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Global Payments, Inc. (GPN)

JP Morgan Ultimate Services Investor Conference

CORPORATE PARTICIPANTS

Cameron M. Bready
Chief Financial Officer & Executive Vice President

OTHER PARTICIPANTS

Tien-tsin Huang
JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Tien-tsin Huang
JPMorgan Securities LLC

All right. Can we get started? Thanks, everyone, for joining. I am Tien-tsin Huang. I cover the Computer Services IT Consulting Group at JPMorgan. So, always happy to have a good group of payment services providers, merchant acquirers at the event every year. So, really glad to welcome back Global Payments. So, Cameron Bready, CFO is here. Jane Elliott, Chief of Staff, is here.

And so we're going to do, if that's okay with everyone, fireside chat again, sort of Q&A. Thanks for being here, guys...

Cameron M. Bready
Chief Financial Officer & Executive Vice President

Thanks for having us.

Tien-tsin Huang
JPMorgan Securities LLC

...as always. And so, maybe just for the benefit of everyone else, just maybe a quick commercial on Global Payments and sort of any big sort of takeaways from the recent quarter, then I can go into the questions that I have, if that makes sense.

Cameron M. Bready
Chief Financial Officer & Executive Vice President

Yeah. I'll start and ask Jane to add any color that she might want to add as well. I think, obviously, over the course of the last few years, we've really repositioned this business, particularly in the U.S. market, moving away from largely what was a wholesaler model to one where we control a majority of our distribution in the U.S. market, and a majority of that is technology-led distribution that is obviously growing at much faster rates growth in the overall market. And I think that has, again, from a distribution point of view, helped to position the business very well for continued growth and expansion over the coming years.

We just had our Investor Conference on October 20 in Atlanta. We encourage those of you who are interested in our story, there's a lot of good information, a webcast on our website that'll give you – obviously allow you to hear live the entire Investor Conference and all the speakers who participated that particular day.

I think the business is very well positioned over the next three or five years, which we view as a cycle to continue to grow organically on a top line basis mid- to high-single digits. We are, I think, well positioned also to continue to expand our margins. We're targeting up to 50 basis points annually of margin expansion that'll drive operating income growth in the high single digits.

When you couple that with our capital allocation strategy, we expect to be able to compound double-digit growth in cash earnings per share in the low double digits to mid-teens over that cycle. We also are naturally exploring opportunities to exceed that guidance. We're highly confident, I would say, us being here today, in our ability to achieve the cycle guidance we've provided. We're working very diligently to continue to explore opportunities to exceed that guidance.

And there's two primary, I think, opportunities and we are looking to extend upon today. One is globalizing the integrated platform that we have here in the U.S. market that is the tip of the spear for growth here in the U.S., and to some degree North America. We also think there's good opportunity to globalize that ecosystem into other more mature markets around the world to help continue to drive sustained growth in the business. The other is our ability to continue to expand our omni-solutions capability, which is really the combination of our card-not-present, card present solutions, face-to-face solutions, principally in Europe, but obviously looking to be able to offer that solution set more globally to multinationals, large, medium and small to some degree.

When we look at those initiatives, obviously our goal is to try to exploit the market opportunities we see around each of those in the near term with an eye towards helping to accelerate growth perhaps even above the cycle guidance. But perhaps more importantly, as I think about it, I think those are two of the key initiatives that we have that are going to help us sustain rate of growth at or above market rates for a longer period of time beyond the cycle that we've currently guided towards.

So with that, maybe I'll pause.

Tien-tsin Huang
JPMorgan Securities LLC

Yeah.

Cameron M. Bready
Chief Financial Officer & Executive Vice President

Hopefully, that's enough overview of the Investor Conference and we can drill into questions.

Tien-tsin Huang
JPMorgan Securities LLC

No. That's perfect.

