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Global Payments, Inc. (GPN)

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CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Thanks, everybody for joining. My name is Tien-Tsin Huang; cover the Payments and IT Services Group at JPMorgan and super-excited and delighted to have Jeff Sloan back with us, CEO of Global Payments, [indiscernible] (00:14) always busy – we respect having him here again. So thank you.

So what we'll do is, we'll have Q&A, I'll field it as I always do. I took a lot of questions from you guys and pieced it together. We'll go through some of these and then we'll open it up for Q&A.

QUESTION AND ANSWER SECTION

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Again, so the one thing, and we're talking about this on our way in, but a big theme we've been picking up, obviously, is this whole shift towards digital for every industry, and then the shift towards software. And software distribution on the merchant acquiring side, you guys have been pretty active with that, obviously bringing in ACTIVE, same word there, but other software assets that Heartland has consumed. So, I'm curious why is this the winning strategy and why is Global going to be the winner there. And then maybe if you can also pepper in, and I'll remind you just this question of the culture of software being so different than some of the merchant legacy acquiring business culture, how do you manage that? Just sort of as a kick-off question for today.

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

A

Sure. Well, first, thank you for having us again, Tien-Tsin. Isabel and I are delighted to be here today back at JPM, really appreciate it. Listen, I would say as we said last week in our earnings call, we now have about 40% of our business worldwide, that is what we call technology-enabled, which means we sell by means of some technology-related solution that's distinct for example from, the more traditional relationship-based distribution like banks or ISO based distributions. Of course, that 40% is the lion's share of our revenue in the United States, probably $1.1 billion to $1.2 billion of revenue, particularly post ACTIVE Networks that we closed in September, of our revenue and the majority of our growth.

In terms of why as a strategy, we think that makes sense. Our business is pretty simple. We do two things. First, we have a technology plant and footprint, fundamentally we're a technology company. So we produce products and services that are technology-based, that's business number one. Business number two is distribution or selling, those technologies to our end merchant customers worldwide, and we've got 2.5 million of those; physically present in 30 countries and we do business probably in 80 around the globe.

What we focus on particularly is what we call distinctive, meaning not everybody has it, and defensible, meaning, requiring scale, distribution. So, we'd like to be in businesses where we think we have an edge and the edge is based on stuff other than price.

So, what we like to invest in is things that we think we could grow over the next three- to five-year term. And really we found software to be very consistent with distinctive and defensible and really consistent with our view of technological advantage, I'll give you a few examples.

If you back out for a second, and you think about where our businesses are, most of the world and certainly most of the United States today takes credit loan. Specialization is nothing new in our industry, and it's really not new in your industry, and it's not new in the healthcare industry. If you went back 50 years ago, it was enough to go to an internist as a doctor, today you better be a specialist if you want to get paid. And our business is really no different than that. So we've organized our business by vertical market. We found over time that one of the most effective means of distribution, distinctive and defensible, from a vertical market point of view is to lead to our strengths by selling technology.

So, we have people in our businesses, primarily OpenEdge in the United States, Canada and United Kingdom, Ezidebit in Australia and New Zealand, who are specialists in those vertical markets of software. And what they're particularly specialized in, is finding the next great vertical market where we think there's untapped electronic means of growth, cultivating one, two or three in terms of software-related partnerships, and then integrating over 12 to 18 months, our payments technologies into those software, and getting leads in that software partner and then going out directly and closing those merchant-related relationships. Not too surprising to you, very similar to [indiscernible] (04:23) type strategy.

Once we're embedded in those dental office, veterinary offices, auto repair offices, they tend to be very sticky and our retention is very high. They also tend to be sales that are not focused on price, meaning price is an element, of course, at what we do competitively, but so is the suite of software and services that we and our partners provide.

So, very similar to the most of the major businesses, financial services, healthcare, et cetera, technology that you would be familiar with. We finally can get charged fairly for value-added services by selling through differentiated sticky software-based solutions and we've augmented that most recently in our partnership model by actually owning the software itself. And if you think about the fact that we view ourselves as a technology company, [indiscernible] (05:12) technology company that doesn't have any technologists in it.

