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Global Payments, Inc. (GPN)

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CORPORATE PARTICIPANTS

Jeffrey Steven Sloan
Chief Executive Officer & Director

OTHER PARTICIPANTS

Tien-tsin Huang
JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Tien-tsin Huang
JPMorgan Securities LLC

All right, let's get started. Thanks, everybody. Come on in. My name is Tien-tsin Huang, I cover Computer Services IT Consulting and always excited to have Jeff Sloan here from Global Payments. Jane Elliott is in the audience as well, Chief of Staff from Global Payments. It's been a great stock. There is a lot of stuff going on around the world for Global Payments, right Jeff? So I'm hoping that we can get through a lot of those subjects.

Fireside chat is the format. If you have a question, definitely use the ask-a-question portal and we'll get chance to have folks ask questions as well, if you don't mind, using the mic. So, Jeff, thanks for being here.

Jeffrey Steven Sloan
Chief Executive Officer & Director

Thanks for having me, Tien-tsin.

QUESTION AND ANSWER SECTION

Tien-tsin Huang
JPMorgan Securities LLC

Q

Always great to have you. I know you're real busy. So, maybe if we could, just the obligatory question, if you can maybe give us an update, walk us around the globe and tell us what you're seeing in terms of whether it'd be demand or activity or consumer spend, card activity as such. Anything you could share would be great, and then maybe we can go into some more details after that?

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Sure. Well, I would say things are pretty good around the world. As you know, our model is really to chase GDP...

Tien-tsin Huang
JPMorgan Securities LLC

Q

Yep.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

...and GDP growth, and I would say with almost no exceptions, our business is pretty healthy; the portfolio that we have. Starting here in the United States, we've really seen a couple of years now of really unbroken growth. I think our investments here have done very well. We're very pleased with the growth rate here in our core market which, as you know, is about half of the company from a revenue point of view.

In particular, our investments in Integrated have paid off pretty nicely. We've owned APT for about 2.5 years now. And we've rebranded OpenEdge for a little bit over a year with the Pay Pros integration and that business has consistently been generating high double digit organic revenue growth, but I don't want to overlook the rest of our U.S. direct business. If you look at the rest of the business as we discussed on our last few calls, especially in our third quarter, Tien-tsin, the rate of organic direct revenue growth actually accelerated in the third quarter to mid-double digits versus low double digits.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Right.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

And that reflects performance, not just of Integrated but also of our gaming businesses and our legacy direct book. Our ISO business, as you know, has been flattish the last number of quarters which, as you mentioned, really references the pivot...

Tien-tsin Huang
JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

...that we've had here in the United States; so I'm pleased about our management of that business as well. Continuing around the rest of the world, I'll come back to the rest of North America toward the tail-end, but we continue to see very good growth in Spain, in particular. Even putting aside the impact of the SEPA early adoption in Spain on September 1 of 2014, we've had high single digit, low double digit transaction and volume growth in that market, not related to the SEPA implementation.

Of course, on top of that – so, in a market that's growing probably low single digits, we're necessarily capturing share in Spain even though we have mid-20% of the acquiring market in Spain. And of course, you've also had for most of this year continuing to the first quarter of fiscal 2016, the benefits of the pricing actions that the Spanish government has implemented.

We see strength across the rest of Europe. Very pleased with our UK business; it's had a very good year. Our global solutions business, which is our card-not-present business based in the UK has also had a very good year, and the UK economy so far so good in terms of how it's performing.

So our European businesses, excluding Russia for a moment, really significant; a very firm footing. And of course, our thesis in Europe is to capture more of a cross-border share and then capitalize on the rate changes coming out of the EU in SEPA which we expect to be in the back half of fiscal 2016.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Right.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Russia, probably in the context of the portfolio of the companies that we have, is probably the one business, as we've said, in our call that across our portfolio has underperformed our expectations in the beginning of our fiscal year; and of course, that's due largely to the local economy and then compounded by the ruble which seems to have settled in, in the last six or eight weeks. But that business is now down to below 2% of our revenue; and therefore, isn't a significant contributor. Although I would say that our management team has done very well there in a very difficult, a very difficult climate.