QUESTION AND ANSWER SECTION

Tien-tsin Huang
JPMorgan Securities LLC

Q

And I can peal some questions away from what you just talked about. But maybe before we do that, just thinking about the last quarter here in earnings season still fresh in my head, obviously great results from merchant acquirers, strong valuations across the board, what's driving a lot of this? I mean, is there a common theme that we can point to, Cameron and Jane, to consider it? I mean, EMV and the deadline did happen in October 1, but what do you think is driving this above average growth for the group?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

Yeah. It's hard for me to maybe comment on other acquirer businesses. I can certainly say, for us, I think a lot of it really stems from the comments I had earlier around the integrated solutions business here in the U.S. in particular. That business is growing mid to high teens. We think we have a differentiated solution set in that particular distribution channel. We are I think in the very early innings of what we expect to be a relatively long runway. I think we're continuing to grow that business at the same levels largely because when you look at our integrated business today, which is principally a U.S. business, we're diversified across 60 or 70 different verticals. We have roughly 2,000 software partners in that channel today. But on average across all those verticals, we're probably less than 10% penetrated. And in our most penetrated vertical, we're probably 20% to 25% penetrated.

So in an environment where I think the overall payment landscape is becoming more complex, there's more and more technology that's being deployed towards I think payments in general, I think we are very well positioned with the assets that we have, continue to grow again above market rates of growth, particularly here in the U.S., as well as other markets around the world, largely driven by the investments we've made in technology, the differentiated product suite and go to market strategies we have as a result of that.

I think for us, particularly for Global Payments, I think positions us well to continue to grow at these rates, whether or not the entire market continues to grow the way it has, and has as good a results as I think most of the acquirers produced for their Q3 I think remains to be seen.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Okay. I mean, I know I've asked you this before. I may have even asked it at the Investor Day. But we've been talking about it thematically today, just this idea of tech-enabled and integrated versus vertically integrated, meaning an acquirer owning the hardware versus you powering or working with outside dealers and whatnot to grow the market. Is there going to be outsized growth of one versus the other, meaning that tech-enabled versus the vertically integrated, model in your mind, Cameron? Has that changed since we last caught up on it?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

I don't think it's really changed much since we last talked about it. I think our view is that the real value and the ability to innovate new products, new solutions, new capabilities is really in the software and that we think we can differentiate ourselves with distinctive products capability solutions for merchants by investing in software that sits behind the point of sale.

We're really form factor-agnostic. We don't necessarily believe the sort of closed-loop networks are necessarily the right strategy to pursue in the marketplace. We don't necessarily see long-term that developers are going to want to develop for that type of environment.

And quite frankly, we think it's far easier to merchandise products and solutions for merchants and tailor solutions when you have a modular technology that's software-driven where you can package different solution sets that meet a very specific need for a customer in a specific vertical. And that's really what our focus is and we think software is the right way to go about doing that.

We don't necessarily think hardware. I think of it a little bit and it's maybe [indiscernible] (7:38) I think a little bit of betting on VHS or beta. I don't know what hardware technology might be the right long-term solution. But I know software can evolve, can adapt and we can innovate easier through software to meet the needs of our merchant customers longer term. So, for us, we're clearly focused on that strategy. Others are focused on other strategies. As you mentioned before, that include hardware and maybe closed-loop networks. But for us, we're going to continue to maintain the path on trying to develop software-driven solutions for merchants that we can leverage and scale globally though the common technology platform we run.

Tien-tsin Huang
JPMorgan Securities LLC Q

Okay. So you say you're at 10% penetrated with integrated, working with these ISVs or dealers or what have you. How do you get that number up, Cameron? Is revenue share a big discussion there? How do you get more mindshare or wallet share of those software players?

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

I think it's a question of time more than anything else. I think we're still working very hard to penetrate verticals. There's a sales cycle that goes along with that that we're working – that we have teams who are working to accelerate all the time. But it's a combination of as our ISV partners, go to market and look to sign up new merchant customers, we're obviously working collaboratively with them to turn on the payment functionality for those merchants. And at the same time, as their existing customer base upgrades the technology to include sort of the payment integrated version of whatever operating platform they're on, we're working to mine that back book as well.

So, what I like about how we're positioned in the integrated space today, as I mentioned before, we're well-diversified across 60 or 70 different verticals. They're not highly penetrated. And oftentimes in those verticals, we're competing with really traditional merchant acquirers, where those customers have an operating system they're using to run their business or they have a business software solution and they have the traditional brick sitting on their counter. And it's fairly easy to convince them of the value proposition of the integrated solution, which is obviously for us a premium product, but certainly has premium value for the merchant as well.

