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Global Payments, Inc. (GPN)

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CORPORATE PARTICIPANTS

Cameron M. Bready
Chief Financial Officer & Executive Vice President

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Paul Condra
Credit Suisse

MANAGEMENT DISCUSSION SECTION

Paul Condra
Credit Suisse

Thanks for joining us on this webcast. My name is Paul Condra. I cover financial technology at Credit Suisse. And I'm happy to have Cameron Bready, CFO of Global Payments here to talk with us, for the next half hour, about the business. And I wondered if, Cameron, maybe you can kind of start with just giving us a little bit of a brief intro how long you've been at Global and then, big picture, how you would frame up the business for people that are maybe a little newer to the story.

Cameron M. Bready
Chief Financial Officer & Executive Vice President

Sure. Happy to, Paul. And first of all, let me thank you for hosting me today. I appreciate you accommodating my schedule and doing this via webcast. So I've now been at Global Payments for about 18 months. I joined here in June of 2014. I've been a public company CFO for many years in a different industry in the energy space. I've spent most of my career frankly in the energy space.

But Global Payments was a client of mine earlier in my career, when I was in professional services. So I had a good familiarity with the business from that experience and was able to join the company 18 months ago as the CFO, and have been certainly thrilled to be here and very pleased with the momentum we have in the business and the performance we've been able to produce over that period of time.

So as I step back and think about the business and I think it's particularly useful to hear from me because I am relatively new to the story. I really think about the business in a couple different ways. First of all, it's helpful to reorient your thinking if you have familiarity or experience of Global Payments away from perhaps how you thought about the business a long time ago or previously to really what it is today, which is very much a payments technology business.

The idea of Global as a wholesale provider of processing services to independent sales organization, that principal business model that really form the core of the business from its origins all the way through its IPO and even as far as many years as a public company, that's very much the Global of old as we like to talk about it kind of around the halls here in Atlanta.

The way we think about the business today is very much a technology business. And it's really, our business is about the marriage of technology and distribution around the globe. So in many markets around the world, technology really leads our distribution.

In other markets, we go to market, distribution-wise, on a relationship basis. But we really use technology and product to differentiate our offering in the marketplace relative to our competition. So in some markets, technology leads. In other markets, really technology differentiates where we're going to market through relationships.

So as we think about the business broadly, we really think that we have a unique business proposition relative to our competition in the sense that we really have a unique combination of global scale and leverageable infrastructure and scale.

So many of our or several of our competitors have global reach, but they lack scale. Some competitors have scale, but they lack the global reach that we have. I think where we're truly unique is our ability to combine the global reach that we have – we're now in 29, soon to be 30 or 31, markets around the globe from a physical presence point of view with a scalable, leverageable technology and operating environment that we can utilize and serve our customers efficiently in the markets individually and on a cross-border basis around the world. And I think that's a very unique aspect of this business.

So why don't I pause there, Paul, and maybe I'll let you drill down into any of the areas you want to cover more specifically?

QUESTION AND ANSWER SECTION

Paul Condra
Credit Suisse

Q

Yeah, sure. There's a lot of – thanks. That was great. There's a lot of areas that I want to focus on. But I thought maybe just following up on one of the points that you made, when we think about – you mentioned leading with technology, and we kind of think about the SMB, the small merchant market that you play in, is there any difficulties in bringing your solutions to maybe the less sophisticated kind of merchant that doesn't understand the technology piece of payment so much and they're really only looking for maybe just payments processing and don't really realize the breadth of your solutions or the value to them?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

Yeah. Let me make a couple of comments to start, and then I'll maybe specifically touch on the question you asked. But first and foremost, it's important to recognize, we do focus largely on the small to medium-sized enterprise business here in the U.S. But around the world, we're probably better distributed in markets outside the U.S. across the spectrum, from large national retailers to small to medium-sized businesses, versus in the U.S. where we are sort of predominantly exposed and predominantly focused on the small to medium-size enterprise.