Turning to Asia, I think we have probably one of the best organic execution years in Asia-Pacific that we've had in a long time. Even on a U.S. dollar basis, with the U.S. dollar strengthening, we have showed across the year, mid-single digit organic revenue growth on a U.S. dollar basis across those 11 markets. And then of course you layer in Ezidebit in Australia and New Zealand, and we've seen mid-20% growth, but again organically mid-single digit.

And what I'm most excited about with Ezidebit and also Bank of the Philippine Islands is at the rates of growth in those two businesses are sufficiently high on a sufficiently large base; then once those annualize, that should lift up our rate of organic revenue growth in the Asia-Pacific region from the mid-single digits in dollar terms to the high single digits and that's something that we're very – I'm excited to see.

And then lastly, coming back to North America, in Canada, as we talked about in our January Investor Day, we continue to see stability in our Canadian business. We had 4% local currency revenue growth in Canada in the most recent quarter, and that's really even a little bit more than we can hope for, to be honest, in terms of the long-term trend of 1% to 3%...

Tien-tsin Huang
JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

...which is where our guidance has been. So, sitting here today, Tien-tsin, the business feels very good. And I think we've necessarily made investments, as I talked about on our last call, into businesses like Realex to best position our company to grow in the future.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Yeah. No, no, the blended portfolio for sure is definitely performing well. So, let me jump back to Asia, if you don't mind, and just ask about China, just because we just talked about it, the MasterCard session and with it opening up to foreign firms on the Bangkok clearing side. I've been getting this question a lot, Jeff, how does that impact acquirers like you where you have some presence already which is unique in China. So, how do you view that change and what does it mean to GPN?

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Well, I think it's nothing but good news.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

It's a little bit of the reverse of what you see in Russia and India. So, if you look at those markets where the government has been very active in not shutting those markets, but instead really pushing RuPay in the case of India, and of course in the case of Russia, post the sanctions really focusing on bringing things within the four walls, really, of Russia.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Right.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

And has made it harder for non-Russian acquirers. This is really the reverse in the case of China, opening the business up and it's really nothing but good news for our business there, Tien-tsin. So, while the regulation really deals with the issuing side of the house and your friends over at Visa-MasterCard. On the network side, we remain one of the largest non-Chinese participants in the Chinese market. And anything that allows additional innovation and participation in the Chinese market to open up the market to cards and capitalize on the growth opportunities of China is good news for us and I think we're well-positioned to accelerate our growth in that market.

We're one of the largest Visa-MasterCard acquirers cross-border in that market today. And if you can open up domestic issuance in a market like that given our experience with Visa and MasterCard and our experience with CUP domestically [ph] and RMB (7:55) acquiring, that should put us in a very good position to grow and capture additional share. So really, it's nothing but good news for what we do even though that was mostly directed to the issuing – the regulation mostly directed with the issuance side.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Understood. Yeah, it does feel like you have a little edge there because you're early in the relationships side with all those players. So I guess one step to grow for those issuers and the networks would be to build merchant acceptance, so...

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Correct.

Tien-tsin Huang
JPMorgan Securities LLC

Q

...is that going to be the primary initial thinking for you to sort of participate in that?

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Yeah, absolutely. So, as you know, issuing and acquiring are related. At the end of the day, it's important to have both halves as American Express...

Tien-tsin Huang
JPMorgan Securities LLC

Q

Right.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

...and PayPal and others have seen here in the U.S. and North American marketplace. So the more Visa - MasterCard issuance and acceptance there is in Mainland China the better it is, really, for Global Payments. So I feel like we're in a good position to hopefully accelerate our growth in Mainland China with the investments we've made over time.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Good. I guess, I have to ask you, since you mentioned Russia being inverse I totally agree. Is there anything to do there at this point? I know it's small for Global, but it does feel like it's still fluid.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Well, I think we're very fortunate in that our business, either by luck or good planning, was really isolated within Russia in the first instance. So many of the issues that Visa and MasterCard and other foreign networks have had in China, really didn't apply to us because we weren't doing a cross-border, our data center is in the four walls of

Russia in the first instance. So many of those regulations that the government has proposed either are not applicable to folks like us or we satisfy them in the first place.