So, to me, expanding penetration is just a reflection of time. I think the value proposition is clear. It's tangible. It's highly marketable and it's more a function of allowing the verticals and the business model to mature.

Tien-tsin Huang
JPMorgan Securities LLC Q

Okay. Fair enough. So staying with the high growth – some of these higher growth areas, e-commerce has been another popular subject, omni-commerce, you're talking about as well. Maybe fetch us up on what your sweet spot is within e-commerce, omni-channel, and how do you obviously look to expand that, I think, beyond Europe, which is your focus?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

Yeah. I think in the near-term, our focus is largely on Europe. As we talked about before, we said e-com in the U.S., we have e-com solutions today. We serve small to medium-sized e-com customers in the U.S. markets. But as we think about where we're really well positioned to, I think, exploit a market opportunity that's somewhat unique to us is really to provide omni solutions, and I think Europe is the proving ground to some degree for that capability.

We acquired the Realex gateway platform in March. That's a fantastic market-leading gateway technology that we're now able to bundle with merchant-acquiring services in the UK market and we're able to further bundle it beyond that with face-to-face acquiring and card-not-present solutions for small to medium-sized enterprises in the UK and then more on a Pan-European basis going forward.

So I think we're very focused on obviously continue to expand that opportunity. We think that is going help contribute to certainly well above market rates of growth in Europe for our business in the near to medium term. And I think, again, our ability to package the gateway card-not-present capability with face-to-face in many markets around Europe I think is a competitive advantage that differentiates us from many others in that particular marketplace.

And over the course of time, naturally, we'll look to further expand that further into Asia and other markets around the globe, as more and more small- to medium-sized enterprises become more multinational enterprises and are looking for that seamless solution across face-to-face in many global markets, as well as card-not-present, mobile, e-com, et cetera.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Okay. Is there a unique distribution strategy that you have in Europe for e-commerce? And where I'm going with this, I think, Cameron, is if you think about the U.S., you have companies like Stripe and Braintree working very closely with developers that give them great access, right, to mobile e-com. What does it look like in Europe?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

I think for Realex, in particular, on the pure e-com side, it's very much the same business model. So if you look at the Realex capabilities we have with the software developer kit, the APIs, all of that is industry-leading and competes head-to-head with the Stripes and Braintrees and IBMs of the world from a technology point of view and ease of integration point of view with developers, particularly app developers in the market.

I think what's really unique to us is our ability to package that again with more relationship-led distribution on a face-to-face basis where we're able to bundle that offering to largely small- to medium-sized merchants in markets from the UK today to further markets in Europe going forward. Europe on the Continent, in particular, is still very much a relationship-led distribution market.

So I think we have unique relationship distribution channels that position us very well to continue to leverage the technological investments we've made in our suite of technology solutions to merchant customers in the European marketplace on a face-to-face basis.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Yeah. That makes sense. So let me ask you a few more and then we'll open it up. So just staying in Europe, some prior speakers we've talked a lot about regulation, interchange cap coming to Europe, I guess, next month, and some of the rules changes coming on later next year. So, what's baked into your guidance in terms of how you might benefit or potentially be impacted by some of the regulation changes coming in Europe?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

Yeah. I think as we sit here today, our expectation is in December, obviously with the regulatory changes coming into effect in Europe, and the UK in particular, we expect to see some benefits flow through as it relates to interchange coming down in that market. Even in Q1 and to some degree in Q2 as well, we've seen some early benefits of that as Visa and MasterCard have already lowered debit and credit rates modestly, certainly not down to the new cap levels of 30 and 20 basis points for credit and debit, respectively.

So, we expect in December that we'll see benefit in the UK market with our business areas, as interchange rates could come down to the new European cap levels and we expect in the back half of 2016. And that's reflected in our guidance. We don't have perfect visibility on today. Naturally, it's how is the market going to react to those [ph] redefined levels (14:52), right. Every market, I think, is unique in terms of how quickly the market will rationalize these pricing benefits into the overall market sort of pricing dynamic, for lack of a better term.

