16.4	17.9	Price/Earnings
—	—	—	—	—	—	—	—	—	0.9	1.2	P/E vs. Market
2.5	3.3	3.2	4.5	3.9	3.3	1.8	2.6	2.2	1.9	2.0	Price/Sales
3.6	4.3	4.4	5.5	4.3	3.7	2.5	4.8	3.7	3.2	3.5	Price/Book
9.2	49.3	23.0	12.3	18.4	16.7	8.2	4.5	—	8.3	9.1	Price/Cash Flow

Growth Rates Compound Annual

Grade: B	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	13.2	13.4	15.4	18.1
Operating Income %	2.6	9.7	10.5	20.1
Earnings/Share %	3.6	9.1	11.3	20.3
Dividends %	0.0	0.0	0.0	14.9
Book Value/Share %	36.4	1.4	8.8	14.7
Stock Total Return %	4.6	13.9	6.1	11.0
+/- Industry	1.4	-6.4	3.9	5.9
+/- Market	3.2	-3.9	7.6	9.5

Profitability Analysis

Grade: B	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	21.7	15.5	11.1	22.6
Return on Assets %	9.9	9.3	4.0	9.5
Fixed Asset Turns	8.6	9.4	6.9	7.5
Inventory Turns	75.5	105.7	13.1	16.1
Revenue/Employee USD K	546.1	409.0*	—	1050.9
Gross Margin %	64.0	63.0	36.6	38.3
Operating Margin %	18.1	17.6	14.9	16.7
Net Margin %	11.3	10.4	6.1	11.2
Free Cash Flow/Rev %	18.3	22.3	9.2	0.1
R&D/Rev %	—	—	—	9.7

Financial Position

Grade:	05-11 USD Mil	11-11 USD Mil
Cash	1354	771
Inventories	8	12
Receivables	167	164
Current Assets	1848	1190
Fixed Assets	256	258
Intangibles	1121	1041
Total Assets	3351	2614
Payables	53	17
Short-Term Debt	357	314
Current Liabilities	1444	807
Long-Term Debt	268	203
Total Liabilities	2166	1468
Total Equity	1185	1146

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	17.9	43.6	24.0	14.6
Forward P/E	14.3	—	—	13.4
Price/Cash Flow	9.1	—	10.9	7.4
Price/Free Cash Flow	11.1	—	15.6	17.0
Dividend Yield %	0.1	—	1.4	2.0
Price/Book	3.5	3.6	2.6	2.0
Price/Sales	2.0	2.4	1.5	1.2
PEG Ratio	1.1	—	—	1.5

Quarterly Results

Revenue USD Mil	Feb 11	May 11	Aug 11	Nov 11
Most Recent Period	456.4	519.8	542.8	530.5
Prior Year Period	398.5	425.1	440.1	443.5

Rev Growth %	Feb 11	May 11	Aug 11	Nov 11
Most Recent Period	14.5	22.3	23.3	19.6
Prior Year Period	1.5	5.7	-0.3	8.5

Earnings Per Share USD	Feb 11	May 11	Aug 11	Nov 11
Most Recent Period	0.59	0.73	0.79	0.78
Prior Year Period	0.59	0.42	0.61	0.67

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Global Payments, Inc	4065	2049	17.9	21.7
Heartland Payment Sy	1122	2004	28.9	20.4

Major Fund Holders

	% of shares
	—
	—
	—

*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- Economic Moat™ Rating
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Uncertainty
- Margin of Safety
- Consider Buying/Consider Selling
- Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at $40 than they were at $50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such

Morningstar Research Methodology for Valuing Companies

Competitive Analysis → **Economic Moat™ Rating** → Company Valuation → **Fair Value Estimate** → Uncertainty Assessment → ★★★★★

Competitive Analysis: Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade-show visits
- Competitor, supplier, distributor, and customer interviews

Economic Moat™ Rating: The depth of the firm's competitive advantage is rated:

- None
- Narrow
- Wide

Company Valuation: Analyst considers company financial statements and competitive position to forecast future cash flows.

Assumptions are input into a discounted cash-flow model.

Fair Value Estimate: DCF model leads to the firm's Fair Value Estimate, which anchors the rating framework.

Uncertainty Assessment: An uncertainty assessment establishes the margin of safety required for the stock rating.

★★★★★:

★
★★
★★★
★★★★
★★★★★

The current stock price relative to fair value, adjusted for uncertainty, determines the rating.

economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow
This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate
We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value
This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty
To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety
This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth.The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling
The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades
We evaluate the commitment to shareholders demonstrated by each firm's board and management team by assessing transparency, shareholder friendliness, incentives, and ownership. We aim to identify firms that provide investors with insufficient or potentially misleading financial information, seek to limit the power of minority shareholders, allow management to abuse its position, or which have management incentives that are not aligned with the interests of long-term shareholders. The grades are assigned on an absolute scale--not relative to peers--and can be interpreted as follows: A means "Excellent," B means "Good," C means "Fair," D means "Poor," and F means "Very Poor."