So I would say our business, as it relates to Russia, is I think is good at places it could possibly be. And I hope that, looking at our domestic performance, while it's small I kind of hope that we've turned the corner there and we continued to make investments in that business in terms of data security, on new products and services, technology investments in Russia. So like everything else, I'm sure there'll be a cycle and I'm sure this cycle will come back. But sitting here today, it doesn't have a meaningful impact, as we mentioned, on either our revenue margin and earnings. So, you have to keep it in proportion of what the impact in the whole company is.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Understood. Understood. Yeah this nationalism stuff is complicated as it is. So, yeah, Asia-Pac, you went through how your growth is accelerated there. I know Ezidebit has helped. So, it's nice to see that tracking better. So what's the pipeline look like in terms of maybe future JVs or some organic things that you can do in Asia-Pac to even take that a another level higher?

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

So, we are very fortunate to have expanded our business into Australia and New Zealand. And I would look for us to make further investments in Australia and New Zealand as those coming on the pipe. We think we've got a great team that's scalable and as good as Ezidebit is and we're very happy with its performance. We think we could probably do more in that market and that was part of the original thesis for going into Australia and New Zealand the first instance.

In the Philippines, [ph] we're (10:53) the second largest market share after the consummation – the JV with Bank of the Philippine Islands. So, I think we're rightly-sized there. We're always opportunistic and we look at portfolios all the time. But I think we're really in a happy place in the Philippines once the JV closes in the next number of weeks.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Right.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

As it relates to other markets, we think we're still subscale in India, even though we're there. We just talked a lot about Mainland China, but we think we're subscale in Mainland China, the new proposal from the government may change, our ability to grow there to the better, but we don't think we have enough scale in that market. And we've also talked about going directly into South Korea and Japan which we've looked at for quite some time, and we're really just looking for the right opportunities there.

But I would tell you that while we're always opportunistic, I think we're kind of full up right now on the integrations in Asia-Pacific. So, I strongly think we can accommodate more deals. But I would also say that Ezidebit, which we closed in October and Bank of the Philippine Islands which we're closing relatively shortly, is a lot of execution/integration and those seem to be going well. So I think we're very cognizant of the balance. So while we're opportunistic, I think we're kind of right where we want to be and we've really accomplished our goal

of taking a business that is organically a mid-single digit revenue in U.S. dollars and now making that high single digit revenue growth organically on a sustainable basis.

So by and large, we've kind of got it to where we would like it to be. So we never say never. I do feel that our focus in terms of deal-making has really shifted to Europe, to Continental Europe, because of the changes that we've talked before, as well as being opportunistic in Latin America when things come up.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Okay. Yeah, so let's do Europe then, just because it is very topical right now and the rates are coming. Just there is two phases of it is how I think about it, right, the interchange caps that are coming into the region and then the level-playing field, which I think is good for your cross-border or intra-Europe business. So can you just walk in – go into some detail on that and what's the plan to exploit that?

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Sure. So, of course, you've already seen the benefit of the interchange actions in Spain, and we've started to see a little bit of the benefit by Visa and MasterCard actions cross-border in the – particularly in the UK, and in the Czech Republic, because we have large cross-border businesses in those two geographies. As we've said in our calls, while we think our businesses are already highly regulated, I'm not sure it's ever a good idea for governments to set price. Nonetheless, it's nothing but good news for us and our customers when prices to merchants come down.

Of course, you've seen this in our P&L in Spain, and I would expect to see – when it's finally implemented in the UK, I expect to see a similar impact in 2016 and 2017 when those regulations ultimately roll out in our European businesses led by the United Kingdom. So it's nothing but good news, even when you [indiscernible] (13:43) it's nothing but good news. And it's particularly good news when we can create value around it. And I expect to see something similar there, number one. Number two, as it relates to our strategy more broadly, putting aside pricing changes in Europe. If you look at our Realex acquisition from about six weeks ago, we have a thesis that our ability to do cross-border transactions in a way that's less filled with friction, so it's cheaper, easier, and faster is a key differentiating point for Global Payments.

We have the licenses in place cross-border with Visa and MasterCard to do the things that we need to do. We think we have a technology advantage both before and certainly after the consummation of the Realex transaction. And we think we have a distribution and an operating advantage given our footprint today in Continental Europe.

So when you put all those things together and you think about cost coming down for cross-border commerce, if you just put aside the economic impact of those rate reductions, the philosophy of one common shopping area, our ability to service those merchants cross-border, our investments in card-not-present in the context of Realex and global solutions, but also our distribution footprint in a lot of markets in Europe and our ability to do deals on Continent in markets that we think are attractive sets up very nicely on to your second point, I think sets up very nicely from our strategy point of view in terms of where we would like to be.