In some markets, we've seen it happen as quickly as 12 to 18 months. In other markets, it tends to linger a little bit longer. So it's difficult, sitting here today, to predict exactly how the UK market will react to the new interchange levels and how quickly that'll get rationalized with pricing. I think it's fair to say any time you have a pricing change such as this, we expect it to be a relatively transitory benefit.

So, if it's 12, 18, 24, 30 months, I think really remains to be seen. I think more important to us, quite frankly, is how are we utilizing this opportunity, this benefit to reinvest in the business and try to, in some ways, take what is otherwise a transitory benefit and invest in those things that'll help us create longer term value for the business. So naturally, some of the benefit will flow through to the bottom line. Other – some element of it, we will look to use to reinvest in the business in a way that helps to drive more sustainable growth and avoid it just being sort of a transitory one-time benefit that impacts the business for a relatively short period of time, but doesn't serve to add any value longer term.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Okay. So two things we've been sort of thinking about is, number one, could lower interchange rates and lower cost of acceptance drive more merchants to take cards that have been holding out? And the second thing is, will we see more consolidation, especially with banks, as they reconsider their sort of assets, given there's more regulated growth within Europe?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

Yeah. I think on the first, clearly, I think that's the expectation, right. Anytime the cost of acceptance comes down, there is a positive benefit, a secular benefit for the market in terms of greater acceptance. So certainly, we think that the environment in Europe is such that as regulation comes into effect and interchange comes down, we do think there will be a nice secular tailwind as it relates to more card acceptance in the marketplace. It's only good for the business.

I think to your second point, I don't know that I would characterize it so much as we expect to see consolidation, but I do think we expect to see more strategic activity broadly. And that may take the form of more JVs, more outright sales, whether you would necessarily classify that or characterize that as consolidation, I think depends on kind of the nature of the transactions that ultimately get executed.

I think if you look at Global Payments in particular, the transaction we announced with Erste in July, I think, is a good example of what we hope to be, several more opportunities materializing in Europe that gives us more of a direct distribution presence on the continent and allows us to further expand our businesses in markets that we find attractive, where relationship-led distribution is still the prevailing go-to-market strategy.

So, in partnering with Erste in the Czech Republic, Slovakia and Romania, these are high secular growth markets, relatively attractive GDP markets. But more importantly, I think we've partnered with a market leader in each of those markets in terms of distribution presence and relationship capabilities that allow us to grow and expand the merchant acquiring business and, frankly, allow us to leverage our technology, our innovation and our products to create a differentiated offering in those markets that'll allow us to grow well above market rates of growth in each of those markets. So, we're very excited about closing that in the back half of the year. Our hope is that we'll have more of these types of opportunities materialize in the future.

We think that the regulation is going to create an environment in Europe where there will be more opportunities to grow and expand. And we also think it's a particularly interesting time to be investing in Europe for no other reason than certainly currency, for the negative impacts we're absorbing from a translation point of view, it does serve to make assets relatively cheaper, particularly assets we like. And I used the example of Realex in our Investor Day. I think when we first started looking at Realex the euro was probably $1.30, $1.35. And I think we bought it at around $1.07, $1.10. So, we liked the asset at $1.30. We liked it a lot more at $1.07 to $1.10. So, I'm hopeful that again at this time, we'll find more opportunities to invest in Europe and we think it's a particularly good time for us to do that.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Do you think we'll see more non-traditional players coming to Europe as well? I mean, ACI Worldwide, I wouldn't call them non-traditional, but they came in and took on PAY.ON on the gateway side of Germany. So, is that a risk?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

Yeah. I don't know because I think when you're talking to particular banks who are predominantly dominate the Continental European marketplace from a merchant acquiring point of view, I think they're looking for well-established partners. Partners who have a global expertise and capability in the payment space who can bring product, innovation, scale to the market. So I think there's a relatively small universe of companies who are really capable of doing that.

Now, that's not to say other non-traditional players won't come into the market, but I think we're very well-positioned and, perhaps in some ways, uniquely positioned, I think, to be the partner of choice for a lot of these institutions who are looking to partner to grow and scale a merchant acquiring business in ways that they don't believe they can do on their own.

