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Global Payments, Inc. (GPN)

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MANAGEMENT DISCUSSION SECTION

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Are we good to go? All right. Terrific. My name is Tien-Tsin Huang, I'm the Payments Analyst at JPMorgan. So really excited to have Jeff Sloan back with us here, CEO of Global Payments, to give us an update. Lots to talk about, Jeff. And format-wise, we'll do a fireside chat again, no presentation, definitely going to open it up to Q&A, so if you've got questions, don't be afraid to raise your hand and we'll get to you for sure. So, Jeff, thank you for coming.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

[ph] Thanks, Tien-Tsin (00:28).

QUESTION AND ANSWER SECTION

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

So we've been asking everyone the obligatory sort of Trump question. So let's start with that. With the elections and the Congress going to the Republican control and Trump as President-elect, any sort of initial thoughts on implications for Global Payments and I guess for payments, in general, Jeff.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

So I think our business – so I need to [indiscernible] (00:48)?

So our business is 70% revenue-wise in the United States. So the most important thing for our business globally is the health of the economic environment and that's, of course, true here in our home market in the U.S. So I think if infrastructure spending and some of the pump-priming that the new administration has talked about comes to pass, I think that will do nothing but help the SME environment in the U.S. As we said in our call that discussed our August results back in October, Tien-Tsin, Heartland, in particular has seen record new sales and low attrition, and that was true before Trump won the election.

So I think, if in fact those things that have been discussed come to pass and the U.S. GDP accelerates as it did in the last quarter to 2.9%, if we continue to see that in our 70% kind of core market, I think that will only be more good news really for our business. I would say that as it relates to the industry beyond the kind of sector rotation and some other stuff, certainly FX rates have moved post the election. I think the U.S. dollar is certainly at 12-month high, it might be [ph] higher than that. I know I'm in the (02:04) office, but that is certainly something that's caused some fluctuation since the election. But to be candid, we've already absorbed a lot of the FX over at Global. So, fiscal 2015, we grew earnings 18%, 26% constant currency; 2016, we grew at 18%, 29% constant currency, and our guidance this year is 16% to 19% EPS growth.

And we've assumed, as Cameron said, at least 300 basis points or 400 basis points of EPS impact from currency, if you go back to our guidance. So I think we've shown that we've been able to grow through and have grown through FX headwinds, but that would probably be the other obvious thing that's changed in the last week.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Okay. That's helpful to hear. So, with that out of the way, you mentioned sort of the consumer in general, but maybe just a quick walk around the globe, like we've done in the past, Jeff, just talk about what you're seeing from a consumer health standpoint.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Right. So, the consumer in the U.S., certainly before the election and certainly through the call we had in October is really healthy. If you look at what we described in our call, which is high-single digit, which by that, we mean 7%, 8% or 9% organic direct revenue growth in our core U.S. market. Both legacy Global as well Direct, as well as Heartland, as we described it, that is obviously very much consistent with our three to five-year kind of cycle model. So – and that's been our guidance also for fiscal 2017. OpenEdge grew yet again mid-teens revenue. We

now have owned that business for four years and a month or two, and that's been a consistently good grower. And so, we feel very good about our business here in the – in the United States, both legacy Global as well as, what I'll call legacy – legacy Heartland.

As I said a minute ago, Heartland in the four months through August, we got in our October call that we've owned and partnered in that business has had fantastic new sales results, by the way, really don't translate into revenue this year, right, because you sell something today, really has an impact next year. It doesn't really impact this year much, in general, across our businesses. 0.2% to 0.3% of revenue growth at Global in any country that we're in really is from [ph] inure sales, that's the inure impact recognized of an inure (04:25) sale, but nonetheless, it's a sign of the health of the business, Tien-Tsin, as we said in the call. August was the best new sales month ever, right, for Heartland. And I think of the four months we've owned that business, three of the four have been records, right, for – for Heartland, the largest individual win in the restaurant area as we said in our July call. So, hard not to argue that those businesses are all kind of firing on all cylinders. I would like to take complete credit for it, but Heartland was doing well before we bought it, right? So, I view ourselves as making sure we don't break it. That was as part of it and so far so good. Well, we're obviously taking out a lot of expense, but clearly being able to help the acceleration of revenue growth.

Canada [ph] has proven (05:06) another good consistent kind of low-single-digit local currency quarter. Obviously, the Canadian dollar pre-election and certainly post-election was about a 1 point or 2 point headwind in the quarter, but the Canadian consumer yet again – I lost track of the count, Isabel may know, but what is that, 40 consecutive months or whatever it is, you've got a good stable performance in Canada.