So I would hope that, a number of years from now, we'll have a much larger physical as well as card-not-present footprint in the European marketplace. And I hope – today I think we're kind of one of three people doing a cross-border, I hope that we're one of one or one of two by the time we're done three to five years from now. It makes me very excited about the future of our European business. As I've said in the context of Realex, now is a very

good time – given the regulatory environment and the currency environment, now is a very good time for us to be investing in Europe and I think you're already seeing it in our performance.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Yeah, so just to clarify for my understanding, so is the idea that one-stop shopping with Global Payments omni-commerce, you want your physical face-to-face plus your gateway e-commerce, you can buy all of that through GPN from a cross-border standpoint?

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

That's exactly right.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Okay.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

And that is very hard to do today.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

And you actually see a number of the card-not-present e-commerce players trying to do that. And I think we're coming at that from a unique position of strength. We have all that physical...

Tien-tsin Huang
JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

...investment and infrastructure, licensing technology, distribution, ops, know-how today, and we're reversing through it. So I think we're in a very good position to capitalize what the vision of SEPA really is.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Okay. So we've been also hearing that in the Europe, there are a lot of sort of assets for sale, platforms for sale. How interested are you in being a part of that? Do you feel like there's a lot more to do inorganically whether it'd be through geographic expansions in the countries or your technologies products?

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Yeah. We're very interested in that.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Okay.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

So what's really going on there, what's driving it today is the fact that the issuing P&L, because of the changes in interchange...

Tien-tsin Huang
JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

...the issuing P&L of most financial institutions in Europe is coming down or will come down fairly precipitously. So many of the banks in Europe are actually looking for acquiring joint venture partners, where they hope that growth, new product, better sales, et cetera, will help that – the growth in fee income will help offset the diminution that they're going to see inevitably on the issuing side of the house.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Right.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

So we're in the discussions with a number of parties overseas about trying to find ways to work with them. As always, it starts with, are you happy with your partner, and then, are you happy with the returns that you see for the price that you're discussing. So, I would say, where we are today is we find a number of partners we're pretty happy with. Whether the returns are there or not is something we'll have to assess relative to repurchasing our stock which for us is our primary metric when we think about deal-making, and so there the jury is out.

I would say in the scheme of things, these deals aren't overly large, I know you're talking about probably at the small end, \$25 million of capital; at the high end, maybe \$0.5 billion of capital. And while \$0.5 billion isn't a terribly small number, it's not billions. So, I think in terms of the size and the scope of the things that we're looking about, they're all attractive and manageable in the context of what we've been doing, but I don't expect any of them to so change the landscape that Global Payments will look different necessarily.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Okay.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

But the right, strategic thing for us to do and I would say that the changing environment has resulted in the banks being open to this kind of structure today which they have not been historically.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Yeah. Okay. That is good to know. Let me ask a couple of more, and then we'll open it up. Just on the Canada front, I feel I ask you this all the time, just because I'm somewhat close to it. Just with interchange coming down in Canada...

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Yeah.

Tien-tsin Huang
JPMorgan Securities LLC

Q

...but they also have this code of conduct, driving transparency, is this interchange reduction going to be different than what we've seen in the past in terms of what it means for your P&L?

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Well it is different in a sense that it's a different requirement.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

So, the way the Canadian market has evolved in April, this past month, in terms of the new changes with Visa - MasterCard is that the intent of the regulation is for us and all of our peers to pass-through all the interchange benefit. But going back to a couple of questions ago, it's still nothing but good news for our business because as prices come down for our merchant base, you have a happier merchant base and presumably demand goes up. So, in the scheme of things, it's nothing but good news for us to do that, number one.

Number two, we look at price, having nothing to do with the interchange change. We look at pricing in all of our markets continually. So, our ability over some period of time to change pricing against the backdrop of reduced costs is a good idea as well. So, it's really nothing but good news for us and we've now had two fiscal years in a row - when we talked in our Investor Day about January of 2014 about what we're trying to accomplish in our Canadian business, it was really stability in Canada and now we've had two years in a row, and I don't expect this to change of a stable Canada including most recently 4% local currency growth, having nothing to do with interchange coming down.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

So I think it's only good news for us that that's occurring. And then lastly, we're introducing new products and services into Canada. We talked about introducing Integrated in Canada for Canadians, which is really distinctive to us in Canada, which has already occurred in the last year. And then we think we will be the first partner to introduce American Express OptBlue...