Tien-tsin Huang
JPMorgan Securities LLC
Q

Okay. Happy to take questions from the audience if there are any. Otherwise, I'm happy to talk. Anyone? Well, let me rapid-fire and touch a few regions before we get back to U.S. So Canada, right, interchange has come down, but you've also talked about rolling out things like ARPU and whatnot. So, where is there potential for acceleration with Canada? It seems like ARPU has some promise to it.

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

Yeah. I would certainly say on the margin, we're pleased with the progress we're making with American Express, but important to recognize it's American Express. So, in terms of what the overall opportunity in Canada is, certainly it's going to be very different than the opportunity that we saw in the U.S. market in terms of share.

So as I think when we look at the Canadian business, we're pleased with how that business is performing. Our goal for that business is to drive low single-digit growth in revenue and I think we've successfully been able to do that for the last probably eight quarters plus. So I think we're overall very pleased with how we're executing in the Canadian market. I think expecting that market, which is very mature, where probably 60% of the volume is largely based to interact, the ability to grow that business at a much higher pace in low single-digit I don't think is our expectation sitting here today. Our goal for Canada is to continue to grow in that low single-digit range. It generates a lot of cash that we can otherwise redeploy in our business. And frankly, end of day, we don't want Canada to be a headwind for the rest of the business. And it hasn't been. And I think we've positioned the business well where it won't be. And things like [indiscernible] (22:05) on the margin can help to increase our confidence in our ability to grow in the low single-digit range. But that's overall the expectation we have for Canada, nothing really more than that.

Tien-tsin Huang
JPMorgan Securities LLC
Q

So let's bring it back to the U.S. for a second here, so it's a question around the health of the merchant. So, bigger picture question here, Cameron, related to pricing, what's sort of the pricing situation in the U.S. on the merchant side, attrition as well? It seems like there's some signs of good retention or lower attrition. Can you maybe comment on that?

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

Yeah. Sure. I would say pricing in the U.S. market, I think, is relatively stable. And I think as a result of that, attrition rates have been relatively stable as well. Attrition is largely going to differ depending on the channel through which we're going the market. So, in our integrated business, we see attrition rates probably in the high single-digit at the most.

Typically, if we're losing a customer in the integrated space, it's because that customers has gone out of business, not because the customer has decided to go in different direction from a payments point of view, and certainly not because they decided to go backwards. I went from an integrated solution to being disintegrated, for lack of a better term, back to the traditional sort of brick on the counter, which separated from the operating system.

In our more traditional go-to-market sales channels, we see probably attrition in the high-teens, low 20%. That's pretty consistent with, I'd say, historical trends. It's going to be higher in the ISO channels because typically they're competing largely on price. They have a lot of differentiated offerings. And in some instances, I think the market share gains we're seeing in integrated are coming at the expense of the more traditional ISO channel. So, I would say, by and large, attrition in that channel probably relatively consistent with historical averages, maybe a little higher, because they, I think, are losing a little bit more market share to business models like the integrated.

Tien-tsin Huang
JPMorgan Securities LLC

Q

You said pricing's stable, retention's generally stable. How about with First Data coming back into the public market, does that change how you might think of them, or how we should view them as a competitor?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

I don't really think it changes their competitive positioning in any way or their competitive stance in any of the markets where we see ourselves competing with them. So, whether they're a private enterprise or a public enterprise, I really don't, to a large degree, think it change fundamentally their financial strength and positioning or how they go to market and choose compete with us and our peers in any of the particular markets where we overlap. So, no, I think them being public is a good thing, by and large.

I think having another global sort of peer from a valuation point of view to compare and contrast, I think, is a useful – certainly a useful element from our point of view. But whether or not they're private, public, I don't think it fundamentally changes their positioning strategically.