The real surprising bright spot, I say surprise, I would like to be pleasantly surprised, is Asia. As we said in the call – and to a certain extent, parts of Europe. As we said in the call, I think Asia had the best quarter in the first quarter since I have been at the company in about six-and-a-half years. If you look at BAU Asia, which I describe as Greater China, Singapore, Malaysia, Philippines, et cetera, had a fantastic performance even before we've anniversaried some of the macro headwinds that we had in China last year. So, that stuff has now anniversaried really in September and October. But certainly back in August, we're yet to lap that BAU Asia and those markets I described did very, very well. And, of course, Ezidebit, which we've now owned for two years and a month or so [ph] poised to get (06:15) another 20%-plus top-line organic quarter at 40% margin. And it's really hard to see how those guys could do any better. As a result, growth in Asia organic U.S. dollar terms is 11% [indiscernible] (06:29) 11% organic top line, again, best performance I think since I have been at the company.

And then, Europe, in particular, the United Kingdom where everyone in the room and I was watching on the impact of the Brexit, as we said in the calls in June, reported a mid-teens revenue growth quarter in the UK. Spain is now – in September, double anniversaried the SEPA benefits [indiscernible] (06:54) that business is now growing at double digits, as we described in the call. So, it's hard not to look at Europe, which grew I think 11% overall top-line local currency, and be anything other than really pleased, especially given our concerns in June with the Brexit vote about where we're going to be. Now, obviously, FX is in a slightly different place, the pound and now the euro post the election, to answer your question about the election. But having said that though, this was probably one of those quarters that across a portfolio of 30 countries really you didn't have any one country you had initially. Usually, we have something in Russia or we have something in Greater China. There's always something that kind of goes bump in the night that we need to work through, that's what a portfolio is, right? We really didn't have that, Tien-Tsin, at all in this quarter. As I think you noted in your note, we also anniversaried – we had a very good quarter and yet still grew 15% EPS constant currency and did that while we were accelerating margin. Especially in North American business, [ph] we grew (07:57) margin 80 basis points constant currency [indiscernible] (07:59). So, we feel very good about the fundamental health of the consumer, and I'm hopeful that the new administration will just [indiscernible] (08:06).

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

So, let's walk in – I have a few questions on [ph] EZ-Fee (08:06). So, within Asia Pac, right, So accelerated double-digit as you called out. How much of that is sort of energy from new sales versus Ezidebit and some of the momentum that you see there? I'm just trying to get a sense of how sustainable the double-digit growth rate is because you're now playing above the Visa and MasterCard growth rates?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, I think that's a great question. So, listen, it's hard to say that Ezidebit is sustainable at these high-20s organic revenue growth rates. When we bought that business, we thought, to answer your question, low-20s was the right number, right? So, kind of the target over multi-year period was 20% organic local currency revenue growth, yet, they produced high-20s. We haven't seen any signs of diminution. Actually, to say, it's been accelerating better margins than we thought. Our target for Asia – for all of Asia has always been high-single digit, low-double digit [indiscernible] (08:58). Right? Just to pick a number, local currency organic [indiscernible] (09:03). Right? So, I would expect the margin to flatten a bit. We – as we headed into a difficult environment, Tien-Tsin, a year ago in Greater China we took a lot of expense out of that business. As a result, margin was up 400 basis points, 500 basis points in some of the quarters, that obviously won't continue. But I will say, if you see a business that's 40% margins, which [ph] Ez (09:03) is growing at 20% to 30%, margins [ph] will definitely increase (09:03). They just want to increase the same rate. So, our guidance for the year is kind of flattish margins in Asia, but I would say [indiscernible] (09:34) beat that a little bit just because of the growth in Ezidebit. But I would expect 10% [ph] whole (09:03) kind of number in that business, we're beating it now. And as China has anniversaried in terms of the macro headwind, that will make a little bit of an easier comparison. So, [indiscernible] (09:49) little bit ahead of that. But I certainly think 10% is a good number to target top-line over the cycle, especially we're growing margin in that business.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

You've got some good distribution in Asia, Jeff. So – and I know you focus on a lot of things certainly in the United States. So how would you rank organically, inorganically investments in Asia across your entire book of business?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

So, the nice thing about – what we have, Tien-Tsin, is a common platform operating technology wise worldwide which is obviously we think very distinctive to Global Payments. So for example, we just announced yesterday just to go to the other side of the world that we rolled out OptBlue first-in-market [indiscernible] (10:23) from American Express. First-in-market in the UK market for OptBlue, I raised that because it highlights the ability to leverage our U.S. and worldwide infrastructure to all products more quickly than our competitors. We're first to market in the United States among the large acquirers. First to market in Canada, first to market in the UK, obviously we're looking at Asia too. We're the only company that I know of have been acquiring, that's in every single market with Apple Pay [indiscernible] (10:49) period.