Tien-tsin Huang
JPMorgan Securities LLC

Q

Right.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

...into Canada relative to our Canadian peers, and as you've seen in the United States, that's been a significant driver of revenue and margin and earnings this year in that business and expect that to happen in fiscal 2016 as well; I think that's eminent. So as you look at those things, there is a lot to be excited about in Canada beyond the rate reduction. And then I think you graft – you put the rate reduction on top of that, makes you feel pretty good about the stability pieces in Canada.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Okay. Good. Let me do a couple more, just on the – bring it back home to the U.S. and then open it up, just on the Integrated side, I know there has been a big theme now for a year – almost two years, with your APT you've brought it up to snuff, Mercury going to Vantiv. So how do you think you stack up versus the competition on the integrated side? I know First Data is trying to promote Clover as well, so a lot of different angles here. So how do you think you're stacking up?

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Well, I'm very proud of the execution on the Integrated business. We closed APT two-and-a-half years ago now, October 1 of 2013, and you can see it in the reporting that we've been doing supplementally. We combined PayPros in March of 2014 into OpenEdge and again we report both organic normalized revenue as well as the aggregate, and it's all been performing very well. If you think about how it compares competitively, we approached the market and the integrated market is laid out by vertical markets, so the vertical markets that we're most focused on in integrated are dental, veterinary, we've most recently added auto dealer, self-storage and the like. And we're very proud of our penetration into those vertical markets. A number of our peers, and you had mentioned Vantiv with Mercury and Heartland as well, are focused on different vertical markets. So they're primarily focused on restaurants.

We don't like to do a lot of restaurant business through our Integrated business. They're primarily focused on K-12, in the case of Heartland, whereas, we have very large university businesses, not K-12 but at the university level. So you really have to look at it as a market of segments and the segments we're addressing. The reason we like dental and veterinary and auto and self-storage, is that we believe the rates of growth, the level of competition, the margin opportunities are better in those markets than other vertical markets. Now, time will tell. I would tell you in the 2.5 years that we've owned those businesses, we've certainly been able to grow them at rates, call it, three

times the rate of organic transactional growth at Visa-MasterCard, which I really view as the bogey for gaining share in our businesses.

So, I think we're very well-positioned and we're in 60 verticals with over 2,000 enterprise software partners, including most recently Reynolds and Reynolds in the auto space. We've just rolled out our first series of BMW dealerships here in the U.S. with Reynolds and Reynolds. So I think we're in a pretty happy place as it relates to that business.

Tien-tsin Huang

JPMorgan Securities LLC

Q

All right. Good. So one more, if you don't mind, just through – related to Mercury-Vantiv. I know that transition around the processing or the de-conversion has been talked about forever. You've been sort of bracing for that. Just remind us of the potential financial impact from that?

Jeffrey Steven Sloan

Chief Executive Officer & Director

A

So, we'll give more guidance in July 2015. But we've said before is we expect that to happen in the back half of our fiscal 2016.

Tien-tsin Huang

JPMorgan Securities LLC

Q

Right.

Jeffrey Steven Sloan

Chief Executive Officer & Director

A

It will have no impact of any materiality through our operating income either of North America or of the whole company. We had assumed that Mercury was going to go public, I guess, a year-and-a-quarter whenever that was, a year ago, at this point. And they were really already on kind of a la carte pick and choose kind of pricing. So that's already through our P&L. So, there should be no impact and we don't expect any impact to operating income in North America or the whole company.

The only impact that I would expect – and I don't expect this to change or cycle guidance in mid-single digit organic revenue growth, but the only impact I would expect is because of the GAAP deconsolidation of the BIN sponsorship, which is the triggering mechanism for us to recognize the GAAP revenue impact. But as I say, I don't expect that to be significant enough to really impact or cycle guidance as it relates to the fiscal 2016 which is the same mid-single digit revenue, organic revenue GAAP guidance.

Tien-tsin Huang

JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan

Chief Executive Officer & Director

A

The other thing we're likely to do this July is provide not just GAAP guidance as we do for revenue and earnings, but also what I'll call net revenue guidance for the first time as we do cash EPS. If you look at how Vantiv and First Data report, they report GAAP revenue from ISO's less the residual, which is how we look at our business as well, what I'll call true net revenue, because that residual is not ours, as you know.