Tien-tsin Huang
JPMorgan Securities LLC

Q

All right. I guess thinking about First Data and them potentially leveraging their card processing business at the STAR Network, and Chase talking a little bit about ChaseNet, doing the same thing, with this sort of differentiated offering. Do you see the model evolving on the direct side from some of these bigger providers or is that still more national merchant away from what [indiscernible] (25:32)?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

Yeah. I think that's right. I think the last part of your question kind of hits the nail on the head from our point of view. And the target markets that we really have in the U.S., I don't see those things being particularly impactful. The small- to medium-sized merchant base that we're targeting, particularly through our primary go-to-market strategy, the integrated space, I don't think those offerings are fundamentally going to change the market or the opportunity for us in those markets or our ability to continue to grow at the rates we've been able to achieve over the last few years in our integrated business.

So I think as it relates to ChaseNet, in particular, it's another wallet. And to the extent there's demand within our channels for that wallet, then naturally we'll seek to enable that for our merchant customers. But end of day, from our point of view, it's a wallet and the overall offering is more geared towards large national retailers, lesser to I think the types of businesses that we really try to serve through our channels.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Fair enough. And just in the U.S., just thinking about other sort of changes, there will be the cutover of Mercury from your platform to Vantiv next calendar year, I should say. I think in the past, you've been very clear to say there's going to be a material impact there, but how about the indirect impact of that switch? Is there anything to consider in terms of retention or maybe a different sales approach with that cutover?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

I don't think so. I mean, Mercury is one of our ISOs today. We have 90 ISO partners. They make up, I want to say, about 11% of our net revenue and about 8% of total company operating income. So...

Tien-tsin Huang
JPMorgan Securities LLC

Q

ISOs in the aggregate.

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

ISOs in the aggregate, and for the total company in the aggregate. So one ISO moving away I don't think fundamentally changes kind of how we think about our sales strategy or our go-to-market strategies in any of our direct business.

As we've talked about our ISO business historically, it's a good business for us, but obviously I think over the course of time, that business is going to continue to be a smaller component of Global Payments in the aggregate, largely because our direct businesses are growing at a much quicker pace than the ISO business. And secondly, because, although we have 90 ISO partners today, I don't think two years, three years, five years down the road, we're going to continue to have 90 ISO partners.

It's a business that has been a – it was a good business for us for a long period of time and helped to create scale in the business, but more and more, I think, the number of ISO partners we have will likely shrink. And it will continue to be a smaller portion of the business. It's just not a part of the business we're really emphasizing and putting a lot of our time and attention towards trying to grow.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Right. Makes sense. Yeah, question.

Q

Thanks. Just in Western Europe, outside of the UK, where do you see the greatest opportunity in which particular countries? And also, is the opportunity that banks are either selling assets or forced to sell assets for various reasons and that gives you the opportunity to pick up these assets, or just could you maybe flesh out kind of what you're seeing in the market?

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

Yeah. Sure. It's a great question. So, I would just start from a macro point of view, which is we're typically going to be focused on higher GDP markets. We want larger GDP markets with a lot of retail spends, with good GDP growth fundamentals hopefully, and good secular trends.

So as we think about Western Europe where we're not present today, I think clearly, you would get markets like Germany, France, Italy, the larger GDP markets in Europe and on the continent, where we'd like to have a physical face-to-face presence, but there's other markets in Europe that we would find particularly interesting as well, some of the other Central European markets expanding from our partnership with Erste. I think it would be an interesting opportunities. But certainly the larger GDP markets are generally going to drive more of our attention than some of the smaller markets.

As we think about what will drive the opportunities, I do think that sort of the capital requirements of some of these banks does potentially lead them to want to do something with their merchant acquiring space, whether it's joint venture, and they can get an upfront cash payment or even outright exit the business and just maintain a long-term partnership with a new entity.

I think those things are helpful to the strategic dialog, particularly if the merchant acquiring asset within a bank is typically going to be undervalued. And our ability to help a bank realize value, receive capital for that and address what otherwise may be a capital constraint that they have, I think, is a useful element in trying to sell the proposition of partnering or an outright acquisition.

So, we're hopeful that, coupled with kind of the overall regulatory landscape, reduction of interchange, more and more technology coming to the market and banks being sort of less equipped to be able to invest in their technology, in product to be able to meet the needs of the marketplace as it continues to evolve, we hope that all of those will sort of allow for, again, more opportunities for us to partner or acquire assets that are strategically compelling at valuations that are appropriate that we think we can create value from going forward.