So the way I would look at that question is, as it relates to the organic nature of our business, we have the ability to take investments we've made in the United States and our worldwide infrastructure and roll those out in selected markets, Apple Pay and Android Pay, and that stuff in Asia is a really good example of that. As it relates to inorganic opportunities in those markets, we probably have many M&A opportunities today as we really ever had at the company, lot going on in Asia and Europe. Obviously, we have more debt today that's above our target

ratio, little bit above 4, we'd like to be at 3, 3.5, we were at 2.9 right before we did Heartland. Having said that though, we're delevering fairly quickly and I expect us to be step forward by the time we get to the end of fiscal 2017, which is still May, until we hit kind of January and probably closer to our normal [ph] level has been in (11:42) calendar 2017 at which point we'll have fully assimilated Heartland.

So we have lot of capacity. We're [ph] doing a (11:48) fair amount of free cash flow. If you look at our refinancing, which I'm proud to say, JPMorgan is a partner in, so thank you for your support there, as an institution. What I would say is that, the confidence expressed in us six months after the deal to take out half the term loan B, and as Cameron said at the announcement, to reduce interest expense by \$10 million to \$12 million net of expense, net of hedging, I think is an endorsement of our ability to generate the kind of cash flows and make the right kind of investments and execution in those areas where we've invested. So, fair amount of capacity, there's a lot of stuff out there that's available and we're looking kind of everyday at what to do.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Okay. Let me ask one more on Europe and then with the U.S. and then open it up. Just on the Europe side, UK, you mentioned OptBlue roll out, but UK, I get a lot of this kind of feedback, the split between the pricing and then I know you've invested in your sales execution, so similar to my question in Asia, how sustainable is that, kind of mid-teens growth in the UK?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

So, the nice thing about where the UK is, Tien-Tsin is, it's really a creaky door, right? That you guys have over there.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

That's all right. It's okay.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Anyway the – like a house of horrors.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

I know, I know.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

The nice thing about the UK is SEPA anniversary, which by the way is in early December, so it will not impact this quarter, is that while the UK is anniversarying SEPA, Spain has just finished the anniversary right in September. So, as I mentioned before, we've had quite a period of double-digit volume and transaction growth in Spain and now we're starting to see as we expected and consistent with the way we guided, double-digit revenue growth, right in Spain.

And while it's a smaller business, nonetheless it's a very profitable, kind of higher growth business. So, you're not going to see a significant fall off in our UK business as you know from us. Even if we have been anniversarying of the SEPA reduction, in our judgment, it's usually 18 to 24 month period before the spreads return to pre-SEPA reduction levels and whatever changes typically happen with [indiscernible] (13:47) right away. So those are already anniversaryed so to speak and those are already in our numbers. So our guidance for 2017 for the May period, end of 2017, is mid-double digits local currency revenue growth in Europe period, right? And of course the UK is the largest business...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

...for us in Europe. So, when you think about that and think about the fact that half the fiscal December to May is already anniversarying, yet our guidance is mid-teens. That should make you feel really good about where the UK business is as it relates to Europe.

So, it's going to be I think quite some time before we're seeing spreads, get competed back, based on our experience, that's what they were prior to the reduction in the first place. And I'd say, we have the nice offset in Spain, which we haven't had in other markets, you know in Durbin annualized, United States, there's really no offset, offset Durbin, but here we have the opportunity in Spain to offset any marginal headwind coming out of the United Kingdom. And that business, now [indiscernible] (14:43) predictions about the Brexit, continues to perform at very good levels [indiscernible] (14:48).

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Good. Yeah. So...

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

...before I do U.S., I'll give the audience a chance to ask questions if there are any yet? There on the back. Let's wait for the mic.

Q

So. I just wanted to check, so you mentioned the Asian – and the Asia market is a surprise there in your opinion. So what is that – is it the fundamental something change – fundamentally something changed or it's just the easy comps you had versus [indiscernible] (15:15) like what's really going on there. Can you elaborate more on that?

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

No. it's actually kind of hard comps, because we hadn't yet anniversaried the macro headwind in China and the quarter end in August, now we have. Right? So, I think this quarter will have a little bit of an easier comparison. But last quarter, in Greater China, we really had not.

I think to answer your question is, really when we took over two or three years ago, we really redid the strategy across Asia, so the products and services that we sell into Greater Asia today, so we're selling for example, Ezidebit integrated solutions into Hong Kong, is one example. We're selling Apple Pay into merchants, multiple geographies in China. Hong Kong is another good example of that. We signed the Apple Store in iTunes in Taiwan, which is very good execution. And as we all know, when the phone comes out, that actually could have a meaningful list, as it did, iPhone 7 in some of those markets.

We've a joint venture with Bank of the Philippine Islands. Our business in the Philippines was growing at a very good rate in the first place in that we partnered with the second largest bank in the Philippines and may have 28% of the Filipino market and that business is performing very well. And I would really say it's a refocus on sales.

