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Global Payments, Inc. (GPN)

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CORPORATE PARTICIPANTS

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

OTHER PARTICIPANTS

Daniel Perlin

Analyst, RBC Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

Daniel Perlin

Analyst, RBC Capital Markets LLC

Thanks, again, for hanging out late in the day. A lot of you were just in this room, but I'll do the gratuitous statement. My name is Dan Perlin. I cover payments, processing and IT services here at RBC. And our next presenting company is Global Payments, whom I've known for such a long time now, I tell you. I think I cut my teeth on you guys when you went public years ago.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

You've been around the name a lot longer than I have.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Yes. I know that's pretty sad, right. But joining us today is Cameron Bready. He is the Chief Financial Officer at Global. And so thank you so much for being here. We really appreciate it.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

Yes. Thank you so much for having us and thanks everyone for your interest in Global Payments. We're really delighted to be here today.

QUESTION AND ANSWER SECTION

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Always a pleasure. So what I thought if we could start kind of at the high level and then continue to drill down is, is this idea around, let's just say, aggregate organic growth. And maybe we could parse it by domestic versus international for the moment.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Sure.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

And one of the things that we look at and we spend a lot of time on is this idea that there is a secular underpinning versus market share gains that are taking place. And I feel like, in some markets, it's much more secular and in others you guys, as a result of your strategy, are just taking a lot of share. So if you could maybe parse those a little bit again in the context of domestic versus international.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Sure. I'll start here in the U.S. I would say, by and large, if you think about the U.S. market, a lot of the success we're having in growing our direct distribution businesses in the high-single-digits collectively comes from gaining market share. That really starts with our OpenEdge integrated business that's growing mid-teens where we're essentially integrating our payments technology into software partner, ISV partner platforms and then distributing those services to small to medium size merchants in the U.S. market.

Growing that business again mid-teens, hard to suggest that we're doing that without gaining market share. I think our toughest competition in that market tends to be inertia, right, which is a lot of our customers have existing merchant acquiring services today and getting them to move to the integrated platform take some effort on their part, but the value proposition is pretty compelling for them to do that. In our other direct channels, I think, again, it's largely a function of providing a level of service, product and innovation that is very differentiated in the marketplace, particularly relative to some of our traditional ISO and bank-based distribution competitors. And I think we've been very successful as a function of that in growing our market share in that channel.

As you get outside of the U.S., we're in 29 other markets around the globe. So, without hitting them one by one, I would say, we tend to see a combination of good secular trends in the markets that we serve outside of the U.S., where you have hopefully stable, underlying GDP environments, good trends as it relates to more paper transactions moving towards electronic-based transactions, and our ability to combine technology with distribution in a way that allows us to benefit from the market-related growth plus obviously gaining more market share over the course of time from other competitors in those marketplaces.

So, I'd say, by and large, the fundamentals of the business really around the world with maybe a couple minor exceptions are very good. The secular trends are good. And I think we've done a very good job again of

combining distribution and technology in a way that's allowed us to improve our market position in most of the markets that we serve.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

When you think about the integrated model, obviously, let's just say in the United States for the moment, and you think about the legacy business that you could be taking it from. I mean, it would appear that the legacy ISO market has become materially weaker over the years. And as you integrate a lot more technology and particularly at the front-end, it seems like it's even more fractured for the ISO market. Are you seeing that? Is that a strategy or is that just a byproduct of the technology that you guys are employing?

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

I think it's more of a byproduct of the technology we're deploying. I think, to a larger degree, many of the ISOs are, to some degree, structurally disadvantaged and that they really lack the scale and with some exceptions, of course. But, by and large, often lack the scale to be able to innovate and keep up with the pace of technological change in the sector. And I think the advent of integrated solutions like we have with OpenEdge have really helped to transform and really started away, what I think, is going to be a continued verticalization of the market in the U.S. over the course of time.