Q

[indiscernible] (30:35)

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

I would say, it depends on the market and it depends on the type of asset you're buying. I think I don't know that I would necessarily say in Europe that valuations are high. I think it's more of a function of, is the value appropriate relative to what you see as the market opportunity, and the opportunity for us to be able to leverage that business and drive growth and value creation, is the valuation that the partner is seeking appropriate, given the opportunity that exist. So I don't know that I would say they're relatively high or relatively low. It really depends on the market opportunity, which is very distinctive to each business.

Q

Just to follow up on that. Should we expect if there is more activity in Europe for it to be JV structured similar to what you've done with Caixa and Erste? And I ask this because it sounds like from what you're saying about valuation that it's more outright kind of sales of assets that – from banks that you might be considering.

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

Yeah. I wouldn't read too much into my comment about valuation to suggest that there's likely to be more outright acquisitions or more JV. It really starts with what is the – in the case of banks, what does the bank want? In the case of Erste, they still wanted to maintain an equity ownership in the business. They still wanted to benefit from what they expect it to be value creation, as they work to partner with us to drive growth in the merchant acquiring business in the Czech Republic, Romania and Slovakia.

So, in their case, they were very interested in a joint venture. Other banks might want to exit the business entirely and they may want to just maintain a referral relationship for which they receive some economics. They get a larger upfront payment. And they don't feel the need to maintain an equity stake in the business going forward.

But regardless of the nature of the structure that we employ, we still view it as a partnership. We're still relying upon that bank to be our primary kind of go-to-market relationship-led distribution channel. Whether they're an equity owner in it or we simply have a referral relationship with it, we still approach the opportunity as a partnership. We still treat the bank as a partner. The structure of how we may put together a transaction is really largely dependent on their desires and what they want to achieve.

I think some of what we've been able to demonstrate historically is a great deal of flexibility in how we approach these. And I think it's part of what makes us attractive to many institutions who are looking to find a strategic solution for their merchant acquiring business, recognizing that we're willing to approach it with an open mind and hopefully tailored in a way that helps them meet whatever objectives they have.

Tien-tsin Huang
JPMorgan Securities LLC

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Okay. So, we can maybe sneak one last quick question, if there's one. If not, I'll ask, just remind us your sort of M&A sort of criteria, appetite to do deals, size-wise accretion, dilution standards.

Cameron M. Bready
Chief Financial Officer & Executive Vice President

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Yeah. I'd say, first of all, our highest priority is investing to grow and expand the business. So, we are, I'd say, very aggressive in looking for opportunities to grow and expand the business worldwide. That being said, I think we're very disciplined in terms of how we put capital to work.

So, it starts with an opportunity to be strategically compelling, needs to obviously help us or position us to drive rate and growth that we think are attractive relative to how the business is positioned today, but more importantly, where the market is going. And I'd say, thirdly, it has to augment kind of existing strategic position that we have in a market or expand – or allow us to expand into a new market in a way that we think is going to be useful as we look to grow the business globally.

I think once we sort of cross the strategic fit threshold, then it's a question of relative attractiveness economically. And we compare every transaction that we do against the alternative use of the capital, which for us is buying back our shares. And we look at that across a variety of financial metrics, including the IRR, cash earnings, accretion of the transaction relative to utilizing that capital to – return capital to shareholders in efficient way and buying back our stock.

So, I think, we demonstrated a good track record of being very disciplined in terms of how we put capital to work. We've invested about $1.75 billion in the last three years in trying to grow and expand the business, while at the same time returning about $1 billion of capital to our shareholders. I expect, going forward, that we'll continue to largely strive to do both. And the pace and timing of returning capital is largely going to be driven by the ebb and flow of the M&A pipeline and whether or not there are good uses of capital to grow and expand the business inorganically through M&A.

Tien-tsin Huang
JPMorgan Securities LLC

Understood. Great. Thank you for the update.

Cameron M. Bready
Chief Financial Officer & Executive Vice President

Thank you for the time. We appreciate the opportunity to be here. Thanks for your interest in Global Payments.