So about half of our revenues on a net revenue basis come from the U.S. market. About half of our revenues come from markets outside of the U.S. So I think it's important to recognize, we always tend to focus quite a bit on the

U.S. market. But obviously, we run a very large international business that has different dynamics than necessarily what's in the U.S. market in particular.

But on the U.S. market, specifically, I think the short answer to your question is, I think technology, in and of itself, and the fortification of technology into the payment space is actually creating an environment where more small to medium-sized enterprises value the service offerings that we're able to deliver. And really, what I mean by that is as the world becomes more complex and as the payment landscape becomes more complex, we see our small to medium-sized enterprise businesses leaning on us more to provide solutions, looking for us to ease the complexity, and simplify the complexity of the payment market.

And in the past where we would see, I think small to medium-size enterprises, more readily move from one acquirer to another simply on price. I think now in the more complex environment, we're operating in where we have been able to really evolve away from being a pure commodity processor to one, to a service provider who is able to provide value-added offerings to its customers, I think we've really been able to create a differentiated proposition for the small to medium size enterprise.

And then that has been benefited by just the increasing complexity of the market. I think it's also been benefited by our focus on developing and innovating new products, new solutions, new innovations that are really going to help our customers to be able to operate their businesses more effectively and really serve to take concerns about how do I keep up with what and how my customers want to pay today. We really take that burden off of them and solve those complexities for them.

So I think in a lot of ways, it's made it easier for us to create a stronger, stickier customer relationship with our small to medium-sized enterprises. And where I think you see that probably the most is thorough our integrated business.

Paul Condra
Credit Suisse

Q

Okay. Great. Yeah. I want to talk more about that. But maybe just coming back to some bigger picture questions, I wanted to ask you broadly just kind of about the macro environment that you're looking at in some of the consumer demographics where you provide payment services. Any kind of trends or updates you can share with us especially that we're heading into the holiday season?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

Sure. Well, I'll kind of hit the bigger markets. I won't spend a lot of time on some of the smaller markets we operate in. But I'll start here in the U.S. I think by and large, what we're seeing in the U.S. is, the consumer is still relatively healthy. I think everyone would like to see more economic growth on a GDP basis, but the consumer has remained relatively healthy. I think the interesting aspect and important thing to remember about our business in the U.S. is we're not really heavily exposed to what I would characterize as consumer discretionary. So we're not as much as seasonal because of the holiday seasons as maybe some of our competitors might be.

Obviously, we do see some uplift during the holidays, but some of our bigger verticals in the U.S. are going to be things like dental and self-storage and auto repair, health and fitness, those types of verticals where there's not as much impact obviously from I think the holiday season. But I think by and large, we're seeing a relative healthy consumer in the U.S. market.

We're seeing spend remain fairly steady. We'd obviously like better GDP growth, and it's disappointing, I think, to most of us at the U.S. market given our positioning globally isn't growing. It's something closer to 4% or 5% versus the 2% to 3% we seem to be able to produce. But that being said, the consumer has remained relatively stable throughout that. So I think the trends in the U.S. remain fairly positive overall.

Canada, I think the same, pretty much holds true. Overall GDP growth in Canada has obviously been a little bit weaker than the U.S., and they did into recession this summer. But I think throughout that, the consumer has remained surprisingly healthy, and I think that's really driven by a couple of things.

One is one of the things that drove the Canadian economy into recession is just overall energy prices, but that actually had some benefit to the consumer in that market. And I would say, secondly, with the weakness in the Canadian dollar, what we've seen is more Canadian spending at home as opposed to spending on a cross-border basis because obviously U.S. dollar goods became more expensive as the Canadian dollar has weakened.

So we've seen actual consumer trends in the Canadian market, I think we've remained relatively good, notwithstanding the overall GDP and macroeconomic headwinds that the overall economy has been facing.

UK, I think, continues to be a good market. It's growing reasonably well for a mature market. The consumer again in the UK, I think has hung in well, and GDP growth has been a little bit weak, but it certainly has been positive. It hasn't been what we've seen in the U.S. It's probably 1%-ish in that ballpark most recently, but the consumers remain relatively good. We're well diversified in the UK market from large high-street retailers all the way down to small to medium sized businesses. And I think the business there, the underlying trends have remained fairly stable just from a consumer spending and macroeconomic point of view.