So we think we're undersized in certain markets in Asia, India will be example, Mainland China will be an example where I don't think that we're at our punching weight. We're very well represented in the Hong Kong and in Singapore and Malaysia. But in some of these markets, we were not and refocused our efforts on sales execution, better products and services, better technologies, that kind of things, and as a result we're starting to see the fruits of those investments early.

Now we would have expected to see those later this fiscal year, but we started to see those in the beginning part of this year. And then I don't want to look away from E-Z Data, which we now own for two years and a month or so, so it's more than annualized. [indiscernible] (17:03) a few minutes ago, I didn't expect that business to grow north of 20% on a compounded annual basis years after we expected to about 20%. So that certainly is outperforming and certainly helping relative to my expectations of organic growth. And they're just doing a fantastic job.

[indiscernible] (17:17) which is not in that number, we now have 25% of the online e-commerce market in Australia and New Zealand and that's also growing at a very quick rate and that's additive to the numbers I gave you a few minutes ago.

Q

And if I can add one more question.

A

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

Yeah.

Q

Completely different topic. With the financial institutions regulation possibly going easier now...

A

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

Yeah.

Q

...with Trump, is there any effect on you guys, positive effect at all, or is there anything like a relation there at all that we can think about or that's just not even affecting your business?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Well, listen, we're not a bank, right?

A

Q

Right.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

So the short answer is that I don't think there is a fairly dramatic effect. Most of our distribution in the United States is not through financial institutions. So I think some of our peers, and I think you saw this reflect in the few days of trading, some of our peers have more direct bank exposure where they're [indiscernible] (18:04) bank, some of the companies that Tien-Tsin covers like Sidoti and Pfizer [indiscernible] (18:07) we're not in the United States. And particularly, we're really not in that business.

I would say that when we reported in early October, no one really knew what the health of the consumer would be at the SME level and then thankfully we had the results. But also, Visa, MasterCard, First Data, TSYS, Vantiv, all very positive kind of SME consumer GDP. volume related results. And that's why the [indiscernible] (18:33).

So I think to the extent that banks, to the extent the economy grows more quickly in the United States, that there is more investment, there is less regulation, there is more bank developed in the United States, it's really nothing but good news for our business. But it won't be as direct an impact as it maybe for some of our peers who are more closely tied to bank-related partnerships in U.S. Outside the United States, we've a fair bank related business outside the United States. But I don't think those will be as directly impacted by U.S. events, like Dodd-Frank for example, as you would have been U.S.

There has been some discussions whether Durbin would be repealed. As I said many times that we operate in a lot of markets where in some markets the answer is disclosure and there are disclosure fees in other markets like the United States, it's kind of setting [indiscernible] (19:18) around data based pricing. So one thing that's common about all those businesses is that any time there is change, up or down, it's good news for our business, because it means there is complexity, there is value-added solutions we can provide to our customers who ask us what that means at the end of the day.

So to the extent that there are wholesale changes, pricing mechanisms, up or down, that kind of volatility [indiscernible] (19:43) opportunities for us, because [indiscernible] (19:47) more complicated world that our merchants have to respond to. So at the margin, if that happens, I think that's good; I don't know if that's going to happen or not. But that's something else that different people talk about.

Q

[indiscernible] (20:00) on competition in the quarter?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Globally or in the United States?

A

Q

Globally.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Yeah. So U.S. is slightly different than the rest of the world. Just to start in the U.S. first, we're primarily an SME business in the United States, and then we have a bunch of vertical markets through OpenEdge in which we compete. So certainly on a daily business, we see Vantiv with Mercury, especially on the Heartland side of the house as it relates to Heartland Commerce, which is point-of-sale software in the cloud-as-a-service, in restaurants, in hospitality and convenient stores. Certainly we see Bank of America Merchant Services, Wells Fargo, U.S. Bank, Elavon which is where Mike Passilla who is at JPMorgan now, Chase Pay came from. So, certainly we see all those things in the United States. But largely, it's segmented by vertical markets. And I would say in the markets in which we compete, we have slightly different competitors who are good or bad in each region, in each market.

It's very different in overseas where in most markets outside the United States, we can see two or three other partners who have a large share of those markets. So for example, in Canada, it's largely Moneris. The non-Moneris piece that just got sold to Vantiv in the bank side in the United States. But instead the Canadian piece of Moneris as well as TD Bank and JPM in Canada sort of one of two or three in Canada. In the United Kingdom, clearly there is WorldPay, which used to be owned by RBS, and Barclays in Spain at Santander. Although our partnership with Kaiser, we have probably 25% of market [indiscernible] (21:32). So we have by far the largest business in those markets. In Asia, really varies by country. Citigroup is one good example. WorldPay has some businesses in Asia. I think increasingly, we see people like Braintree, which is owned by PayPal and Adyen, and of course Bibit, which is part of the e-commerce business at WorldPay, go cross border.