I think Software as a Service and cloud-based software solutions will kind of democratize small-to-medium size business the way that the Internet did [ph] e-commerce (04:40) to some degree. And I think we view that as something that will drive more and more verticalization in the market. Every vertical, every small-to-medium size business is going to have the opportunity to have software delivered on a cloud-based solution with payments integrated over the course of time. And I think we're as well positioned as anyone to really benefit from that ongoing trend. And I think it's largely going to come at the expense of non-integrated solutions or other solutions that lack either the right product and technology to be able to support merchant customers in an ever increasing complex environment.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

How much of the market do you think is represented by that opportunity? So, we looked at it and I thought it was somewhere around 15% to 18% of all payment volume in the United States, was still kind of in that non-integrated more ISO like volumes.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Yes. I don't know that I have a specific estimate for how much of the market today is sort of non-integrated. I would say the portion of the market that's non-integrated is a lot higher than 15% to 18%.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

I was thinking more ISO.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

But the ISO is – that's probably a good representation of the ISO market, but I'd say the majority of the market today is still non-integrated -

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Yes. Sure.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

As we think about it, particularly at the small-to-medium size channel and that's obviously what we're most focused on. So, I think, there is a long runway to continue to penetrate the integrated payments model into verticals where we may have a presence today. Even in our most penetrated vertical, we're probably 20% to 25% penetrated. On average, we're probably 10%. And then, there is a lot of verticals that we don't touch today that, I think, have good payment fundamentals, where there'll be an opportunity longer-term for us to pursue the integrated model, either through OpenEdge, our partnership model, or where we may choose to be the ISV ourselves and own the software ourselves as a means by which to drive more payments throughput.

What I like about the model we have today is we have an integrated/vertical markets business where we have both a partnership model that coexists with a model where we are the ISV. And in particular verticals, we may pursue the vertical as the ISV ourselves. In other verticals, we may decide the OpenEdge partnership model was the right way to attack and exploit the opportunity that exist in that particular vertical market for payments.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Yes. Well, it was interesting, because, for a while there, you guys were very international focused, had done a lot of deals acquiring businesses outside and/or joint ventures. And then Heartland came around. That was kind of a double down back into the United States, I think, caught some people by surprise. But now as we look back, having been at it for a little bit now, what are the lessons learned for making that decision now? I mean we talked a little bit about synergies and stuff, but I'm more about the strategy.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Yes. I think, strategically, we view Heartland as a really compelling proposition for us. And I'm a little surprised that people were surprised, quite frankly, because since I've been here for the last two and a half years, I've been asked about consolidation in the space. When are we going to see more consolidated in the space? And then when we actually consolidate in the space, you get the question, well, I'm surprised you're consolidating in the space.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Right.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

So, I'm a little surprised that the market was surprised. But I think we really viewed it through the lens of – look, the U.S. is the most dynamic and largest payment market in the world.

Daniel Perlin
Analyst, RBC Capital Markets LLC

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Yes.

Cameron M. Bready
Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

And we had a business from a direct distribution point of view in the U.S. market that was arguably a bit nichey. We love our integrated business, don't get me wrong. It's a fantastic business. But it's a \$300 million business. We had a nice business in gaming which is a sub \$200 million business. And we had our wholesale business. And that was the extent of our U.S. business. And the wholesale business is shrinking and it's not a strategic priority for us clearly anymore.

So, the thesis around Heartland was driven by a few different things. One is we felt like we needed a more durable, sustainable, long-term distribution model in the U.S. market, one that was horizontally focused, that would complement our vertical market focus through OpenEdge. Secondly, it's unusual to find opportunities to combine businesses in the same market, in the same line of business without meaningful channel conflict, particularly from a distribution point of view.

And what we liked about Heartland was that we had an opportunity to add a lot of horizontal distribution to our platform without a lot of channel conflict from a vertical point of view. And, secondly, in the markets where Heartland had made more specific vertical bets – higher education, lower education, restaurant, hospitality – those were not verticals that we were really in with OpenEdge today or when we did the deal. So the vertical complement was very nice. And then the broad-based horizontal distribution to complement that to create a more durable business long-term in the U.S. market we thought was strategically a very compelling opportunity.