I think Spain is probably one of the markets we're most bullish about. Its GDP, I think, is forecasted to be around 3.5% this year. And obviously, the secular trends in Spain remained very good. And in a market that's growing probably 8% to 9%, we continue to grow mid to high-teens organically which is fantastic, and obviously a terrific execution in that marketplace.

So the Spanish economy actually has a nice tailwind for the first time in a few years. We're seeing the benefits of that in the overall market rate of growth. And certainly, we've been able to outperform that internally at Global Payments, I think, through terrific execution in that marketplace.

And lastly, I'll sort of comment on Asia. Asia has been a little bit weak. I think as most people recognize probably for the last few months, the overall sort of macroenvironment in Asia I think has started to weaken. You're seeing less cross border traffic coming out of China, given some of the Chinese economic weakness or at least slowdown that I think has been well documented in the press. I think given our business mix in Asia, that does have an impact on us because we are somewhat skewed towards more high-end luxury.

So as you see less wealthy Chinese travelling into Hong Kong and other markets in Asia where we are present, that does have a little bit of an impact on our business. So I would say the overall macro environment in Asia is a little bit weak, but if you look at Asia in the aggregate, it's less than probably 12% of our total company net revenue, so it's certainly something we can absorb and work through, but that market has been a little bit weak for the last, call it, quarter to quarter-and-a-half.

Paul Condra
Credit Suisse

Q

This means, and our volume will be GDP times this or whatever, it's something that kind of seems to work or is consistent or do you not think about it like that?

Cameron M. Bready
Chief Financial Officer & Executive Vice President
A

Well, yeah, I do think about it like that because I think it's first and foremost important to recognize, this is really a GDP-derivative business. It all starts with the rate of economic growth in any particular market in which we're operating is a good proxy for the market rate of growth plus some adder for the secular trend and the continued movement away from cash-based payments to electronic-based payments. And depending on that market, the adder may be 200 basis points to 300 basis points, all the way up to 800 basis points and 900 basis points depending on how mature the market is.

So I would say we generally look at the market rate of growth in every market in which we're operating which is some combination of GDP growth plus positive secular trends as more and more payments move to electronic-based payments, but that adder is going to be very different depending on the maturity of the market in which we're operating. So it's very hard to put a number on that for the total company, just given we're operating in so many markets around the world.

Paul Condra
Credit Suisse
Q

Yeah. And when you look at the mature markets, does that secular trend, do you feel like there's softening there or steady or stable? I mean, I don't know, how do you think about that?

Cameron M. Bready
Chief Financial Officer & Executive Vice President
A

I think it's been reasonably stable. The mature markets, you still do see positive secular trends. But it is certainly not as robust as it is in a market like Spain, for example, where you have GDP growth of maybe 3.5%, as I mentioned before, and an overall market rate of transaction and volume growth that may be high-single digits. You're looking at almost a 600-basis-point adder for that secular trend.

In the U.S., that may be a couple of hundred basis points, a few hundred basis points. In Canada, it may be 100 basis points or 200 largely because, again, so much of the transactions in Canada are more utility Interac debit transactions that are pretty well-permeated in the markets. You're not seeing the increases that you might see in a market like the U.S. So I don't know that I would say there's softening at all. I think they're relatively steady in the more mature markets like the U.S., Canada and the UK.

Paul Condra
Credit Suisse
Q

Yeah. Okay. Thanks. I just wanted to switch gears a little bit just because it's been an interesting season in payments, I guess, [indiscernible] (14:58) around the office about the industry, just for these companies going public or any impact on your ability to get the GPN story out. Just kind of curious, big picture, how you guys are thinking about all of this.