So, in the case of – and we'll provide that guidance, is our expectation for the first time this July. What that will have the effect of doing is raising our targets from mid-single digit organic revenue growth to a higher number, which I think will be received positively, it will also increase our margins by a few hundred basis points which I also think will be good news. But, most importantly, is it reflects how we actually manage the business, Tien-tsin, and finally brings us into line with how our peers report. So, you guys, your peers, and our shareholders can actually do comparative math on how we're performing in that part of our portfolio relative to our public peer group.

And on that basis, none of our ISOs, including Mercury, have any kind of a significant impact on revenue either at the end of the day. So, I really view it as a good event for us, they've been a great partner of ours, but that's already through the system, in my opinion, as it relates to earnings.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Yeah, no, definitely glad to hear you do that on the revenue side with the assessment. So it's always confusing with apples – comparing apples and oranges across the company. So, with that, let me maybe stop and give the audience a chance to ask a question as well if there are any, actually I could see a couple of here on the ask-a-question portal.

Yeah, [ph] Adam (26:13) you want to come up?

Q

A question on your U.S. feet-on-the-street business. For someone who has covered the company for a long time, it's surprising to see direct business growing as fast or faster than the ISO business. Can you talk about what you think the outlook is for that feet-on-the-street business for the next few years and, sort of, what you're doing to maximize Global's ability to capitalize on that?

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Well, I'll take as a compliment that you just said it that way. I think that we made significant investments in our direct feet-on-the-street business. And for those purposes, really our U.S. business, it really has four pieces. We have a direct legacy business, which the company is just about 50-years old. So, it's theglomeration of all the bank referrals and the feet-on-the-street sales and telesales over half-a-century, so that's one business.

Our second business is obviously our Integrated business, which we've been talking about here today. Our third business is our gaming business, and I think what we said at the time of the deal with FIS is that post-FIS that's roughly \$150 million net revenue business is what I think we said. And then our last business is our ISO business, which we've also been talking about today.

So, as you break those businesses into three or four pieces, what we've been saying in the last few quarters is that our aggregate direct business, so everything, excluding ISOs, has been growing at around 15% the last quarter, and I think the prior couple of quarters was 12% organic top line revenue.

So, we've seen a pretty good acceleration in that business, that's a mix of high double digit Integrated and high single digit everything else. And then of course the ISO, what we've said publicly is the ISO business which

includes Mercury in it for these purposes has been about flat. So, when you kind of average on a revenue basis, 12% to 15%, and you average it with kind of zero, given their sizes, you come out around mid-single digits kind of 5% or 6% in any given quarter. So that's the contract of the business. In terms of that we've done differently. Well, of course, we've invested \$800 million, actually if you throw in Fidelity Gaming, \$1 billion, but – which is closing in a few weeks.

Q

[indiscernible] (28:29-28:33)

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Yeah, I'm going to get to that in a second. So, we've obviously invested very significantly in that business, number one. Number two, in terms of the legacy direct book, to get the second piece of what you were saying, when I came in a few years ago, we changed management entirely in that business. So the first thing I'd say is, our businesses really marry the right people and the right places with the right model. So, all the people in our direct business of any level of seniority are entirely distinct today versus three or four years ago, number one.

Number two, we invested \$40 million of capital, in OpEx, in new technologies that we took live about a year-and-a-half ago. So our infrastructure in terms of its response time, our ability to release new products and services into the field, all that is relatively new and you're seeing the fruits of those investments over the last two or three years really maturing today. So, for example, we were the first acquirer of any size according to American Express that come out with OptBlue in the United States. There is no doubt that our direct book and our Integrated book has materially benefited this year and I expect that to continue into fiscal 2016 from the early release of OptBlue because we had something that other people didn't have at the time that we did it.

The only reason we were able to do that is because we have a new CTO from a few years ago, that new infrastructure I described, we co-sourced code offshore, primarily in Asia and we have a very different series of people and infrastructure today than we did two or three years ago. And we're seeing that benefit there as well. So, like everything else, I think it's just been a renewed focus, having the right people, the right product releases, the migration of our BINs to Wells Fargo about a year-and-a-half ago.