But to the extent that things are cross border, [indiscernible] (21:54) entities Pan-Europe, which is where our Realex business competes, in Omnichannel Pan-Europe and Pan-Asia. That certainly you've seen some technology companies kind of go in that direction. PayPal is a partner of ours, and actually uses our services in a number of areas, but certainly the Braintree part. PayPal does compete with our OpenEdge and Realex businesses depending on which market you're in. So, really varies by geography and which vertical market that you're describing all of our markets are competitive though. And none of those ones that I mentioned is anything but intensively competitive. In Australia and New Zealand, there is a bunch of integrated technology companies that compete with Ezidebit and eWAY. But predominantly, in Australia, it's the banks, it's NAB and Westpac, and those banks in Australia and New Zealand but we used to have a slightly different solution, which is more technology enabled, and there are some smaller companies that compete with us [ph] out there (22:46). Yeah?

Q

[indiscernible] (22:48-22:57)?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, I would say that the market for a number of years has been fairly stable. Everything is competitive. You have pricing changes like SEPA and Durbin that kind of come and go, those get competed away as you've said, sometimes immediately, sometimes [ph] over time (23:08), as we've said in all of our businesses. But in general, it's all intensely competitive. There is very little that we do that I don't feel like we're doing on our own. I feel like it's fairly intensely competitive, but rates are stable, I would say, kind of across our business.

Q

Hey, Jeff. I was wondering if you could comment a little on [indiscernible] (23:29)?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Oh, sorry. I didn't see you there.

Q

Yeah. [indiscernible] (23:31). If you could comment a little bit on the Heartland pricing initiative and how you see that playing out over the time?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Right. Great question. So as we've said before, really with Heartland, we have not such price. Our premise going into Heartland and the numbers that we've said publically, the \$50 million in targets for fiscal 2017, the \$125 million for fiscal 2018, and now we said the \$50 million we were running 20% ahead. So the \$60 million – none of that is any assumption about pricing in those numbers that we described at the time of the deal or in October or since. Certainly as we get into calendar 2017, and we'll be reporting on our November quarter, which we still on this May fiscal year. So we'll be reporting in the second week of January, whatever that day is on our November quarter and giving guidance. For calendar 2017, we'll obviously be readdressing our view on pricing. So certainly, I would think that as we enter the back half of calendar 2017, that would be an obvious thing to take another look at.

I would separate that though from what I consider to be better management of the business, meaning a lot of what Heartland was doing was what I consider to be not well managed in the [indiscernible] (24:37) meaning our ability to deal with passthroughs from the networks and make sure that those are effectively passed on, our ability to price new products and services competitively with what we think the marketplace [indiscernible] (24:52) I think is just [ph] definitely (24:54) that it was at Heartland. I would say starting in the fall of this current year in 2016, we've applied, in particular, since the close our level of what I call cadence in operating environment to what the guys at Heartland are doing. We are not in the business of absorbing passthroughs and all these other things. And I think some of the margin improvement, and I don't really view this as price but some of the margin

improvement is better execution of fundamental blocking and tackling in the business. I don't view it as price but I do view that certainly as a way of doing business, and it's the right thing to do.

Our view is that Heartland is offering a high value-added service at a below market price. And I think over time that will change. What we are most focused on initially, after transaction was maintaining and accelerating the rate of revenue growth over Heartland. I think we've been able to do that. As that comes close to anniversary in the spring of 2017, and in my mind, that's the right time to revisit [indiscernible] (25:47) in January, revisit the conversation about price. But it's not in any of the numbers, and I think it should give people a lot of confidence that we'll certainly perform the way we've been indicating.

Q

Global has done a lot of M&A in the last few years. I'm just curious, if you have integrated all of the technology backend and how long that takes? And as the size of M&A gets bigger like Heartland, if that takes longer and if it becomes more complex to integrate that back-end?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Let me just say, everything is complicated. There's very few things that are – in technology world, that are not complicated. I would tell you though that by the time we get to – so the answer to your question is, we're in various states of consolidation, kind of around the world depends on what's going on. What I would say though is as we get into the spring of 2017, I would say that most of our Heartland integration work is done. That doesn't mean that there is no risk and that every dollar is [ph] kind of (26:43) in the bank and everything else. What that means though is that all the plans that are to be devised to complete the \$125 million of synergies and the actual effective integration are in place and are firmly under execution.