Cameron M. Bready
Chief Financial Officer & Executive Vice President
A

Yeah. I think I would probably start by saying there's no real meaningful impact on us by virtue of companies like First Data, Square, Worldpay going public, by and large. We competed with them before we went public. We'll compete with them post them going public. I would say, there's really no fundamental change as we think about approaching our business, our strategies, how we're positioned to compete in the various markets around the world, where we do compete with some of these guys. Nothing's really changed by and large by virtue of the fact that they're now public enterprises other than it's nice to be the sexy industry that's talked about on CNBC every other day. For us, day in and day out, it really doesn't have any impact on our business, how we think about competing and how effective we think we are in any particular market. I think when those companies go public and they trade well, they do well, I think that's nothing but good news for the industry.

In some cases, it's nice to have other public comps out there like us who are more global. I think it does give us an opportunity to compare and contrast a little bit. And I think you can certainly see a distinction in how we talk about, how we position our story, how we position our business, what we have to offer, versus some of these other companies who have recently gone public. So, it's always good to have another point of comparison where there's good public information available about them.

Paul Condra
Credit Suisse

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Sure. Yeah. That makes plenty of sense. Relative to Worldpay, can you kind of just give us how you position yourself in UK, how you two compete?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

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Yeah. I mean, I think we do see them quite a bit in the UK marketplace and I think we compete very effectively with them. We have similar capabilities I would say. I think they're a very capable provider of many of the services that we do and one of our biggest competitors, both on what I would characterize as a more traditional merchant-acquiring services in the UK market as well as some of the more technology-led distribution capabilities and distribution – and technology services that we have in that marketplace with the addition of Realex to our portfolio last year.

So, I think we would, in the UK, probably see them as our strongest competitor and having many of the similar capabilities. Where I think we can and really do differentiate ourselves is I think we have a broader global reach, that we can leverage our ability to provide services to multinationals, I think, is a little bit distinctive, particularly as it relates to the Europe and Asian corridor is where I think we have more of the unique capability to satisfy some of those needs of our multinational merchant customers.

But I would say they're certainly a good competitor in that market. I think we have a very good offering that we can have – that we can position relative to what they have to offer. I think where we're a little bit unique is the ability to globalize some of our solutions and scale some of our solutions in a bit of a distinctive way relative to perhaps what they're able to offer.

Paul Condra
Credit Suisse

Q

Sure. And with regard to Realex, can you just update us on the integration of that business and how it's matching up to your expectations at this point?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

Yeah. I think it's fair to say, we've been nothing but delighted with Realex, and we're probably happier with it than – now that we've owned it for six months or seven months, and we even envisioned that we would be. It's everything that we hoped it would be from a technology point of view and thought it was and probably more so.

We've already been able to, I think, very much integrate it into our European business. We have already launched a new bundled product in the UK, where we're now bundling the gateway solutions with merchant-acquiring capabilities and delivering that to e-com customers in the UK market. And then further on from that, we're also bundling it with face-to-face capability. So, we're now able to offer both large- and small- and medium-sized enterprise businesses in the UK, a completely bundled service of gateway, face-to-face, merchant-acquiring and all the value-added services and products that go around that as a bundled package, and we're seeing very good traction on that.

We've also launched a new bundle for both the developer community and the small- to medium-size market as well. We're able to combine kind of our e-commerce capabilities with clear pricing in what we would think of is unparalled probably customer service. For developers, we offer, I think, an integration under one hour with out-of-the-box solutions where they're able to support hundreds of shopping carts and platforms through our SDKs. So, a product that very much competes favorably with the audience of the world, the stripes of the world, the EZAPI, the EZSDKs to allow software developers to be able to integrate to your technology solutions very, very easy, get access to shopping carts very easily which, I think, has been a very strong offering in that marketplace.

The other important element of Realex is it really serves as one of the foundational elements or building blocks of our omni solution strategy. So, again, this ability to provide both card-not-present and card-present solutions and then do that in a multinational way to enterprises so that we can offer a complete omni solution to them, whether it's mobile, e-com, face-to-face commerce in many of the markets around the world in which they would want to be able to operate.