That coupled with the obvious scale benefits from putting together our 7 billion transactions a year with their 4 billion and our \$450 million of transaction volume with their \$150 million, the scale benefits of these two platforms together was a unique opportunity. And we essentially could, through expense synergies alone, increase their EBITDA by nearly 50% and effectively purchased the business for a very low double-digit multiple from a value creation point of view as a highly attractive use of capital.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Okay. You talked about being pretty far along if not mostly along on the integration process of this. And I think there is some skeptics out there that wonder if that's really entirely true, if there is not a lot more still on the come. So, just give us an update at least in terms of cost synergies and then we'll shift over for the revenue synergy side of that equation a little bit.

Cameron M. Bready
Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Yes. So I would say a couple things from an integration point of view. It's important to remember that, I think, our entire approach to integration has been with an eye towards not disrupting the sales momentum in the distribution channels that we acquired with Heartland. So, we've put a high priority on ensuring. And nothing we're doing from an integration point of view is going to slow the rate of organic revenue growth in the business.

And, as a result of that, we've made certain decisions not to do things that might have otherwise taken expense out of the business for fear that they could have created some disruption on the sales side of the business that we

didn't want to do. So, if you think about where we are from an integration point of view on an expense or from an expense perspective, there is really three major buckets of expenses that we'll chase out of the business over the course of the integration process.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Okay.

Q

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

One is broad-based sort of corporate support functions, public company expenses, traditional obviously synergies you would expect to see in public company deals. A lot of that work is behind us.

A

Daniel Perlin

Analyst, RBC Capital Markets LLC

Yes.

Q

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

And there's a lot of what's contributing to the realized benefits we expect in fiscal 2017, the \$60 million that we updated in our first quarter call. We've also made substantial progress in integrating our operating environments. They had an operating center in Jeffersonville, Indiana. We had one in Owings Mills, Maryland. We've now essentially shut our Owings Mills facility, migrated that work to a combination of the Jeffersonville facility, which will be our go-forward service center in the U.S. market and our captive offshore in the Philippines and much of that work is behind us as well.

A

Daniel Perlin

Analyst, RBC Capital Markets LLC

Okay.

Q

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

I'd say the long tail from an integration point of view is really around technology. We have gone through a concerted effort to assess their technology environment, the applications and platforms that support their business today. We obviously have a good understanding of ours. And we've developed a target architecture model for the combined business, which is predominately made up of Global Payments' legacy technologies, but there are certainly applications and technologies that Heartland utilize today that we think have a lot of value for the pro forma business. And we've weaved them into the architecture model as well. And now we're working towards migrating from our current state technology environments to the target architecture model that we want for the pro forma business. That will be kind of the long tail to integration. That's work that will be focused on through calendar 2017 and into calendar 2018, but that will be the sort of last remaining elements of synergies to be realized, will all come through the technology integration activities.

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Daniel Perlin

Analyst, RBC Capital Markets LLC

And is that a number that's been contemplated and given out to the public -

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Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

It's in the \$125 million target.

A

Daniel Perlin

Analyst, RBC Capital Markets LLC

Okay.

Q

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

So as we think about the \$125 million target, about a third of it comes from each of those buckets, about a third from corporate support services and other public company expenses, about a third from the operating environments and about a third from technologies, so all-in the \$125 million. As we thought about synergy realization, we originally thought we'd realize about \$50 million in fiscal 2017. We've upped that now to \$60 million. We're six months into our ownership of the business. I think it's a little early -

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Daniel Perlin

Analyst, RBC Capital Markets LLC

Yes.

Q

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

To suggest that we're going to exceed the overall \$125 million of run rate synergies target that we've established for the business. But I think it's clear that we're making very good progress. We're quite pleased with the momentum we have. We're ahead of schedule with a lot of the more important elements of synergy realization. I think we feel very good about kind of where we are in terms of, at a minimum, meeting that \$125 million. And obviously our objective is to exceed that.

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Daniel Perlin

Analyst, RBC Capital Markets LLC

Yes.