As we talked about the Heartland acquisition in the first place, the first [ph] third (27:00) was coming through executive management and as you can imagine that kind of happened the first day, right? Just look at the proxy for Heartland versus who's at the company today. The second phase was the operating environment. As we said in our October call, we have now closed the Owings Mills, Maryland legacy Global Payments office as of October 31. Some of it [indiscernible] (27:19) some settlement rationality, which will go through January, which is what we said on the call. But that operating environment work has already largely taken place.

And then, the last piece is the technical migration. That's going to start this summer, the summer of 2017. Obviously, the start in the summer that might move things over front back of 2017, we're going to be done with the plans in the spring. So we certainly still have risk to execute on that but I think that we'll end December of 2017 being by and large fully complete, a year-and-a-half after closing of the Heartland migration. I'm sure there are certain leases that come up later and certain data centers we consolidate later, but by and large heading into obviously fiscal 2018, I view as to be largely complete.

Q

Hi. Jeff. Heartland itself was on a pretty healthy series of acquisitions over the past couple of years particularly in the school payments phase, if I recall.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah.

Q

And here you are now; you've acquired them, I assume they were doing a quite a bunch of integrations as well too at the same time.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah.

Q

How do you kind of take this beast of integrations and now all of a sudden efficiently bring them to a single point and not frankly have a real expense on your hands that you may not understand right now?

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Sure. So that's a great question. So, when we did diligence in December of 2015, the jury was out on what to do with Heartland Commerce and Payroll and school and campus less so, but certainly Payroll is going through a big integration. They bought Ovation and a bunch of other Payroll assets. And Heartland Commence, I think was an amalgamation of five or six different point-of-sale software-as-a-service cloud-based stuff and that was in the midst of consolidation.

What I would tell you is through the first nine or 10 months of the business, until the first six months of owning that business, what we've done is part of diligence [ph] and since is vetted (29:14) those plans and put Global folks on a technology side. So as you can imagine, the tech and operating environment is largely led by Global folks, because we view it as the – core value of Heartland is the revenue generation, the knowledge of those end markets. And we felt we were pretty good at tech and ops, right? It's kind of the easy way to think about [ph] data (29:33) distribution in the United States away from OpenEdge and we are – in gaming, we have tech and ops, that's the way to think about it.

As we got in there, we realized there are – tech and operating environments were less mature and less stable than we wanted them to be. So we actually accelerated and that's part of the [ph] 50 to 60 (29:45). We actually accelerated that expense, accelerated the realization of some of those benefits, because if it's going to be unstable, and we can demise it anyway, we might as well demise it sooner, is kind of the answer. So our folks in the last nine or 10 months, since December of 2015 have been vetting [indiscernible] (30:01) and overseeing those consolidation processes within Heartland. Obviously, their own P&Ls have baked in expense, right? Some of those things that you're describing, but I would tell you that most of the PMO, the Project Management Function that's going on now is Global and Heartland working together in Payroll. And by the way, the first version of new Payroll system rolled out November 1, for Heartland, but together, overseeing those integrations.

And it's a [indiscernible] (30:25) real-time test to see whether folks in these businesses are capable of doing it or not. And if they are, we give them more. If not, they'd go on. So I think at the end of the day, we're applying Global

philosophy [indiscernible] (30:36) of management to those environments today, and they'll sink or swim in their own rights. So we've had 10 months or 11 months to look at it, and so far so good. We won't be keeping businesses that aren't profitable and don't need our characteristics [indiscernible] (30:51) today, that's not the case.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

It seems like the non-payments businesses at Heartland like Payroll are doing pretty well?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

They're doing really well. And going back to the thesis, Tien-Tsin...

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

...that's not [indiscernible] (30:59) on revenue growth. What we've [indiscernible] (31:00) with the Heartland sales folks is that they really liked cross-selling Payroll. So there is a long history as you know with First Data, ADP, Concord, right, which was in the Payroll business back, pre and post First Data [indiscernible] (31:17). In the Payroll business, and that's never really been a very successful cross-sell. So we certainly were skeptical going into it but having spend lot of time with Payroll and a lot of time with the payment sales professionals, as I have and David and Cameron have, last 10 months or 11 months, what I can tell you is, it's growing very well. The margin is enhancing very nicely and the sales guys like selling it, right? So, in the philosophy of make sure we accelerate revenue growth and not break the thing that we bought, if the timing that's worked out very well as with all of our businesses, that's something we'll kind of continue to assess. But we do very much like, if you think about Global and gaming, Global and OpenEdge, Ezidebit, owning self-storage software in Australia, New Zealand really do like the Vertical Markets business [indiscernible] (32:01) TouchNet.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Heartland's Campus Solutions, instead we bought Ezidebit at the same time at the same price. So, we like those vertical markets and I think that provides a nice hedge against what happens to the ISV VAR community. 25% today of Heartland Payments close deals, deals that they're closing merchants on come from Heartland Commerce. So actually 25% of new merchants today at Heartland Payments up from like 8% or 9% a couple of years ago are coming from integrated sales out of the point-of-sale SaaS business over at Heartland Commerce. So back to the question about what we think, well, the proof is in the pudding, and if you can get that number from 25% up to 50% over the next few years, really going to have more of a technology enabled business in the first place, which today at Global is 35%, I would like to make it 50%. Yes?