Realex is a key element of our strategy to continue to expand our omni solutions business really in Europe, but obviously globalizing that further from the strong foothold we have in the European marketplace.

Paul Condra
Credit Suisse

Q

Right. Are there a lot of – is there a lot of runway for these companies that need that full omni-channel solution? I'm just wondering, how much appeal is there for the bundle that you're talking about? Is some of this where you're actually building e-commerce sites for these companies for the first time, or is it all just the companies that already need these products?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

I think in a lot of cases, it's companies that already need these products. But I think one of the things that we're seeing in Europe, and this is really being brought about by, to some degree, the new regulation that's been passed, which is we affectionately referred to as SEPA, it's really creating a common European marketplace for commerce; I mean, that's a lot of the objectives. So it's making it easier for, in particular, small- to medium-size enterprises to be able to do business in other markets in Europe outside of, say, the UK for example. A lot of that is going to be online-based business, and our ability to support that, coupled with our ability to continue to provide the face-to-face offerings that we do today, package that all in a simple, integrated bundled package and solution for them.

I do think there's going to be an increasingly large market for that type of service offering as we go forward in time. We estimate the global market opportunity around the omni solutions business to be something in the neighborhood of $30 billion. And our business today in that space is about $250 million.

So certainly, we're not going to gain the entire market, but we see a lot of runway for us to continue to grow that omni solutions business over the coming years. And it's certainly one of the elements of our strategy we're leaning on heavily to be able to sustain the level of growth for many years to come that we forecasted over the next several years, something in that mid- to high-single digit organic top line net revenue growth, globalizing our integrated business, continuing to expand our omni solutions business. Those are key strategies to sustaining that level of strong organic growth for a much longer period of time.

Paul Condra
Credit Suisse

Q

Great. So let's talk a little bit more about M&A then, international versus domestic. Where do you see the most opportunities and where is the pipeline the largest?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

Yeah. Well, I think it's pretty well distributed across the spectrum to be honest with you. As we think about M&A, it's always with an eye towards, are there markets that we're not in today that we'd like to be in. And how do we acquire an existing distribution capability in a market that we find attractive that has the right sort of GDP fundamentals, has the right secular trends, that's accretive to growth, that we think is the place we need to be to serve our customers on a multinational base as well. All those things sort of factor into how we think about increasing our distribution on a global basis, whether it's enhancing distribution in the U.S. market or adding distribution in a new market where we're not today.

We also look naturally for technology-related assets. This is very much a technology business now and we're always looking for technologies that augment our existing platforms that fill a gap that we think is important relative to our overall market offering. And then in some cases, we may find technology that's coupled with distribution. I think Ezidebit is a good example of this where we found something that has good distribution, good technology in a market that we found attractive. Those are particularly interesting opportunities for us.

So, as we think about opportunities today, I think we're happy with the U.S. business we have, but certainly increasing our distribution in the U.S., adding new niche verticals and technologies that are attractive to us I think are very much focus areas for us on an M&A basis.

As we think about Europe, we'd like to be in some of the larger GDPs in Europe. So, as we think about what those may be, obviously, getting into Germany, France, Italy, Poland, markets like that, I think are highly attractive to us from an M&A point of view, the larger GDP markets worth our while to try to scale our business. We're delighted with the transaction we did with Erste and announced this summer, that we hope to close here in the back half of our fiscal 2016. That's going to give us a nice new position in the Czech Republic on a direct basis, which is obviously a good market, as well as Slovakia and Romania.

And then as we look at Asia, again, there are markets in Asia where we're subscale. India and China are good examples of that, where we'd like to have better distribution, we'd like to have more heft just as it relates to our market scale. And there's other markets in Asia where we don't have a presence today, that are larger GDP markets with good fundamentals. South Korea and Japan are good examples of those markets.

So, Asia's about, again, continuing to fill out the strategy, trying to enhance scale in markets, trying to enter new markets. We're particularly pleased with the positioning we have in Australia. That's a market that we find highly attractive, and I think we would look to continue to deploy capital if opportunities present themselves.