Q

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

At the same time, we need to make sure we have the right structure to run the business long-term and continue to grow top-line at the rates we target for the business. So, there's always a trade-off in terms of trying to chase cost out of the business, but making sure you have the right infrastructure and you're investing in the business the right way to continue to support the top-line revenue growth we want to achieve.

A

Daniel Perlin

Analyst, RBC Capital Markets LLC

Right. When we think about the revenue synergies on the business, where do we stand in terms of that uptake? Because I know you spend a lot of time on the cost synergies, but -

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Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Yes.

Daniel Perlin

Analyst, RBC Capital Markets LLC

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I think there's still some questions. And then also coming out of the quarter, I think, there were some questions about whether Heartland is growing at a certain rate or not. And so -

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Yes.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Maybe clear the deck on that a little bit.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Oh, sure. I mean I'd be happy to address both of those. I'd say, first and foremost, Heartland is growing very well and certainly in line or in some cases better than our expectations. We've talked about the Heartland sales performance for the first several months of ownership. A majority of those months have been record sales months for Heartland. So, we're very pleased with the rate of organic growth that we're seeing in the Heartland channels and are delighted with the momentum that we have in that business as we look towards pivoting our fiscal year to calendar 2017 in the upcoming months.

As it relates to revenue synergies, we've done a lot of work early on to, I think, fertilize the ground, for a lack of better term, to drive more revenue enhancements from putting these two businesses together over the course of time. We've already enabled our sales forces to trade leads in different markets around the world in which we operate. We've already enabled our platforms and Heartland platforms, so our sales professionals can sell either Global Payments products or Heartland products on to either platform in the U.S. markets. We've enabled some of Heartland's vertical businesses, particularly Campus Solutions and Heartland Commerce, which is our point-of-sale software services business, to be able to – [ph] or re-tropicalize (15:40) them, for a lack of better term, in Canada.

So, we've enabled those solutions in Canada. And we've recently closed our first cross-sell in Canada in terms of an existing Canadian merchant for TouchNet, which is our Campus Solutions business. We've signed them as a merchant acquiring customer. They were having their merchant acquiring services provided by a different entity. So we are making good progress, I would say, in terms of laying the ground work that will help drive the incremental revenue enhancements we expect from putting these two businesses together, which we've estimated to be a point or two points of incremental revenue growth over time, which would be about \$30 million to \$60 million of incremental revenue for this business.

It will take time for those opportunities to scale meaningfully to get to those numbers, but we're very pleased with the progress we've made while also obviously executing on the expense side of the equation. And as we thought about the economics of the deal, none of the revenue enhancements or a potential pricing opportunities in the

portfolio were ever contemplated in the economics. That's all upside, quite frankly, to the accretion that we estimated and expected to realize in the transaction.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

When – and pricing was one of the things I wanted to talk about. Since you brought it up, we'll just go with that. When you think about that opportunity, is that more in the calendar 2017 or calendar 2018 horizon? You have to have more of the full go-to-market strategy, totally integrated before you can make those kinds of arguments, to demonstrate the value that you're going to be giving, because I'm assuming you're going to want to work the price increases in at some point.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Yes, but I think it's less about pricing explicitly. It's more about ensuring that we're being compensated appropriately for the value that we're delivering to our customers.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Right.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

I think we and Heartland prior to the transaction had a shared philosophy as to how we wanted to approach the market. We wanted to provide very high levels of service, very high quality, reliable, available services to our merchant customers in a high touch service environment. I think we felt like we were selling Cadillac services at Cadillac prices. And they were selling Cadillac services at Ford prices. So I think there is an element of really ensuring that the model at which we're operating under is durable long-term. And I think selling Cadillac services at Ford prices long-term is not a durable model. So, philosophically, we've been working to ensure we're all lined on the model that we're trying to deliver in the U.S. market and it's one that's geared around ensuring that we're being paid and the services that we're delivering are being valued appropriately.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Yes.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