Q

[indiscernible] (32:50-54) usually seems to be where the real expense overrun come?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Yeah.

A

Q

And any surprises that are – I don't say material, but kind of caught you off guard at all?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Well, we had some – we initially got, this is my comment about, [indiscernible] (33:05) more quickly, so the first weekend we closed, we had an issue in the Sunnyvale data center at Heartland and Allen, Texas, Plano – Allen, Texas data center where they ran our storage, inexcusable, right, that's just pure planning and everything else. So there were a number of millions of dollars of capital that we very quickly put into Heartland's legacy data environment, made sure we had the right capacity. And obviously, we've continued to do that. So the bad news was that cost of setting number of capital and depreciation and OpEx and a lot of angst. The good news was we just accelerated what we were going to do anyway. Now those are operating in a level that we're used to over at Global Payments. So I think the answer to your question is, less stable, less scalable than we thought, that just caused us to assimilate it more quickly. So yes, we spend more capital and more money [indiscernible] (33:49). We were going to do that anyway. We'd rather not do it the first weekend after we closed back in April, but that's actually worked out pretty well.

A

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

So on the Heartland side, it sounds like you're pretty happy with the portfolio...

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Yeah.

A

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

...as it is, if I heard that correctly, Jeff. What about the sales head count that you've grown it modestly since the deal was closed?

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

The sales head count has grown modestly.

A

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

We're a little bit under in payroll. I think that's just finding good people. That's kind of the answer there. But certainly in Payments, it's grown modestly, the productivity is very good...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

...which is one of the metrics we watch very closely. As we said before the proof is in the pudding, and the new sales, which will translate into revenue next year Tien-Tsin. Obviously, also as we said publically, have trended very well. So I would tell you we're right where we want to be with Heartland Payments, and the other businesses are tracking very nicely to where we would like to be as well. And we really – it's nice to say that you kind of planned everything in life, right, but I would tell you that we're very happy with where we are today, and really very confident heading into calendar of 2017 with us as a combined business. The culture, [indiscernible] (34:54) questions, culture, we thought the culture would be good.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah, we talked about it, you and I.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

The culture has been very good. We just had our first combined mobile data service with everybody globally, which sounds easy, is not that easy to do. I'm sure JPM does it in 30 countries on the same day in eight different languages. Heartland obviously was a very big part of that. I was in Indiana at their service center [indiscernible] (35:09) with David, and I would say morale is very good, the culture is very good, so very optimistic about this quarter and calendar 2017.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay. Let me ratify a few questions that...

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

...if you don't mind, Jeff, you can take them however you want. So the U.S. ISO channel, the wholesale business, I guess we just had Vantiv in here. It sounds like that's been accelerating for them. How is the wholesale business tracking for you if we control for the Mercury [indiscernible] (35:36)?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

It's [indiscernible] (35:36) the same, Tien-Tsin for three years or four years now. I think they probably have some smaller ISOs. When they bought NPC's business...

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

...my recollection was, those were smaller ISOs than we would have had at Global historically. I would also tell you, at Global, it's about 5% of our business [ph] thing (35:51) coming out of the growth, right.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

As you know.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Or ex kind of Mercury on the assessment side. By the way that differential basis point [ph] having our (35:59) Mercury in the assessments, which we don't make any money on...

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah, yeah.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

...anniversaries in the first calendar quarter of 2017. So that's a nice tailwind heading into calendar 2017. But what I'd say is that we've made a conscious decision that while that's a fine business, the ISO and kind of we call it third-party related business, at the end of the day when those contracts come up, we either don't renew them, or if we renew them it's the same or higher price. So strategically, we like where we are in that business. I think that

business is a good free cash flow business. But I don't – I'm not sure of Vantiv's strategy, but that's not a business that we are investing proactively and it was part of migration from the Owings Mills to Jeffersonville, Indiana and to our service center in Manila...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Correct.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

...from the back office point of view as the rest of our businesses are. So we're happy with it, but it's not a business we're going to invest in. So I think flat ex-Mercury – which is what it is; as Cameron described, is just a good place to be and is really no different than it has been for the last three or four years.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

I fully expect that the U.S. economy, if it accelerates, that's going to be good news for that business...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Sure.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

...as it is for the rest of our business.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

How about the integrated channel just in terms of the competitive environment there? I think Vantiv has been talking about growing 20%; you've been growing sort of in the mid-teens.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

Yes.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Is it getting harder to sign up these ISVs and these dealers?