So, as I look across the pipeline and the things that we're assessing today, it's pretty well distributed across all of those markets. I think we see good opportunities in each of them. And as we've always said about M&A, it's a bit more episodic. Our highest priority is investing to grow the business, but we do that in a very disciplined way. We are very, I think, value-oriented in the investments we make. We measure all of those investments that we look to make in M&A versus the alternative use of that capital, which is typically buying back our stock. And we think about that on both a risk-adjusted IRR basis as well as the cash earnings per share accretion basis. And it's often difficult for some of the M&A opportunities we look at to meet our hurdle rates. And if they don't, then we're going to put the capital to work in a way that creates the most value.

But I think we've been very successful in identifying and executing on those opportunities that we think are strategically compelling, but also serve to create value for our shareholders, and I think we have a good track record of success in that space and would expect that to continue going forward.

Paul Condra
Credit Suisse

Q

That's great. We're running close to the end of time, but I wanted to ask just a little on EMV, given that now we're post-EMV, the liability shift time. So what percent of your merchants are converted and are up and running EMV transactions at this point?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

Yeah. I would say it's a relatively small number here in the U.S., because again we're more predominantly exposed to the small- to medium-size businesses. So, I'm going to say mid- to high-single digits are probably up and running in terms of being EMV capable, and probably a similar number of EMV-related transactions being executed at our merchants today.

Now, again, we're only, what now, two months into the liability shift date of October 1. I think if you look overall market rate of uptake, it's relatively low and this is something that's going to take a while to play out. I think the important thing for us is, we have EMV-compliant solutions in all of our channels in the U.S. market. I think we're probably the first acquirer to have that. And we've been working very collaboratively with our customers to help them to comply with the new EMV mandates and are working with them to be able to convert on a schedule, in a way that makes sense for them.

But I think in the sector that we're primarily exposed to, it's going to be a long runway for them to become compliant. It's going to take many years for that to happen. And I would say what we're generally seeing in our portfolio is probably not all that different than the overall market trends.

Paul Condra
Credit Suisse

Q

Right. It sounds like most of the opportunity here with EMV is really about increasing customer stickiness, providing that customer service that just endears you to your merchants. Is that kind of the way you think about it, too? Or is there a direct revenue opportunity aside from just that effect of having lower attrition and better customer satisfaction?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

Yes. I think in the short term, that's exactly how we think about it. Any time you have an opportunity to touch your customer, any time you have the opportunity to offer them a value-added service to work with them through a transition like EMV. I mean, you hope to be able to delight them and to improve their satisfaction with you to lower customer attrition rates and to just generally keep them pleased about their relationship with Global Payments. And that's clearly how we're thinking about it in the short term.

I think, longer term, there will be a revenue opportunity around EMV. There's probably arguably one in the short term, in that, I think, some of the solutions we have particularly in the integrated business have helped us to win business.

The EdgeShield product we have I think has been a differentiated product offering to be or to help businesses become EMV-compliant while also providing tokenization encryption and PCI 3.0 sort of compliance. And alleviating the need for our merchants to be at PCI 3.0 compliant. So some of those offerings I think have been distinctive and it helped us to probably gain a little bit of market share. But I think, longer-term, there's a price for risk, is generally the way I think about it.

And as more and more merchants just choose not to convert or comply, they're choosing to accept more risk. And in the world I live in, there's a cost for risk. We have to think about that credit profile differently. And if they're going to just assume more risk, we have to think about that relationship differently. I think we're a little bit aways from that happening. Our focus in the short term is just helping our merchants to become compliant, working with them collaboratively, but I think there will come a time and a place where there is a pricing element that will factor into EMV compliance.

Paul Condra

Credit Suisse

Right. Okay. Great. That kind of rounds up the half hour. So, I really want to thank you for joining us today, and I think – I guess that's just about it.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

Okay. Well, Paul, thanks very much for having me. I really appreciate the opportunity to speak with you and to participate in the webcast. And I look forward to seeing you soon.

Paul Condra

Credit Suisse

Of course. Thanks.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

Okay. Thanks, everyone.