So when you add all these things together, I think we've really repositioned the business putting aside the acquisitions for success and then we've augmented that with businesses that are growing more quickly than market, with better margin opportunities, where we think we have a sustainable, differentiated distribution advantage. And that's really been the thesis of the U.S. and we've applied the very same thing outside the United States to Asia and Europe, and I think that's really what's going on in the U.S. business.

Tien-tsin Huang
JPMorgan Securities LLC

Q

That's...

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Good question.

Tien-tsin Huang
JPMorgan Securities LLC

Q

That's good color. So, I guess a question here is about ISO, Jeff, is zero the new normal for the ISO business or can we see it tick up or tick down given what we see on the secular side?

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Well, I think either Cameron or David said this, I think in our July of 2014 call, it's been zero for last couple of quarters and that's been decelerating for a prior number of quarters. So, I don't know what 2016 is yet. We're doing that now, we'll kind of give guidance, but I don't expect it to tick up. My perspective is that pretty much everybody in United States today who wants to accept a credit card knows how to accept a credit card.

And unless you're an ISO with a distinct distribution advantage like a Mercury, or like an APT, or like a PayPros, unless you have an angle whether it's a technology angle or a different type of distribution angle, then you're really just competing on price. And if you're competing on price, that's a very difficult business to grow. As I mentioned probably, Tien-tsin, the last couple of quarters, we have 90 active ISOs today including Mercury; I expect that number to be 50.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Right.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

...over the next three years to five years. As those contracts come up, we're just not going to renew them in most cases, because it's just not enough economics to us to really spent time on it. In the context of the size of a business that does \$0.67 billion of EBITDA and is growing pre-tax income based on our guidance, \$70 million, this year, things need to move the needle at the end of the day. And if it doesn't really move the needle, then I don't know why we're spending time on it. And that gets you some senses to where I think that business is going.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Yeah. Makes sense. Makes sense. Any other questions? Have one more here.

Q

So, I guess, a question on DCC, dynamic currency conversion, what more is there to do there on the DCC front? And you work with Planet Payments, does that give you kind of any advantage as well.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Well, it sounds like that question came from Planet Payment.

Q

There was a couple press release on it.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

So anyway, we just announced, I don't know, [ph] Jane, (32:33) was it like a week ago or two weeks ago that we renewed and extended our contract with Planet Payments. We really moved to a state-of-the-art contract on a worldwide basis.

Q

Right.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

So we feel very good about that relationship. We still have a ways to go on DCC. So for example, in Spain, while we've come a really long way on DCC, DCC is still in minority of penetration in our Spanish business, meaning less than half, in a highly-driven tourist economy. We don't have a lot of DCC in our Continental European business today in Prague. We don't get have it in Brazil; so in the Brazilian marketplace. And we have it in Canada, but it's not a particularly big number relative to the size of the country in Canada.

So I certainly think that there is plenty of opportunity to expand that business. And of course, we've just entered Australia and New Zealand in October and we haven't yet had a meeting with the Planet guys to go through Australia/New Zealand and introduce them to our partners in Brisbane and Auckland. So, I do think that we have a ways to go on DCC.

I will put this stuff in a category of value-added products and services. So, you've seen us announce EdgeShield and GlobalShield, which is our EMV, encryption, tokenization in Apple Pay; NFC products, obviously we've been talking a lot today, we have American Express OptBlue. All these value-added products and services are ways that we help grow the business over time rather than just price; and DCC is an important tool in doing that and so of course is MCC.

So, I certainly don't think we have reached the natural limit in what we can do with Planet and around the world in DCC.

Tien-tsin Huang
JPMorgan Securities LLC

Q

Okay. I think we have 26 seconds. Can I sneak in a question just around, if you don't mind, Jeff, just around competition. I know First Data, Pay Pal is coming out of eBay, obviously, you mentioned Heartland and Chase has been a little active as well. So, any change or anything we should be paying attention to?

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

No, it's a very competitive marketplace than it always has been, so I don't see any changes. It's good news for us, for partners like Pay Pal to come public to get better comps and good valuations with smart partners is pretty much always a good thing to say.

Tien-tsin Huang
JPMorgan Securities LLC

Okay. Terrific. Jeff, thank you for being here. As always, really appreciate it.

Jeffrey Steven Sloan
Chief Executive Officer & Director

Thanks for having us. It's great seeing you guys. Yeah.

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