There is lots of ways that we can then work to ensure that that is happening in the Heartland portfolio. In particular, some of that can start with how we approach the market with our pricing philosophies and part of it is how do we ensure that we're getting paid for product, services, innovation that we're working to deliver customers over the course of time. So, I think, pricing is one of those things that we're going to work to address over a fairly long period of time. I think it has the potential to be a long-term tailwind for the business if we manage it effectively. And, again, it's not about pricing for pricing sake. It's really about ensuring that the model we're operating under and the value of the services that we're delivering to our merchants we're being paid appropriately for that.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Yes. The compensation models that you're using for the sales forces, are they all now fully integrated or did you bring over some of Heartland's way in which they wanted to compensate their sales people versus the way you maybe have done it historically?

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Yes. What we essentially did is we've merged our direct sales professionals in the U.S. market who are not OpenEdge and are not in our gaming business.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Okay.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

We've merged them into the Heartland model.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Okay.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

So part of what we committed to out of the gate with the Heartland transaction is we're going to keep in place the go-to-market strategy through the 1,400, what we call, relationship managers, who are selling horizontally across the U.S. market. Their compensation structure, which is essentially a commission plus benefits model, it's an eat what you kill model as I refer to it -

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Yes.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Has been very effective for them and they've been working on fine-tuning that model over a number of years. And I think they have the calculus right. And it's working well. And it's a very good model for those sales professionals. So we've migrated all of our team on to that particular compensation model. And that will be our go-to-market model for broad-based horizontal distribution in the U.S. market going forward.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Okay. We have about four minutes left. Can we talk a little bit about Europe and Asia Pac, kind of what you're seeing in the opportunities there -

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Sure.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Obviously JVs and things of that nature. So what specifically and particularly are you seeing coming out of Europe right now?

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

So I would say we continue to be very bullish Europe, but are mindful of obviously the near-term potential implications of Brexit.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Yes.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

I think, long-term, we view Europe as a constructive market. Cost of acceptance across Europe is coming down. We like the asset base that we have in market. We like our management team there quite a bit and are very bullish about long-term prospects for continuing to invest and grow our European business. I think it's fair to say in the near-term we're being a little bit cautious about that in light of obviously the potential implications of Brexit, both for what that means for the UK domestic economy where we have a large business today but as well as what it might mean to the rest of the EU market.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Right.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

But I still think long-term we remain bullish Europe. We're very pleased with the Erste joint venture that we closed in June. That gave us good exposure to high growth secular markets in the Czech Republic, Romania and Slovakia on a direct distribution basis. We've always been in the Czech Republic -

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

I know.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

On an indirect basis. You know that well.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Yes.

Cameron M. Bready
Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

But having direct distribution now in that market, which is an attractive payments market, is very good. And we're very pleased with the progress we're making on the integration of that joint venture.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Okay.

Cameron M. Bready
Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

So Europe long-term is a market where we're excited in. I think the same about Asia. Very pleased with how our team in Asia has performed through certainly fiscal 2016 that had its challenges particularly around some macro softness we saw in the Greater China markets to which we have exposure, which, for us, is Macau, Taiwan, Hong Kong, and China itself. And Q1 was a fantastic quarter for Asia, double-digit organic growth, really demonstrating that the efforts we've made over the course of the last few years to diversify our business in Asia outside of the Greater China markets. Malaysia, Singapore, Philippines, and Australia in particular have proved to be effective. And we couldn't be more pleased with our business in Australia that is contributing meaningfully to the overall rate of growth in the Asia Pacific region. And our team down there does a terrific job in growing and managing their business.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Okay. What's kind of more near-term and just turning to the numbers? The pound has been obviously difficult since you guys reported numbers.

Cameron M. Bready
Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Yes.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

To say the least. And I don't think you had that factored into the forecast. What is the takeaway effectively? I mean the pound dropped quite a bit, almost literally as you reported.