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

No.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

So pricing in that market has been very stable. Look, so I think Mercury is a fantastic company, is a partner of ours still.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Right.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

I think Vantiv has done a great job. And I have a lot of respect for Charles and Mark and his guys.

I would say though that, I think it's a [ph] tale of (37:26) vertical markets. So as you know, Mercury is primarily in restaurant. That can help or hurt you, depending what's going on...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Sure.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

A

...with the worldwide economy. OpenEdge is in 60 vertical markets. Our biggest are dental and veterinary, self-storage, and the like. And in E-Z Data it's child care, government, that kind of stuff, healthcare. So it really does vary by the category here, and I would say we're going three times the rate of market growth. If you think of Visa/MasterCard transactional stats in U.S., if you look U.S. GDP plus a few 100 basis points, we are tripling it and I would say it just depends on what vertical category you are looking.

Now we are very pleased with our – performance of our OpenEdge business in Canada. We're up to 60 VAR partners in Canada. And this is not cross-border. This is – Canadian VAR partner is selling Canadian products in Canada. We're up to 60 partners there; up by 3% of our premium merchant base. Now it's come on in the last couple years as an integrated business. And that's very different than everybody, right. So obviously that business is growing at a high rate, because it's coming off a very low base. But as a strategic matter, the investments we made in that business in Canada and now also in the United Kingdom, we've bought Reynolds and Reynolds, our software partner, an automotive dealer into the United Kingdom. That business globally is growing very well for us. So it's important to look at the vertical markets we're in, but also the geographic markets. And on that basis we are really delighted with where the business is.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah. That was my last rapid fire question, which was, Canada, which is another good cash cow business for you can...

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Yeah.

A

Tien-Tsin Huang

Analyst, JPMorganSecurities LLC

And as throw in OpenEdge and you are early to market there, can that be enough to sort of move the needle within Canada and get you to a maybe higher growth rate?

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

So it's not just – I mean, our ratio expectations are just lower.

A

Tien-Tsin Huang

Analyst, JPMorganSecurities LLC

Okay.

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

But if you look at not just OpenEdge, but you look at, we are first to market with OpLove in Canada, just like the UK, just like the United States. And also, we now have an e-commerce business in Canada, which is Realex, our omni-channel business...

A

Tien-Tsin Huang

Analyst, JPMorganSecurities LLC

It's part of your business?

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Now, I don't mean we bought it into Canada – and that's actually exceeding our own expectation. So what I would tell you though, so to raise – to raise your hopes, so I think we're executing very well there on a cross-sell. What I would say is I'm always reluctant in Canada or any of our markets, but particularly the large mature markets where 60% of the country is Interac; it's kind of utility based pricing, so 80% of our profit comes from credit, [ph] like in (39:39) Canada, not Interac, which is 60% of the payment mechanism in Canada.

A

Tien-Tsin Huang

Analyst, JPMorganSecurities LLC

Yeah.

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

So what I would say is, our target remains low single-digit. I view it, Tien-Tsin, as taking pressure off of price [indiscernible] (39:50) other things that we need to be the record sales leader last year in Canada, fiscal 2016 over 2015, that's great news, right. But all the things just take pressure off of something else, right, in Canada. And looking at the company now with Heartland in it with \$3.25 billion of net revenue, kind of our guidance for fiscal 2017 [ph] 3.2% to 3.3% (40:08), Canada is like 6% of that whatever the math is. So whether Canada grows 2% or 4% is really not going to – relative to the FX stuff and everything else going on in North America is important to us as a strategy [ph] matter (40:22) which is why we are investing in it. But the real key here is, we know where our markets are growing and what's going to drive the overall growth rate of the company. And outside the United States, which is 70% of the business, there is stuff that's super-important and it's the right thing to do and it's distinctive to us. We really need to get the U.S. growth [indiscernible] (40:41) grow the company at the rate – at [ph] 7%, 8%, 9% (40:43), which is what we've described [indiscernible] (40:45).

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah, that makes sense. I'm trying to look around every single corner, that's why I asked the question.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Look, I think, I'd be delighted to come back five years from now and say, Canada is mid-single-digits in local currency, but I don't want to create that expectation. I think...

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Understood.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

...it's important for us to do all the right things, get in the right place, allow it to be successful, but it's also important for us to understand how we're actually going to need to grow the company in a way externally you all can look at and understand about it.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Good. It was good to chat with you, Jeff. Thanks for being here.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks for having me. It's a pleasure to be back.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Appreciate it.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. Thanks.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Appreciate it.

Jeffrey Steven Sloan
Chief Executive Officer & Director, Global Payments, Inc.

Thanks for having me.

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