Cameron M. Bready
Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Yes. Unfortunately, it's probably within the first couple days -

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Yes.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

After we reported our first quarter results. We saw the pound deteriorate another 6%, 7% relative to the 15% plus it's been down or was down in Q1 year-over-year. So, obviously, we thought we'd see a little more weakness in the pound. We didn't expect it to occur within the first couple days after we guided. But, needless to say, we did expect it to weaken a little bit further just not that quickly and maybe not that severely.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Yes.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

So, the pound will be an incremental headwind that we'll manage through in Q2 and for balance of the year. I think on the good news side, we recently announced that we refinanced our debt portfolio. And the benefits of that I expect to result in – after using some of those savings to lock in a little more interest rate exposure I expect to generate about \$10 million to \$20 million a year of interest expense savings. So that will serve to offset a little bit of the incremental pound headwind I anticipate for the balance of the fiscal year -

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Yes.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Which is nice to have. And currency is one of those things where we're in our third year I think of chasing currency.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Yes.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Two years ago, we grew 18%, 26% on a constant currency basis. Last year, it was 18% reported, 29% constant currency. And this year, we've guided 16% to 19%. So the midpoint of that is close to 18% again -

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Yes.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Which would be probably mid-20% constant currency again. So I think we've done a – not to pat ourselves on the back, I think, we've done an extraordinary job of managing through a very difficult currency environment, still printing -

Daniel Perlin

Analyst, RBC Capital Markets LLC

Yes.

Q

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

High-teens growth in the business. Eventually currencies will flatten. I sort of jokingly say flat is the new up for currencies. And I'm anxious to get to flat, because, I think, obviously, the real underlying earnings power of the business will be a lot more visible and we're not chasing currency headwinds.

A

Daniel Perlin

Analyst, RBC Capital Markets LLC

Understood. And, I guess, for the final question, because we look like almost out of time. You're transitioning to a calendar year.

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Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

Yes.

A

Daniel Perlin

Analyst, RBC Capital Markets LLC

That always can create some noise, stub periods. We all have to kind of make work. Do you want to head off anything here that we should be mindful of and the process for that? I know you have some filings that are going to come out.

Q

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

Yes. No, I think, it will be a fairly straightforward process for us.

A

Daniel Perlin

Analyst, RBC Capital Markets LLC

Okay.

Q

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

We'll report our fiscal second quarter, which is the September through November quarter on our old fiscal schedule. We'll report that in early January. That will also be an opportune time for us to provide guidance for calendar 2017. So very early in 2017, we'll have a guide out for calendar 2017. In February, we report a stub period 10-K, what's called a 10-KT, a transitional 10-K for the seven months ended December 31, which is really going to be our first two quarters plus -

A

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Right.

Cameron M. Bready
Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

December but December is kind of a – we're not going to do reporting for one month.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Right.

Cameron M. Bready
Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

And then we'll transition to a new calendar reporting cadence in late April, early May, like most calendar companies do. So, I think, by virtue of how our quarters line up that works out fairly well. We'll report fiscal second quarter as we normally would and then we'll transition to a calendar quarter reporting cadence thereafter.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

And no change to the original guidance that you gave us in terms of calendar?

Cameron M. Bready
Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Yes. We gave an early preview of -

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Yes.

Cameron M. Bready
Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

Calendar 2017, as you know back in our July timeframe, that \$3.75 to \$4.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Yes.

Cameron M. Bready
Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

We haven't updated that since.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Okay.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

And that was as a reminder a constant currency guide. So, obviously, there is going to be some currency implications, as we look towards calendar 2017.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Okay.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

A

But, I think fundamentally, we have fantastic momentum in the business. So, I think, as you look at the underlying health and performance of the business, it's very good, which gives us a lot of optimism, as we head into calendar 2017.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Yes. As the numbers look, they look like they stack up pretty well as you're going to calendar 2017. So, well, look, we're out of time. Thank you so much, Cameron, for being here. Always a pleasure.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

Thanks very much.

Daniel Perlin

Analyst, RBC Capital Markets LLC

We appreciate it.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

Yes. Thanks for hosting us.

Daniel Perlin

Analyst, RBC Capital Markets LLC

All right. Thank you.

Cameron M. Bready

Chief Financial Officer & Executive Vice President, Global Payments, Inc.

Thank you, again.

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