And if you think about the history of our business, going back historically to third-party and ISO-related impacts on distribution and being further moved back from the point of intermediation with your customers, it's incredibly important for us to have as close a connectivity to our end user merchant base as is possible.

We also, if we like a business, we like more of that business, we like to own the economics of the entire vertical stack of software that we can get by owning some of the means of distribution, ACTIVE Network as you said is the most recent example of that. And we think our ability to manage agnostically to any kind of distribution scenario, in the case of own software, in the case of partner's software, makes us a better company, we get paid to manage complexity. We minimize the impact of general conflict in our businesses and we make conscious decisions like ACTIVE that where we want to invest our capital to maximize our return when we go to market.

And I think the proof is in the pudding. We now own APT and PayPros, it's certainly APT the progenitor of OpenEdge for about five years as of last October, and that maintains its track record of consistent dependable above market growth over the last five-plus-years.

So, very pleased with where we are. As I've said before, it is now 40% of the overall company's revenue, up from our last Investor Day two years ago when it was 3%. I spoiled a little bit of the surprise for March 1 Investor Day by saying not surprisingly, we'd like to take that to a higher number, probably 50% and north as the mode of competition over the next two years.

I would say to your question about how you manage that, when we first bought APT, we were wondering whether people actually want to work in Utah, when they wear jeans with some of my Global Payments back at corporate. But I think, we have a track record with OpenEdge, with Realex, which is our e-com omni business, [indiscernible] (07:14) Ezidebit, which is our integrated business in Australia, New Zealand, and while it's early with ACTIVE in Dallas and [indiscernible] (07:20) around the world, being able to partner with our employees in our technology businesses, do what we do best and allow them to do what they do best and provide more opportunities and more revenue growth.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC
Q

Just to build on that, you know, you mentioned OpenEdge managing conflicts of interest, like you mentioned, it's going very well.

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

Yeah.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC
Q

But how about from a competitive standpoint, you have a lot of your competitors investing in sort of software tech-based distribution like Chase did WePay, First Data did a bunch of deals as well. Then you've got sort of the own model around Clover and Square, which are both growing pretty rapidly. So how do you see all of that chicken out though?

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

Well, I'd start with I think imitation is the best form of flattery. So, I think we're flattered that people think that's a good idea five years after we did it. So it's a nice position to be in. We have a bit of a head start and hopefully we'll keep that lead as we continue to kind of run the marathon. I would say as it relates to other folks, first of all, when I was at GS, if you don't have competition, you're doing something [indiscernible] (08:21) worried about that part, but thankfully we don't [indiscernible] (08:24).

But I would say, looking at our businesses, Tien-Tsin, what I would say about where we are today is, our businesses are always and have been, and I expect to continue to be intensely competitive. So, new folks coming into our market who weren't there historically doesn't add or subtract from the level of competition that we've had. I think if you look most recently at the reports from some of our peers, whether it's where Square, First Data, who you mentioned, it's pretty clear who the share – I am not just saying this because we're sitting here at JPMorgan, but it's pretty clear who share donors have been.

I think First Data announced on their earnings call couple of weeks ago that all three bank JVs had come under pressure and declined from a revenue point of view. I think we've been saying for years that we think that the distribution share gains have come from traditional competitors like banks, but also from ISOs, which we invested $6.5 billion of capital over the last five years, to make sure that we had the right mix of diversity of distribution in our business. So, we've been saying that for a long time and it's actually nice to hear that our peers have talked about the math of that, that being true.

Actually in Square's most recent quarter, their greatest share of their mix business is at their $500,000-and-above segment. Our typical person at Heartland and legacy Global Payments is about $250,000. By the way, I would say their pricing based on their public disclosure is well higher than our pricing. So I think we have a very firm umbrella from a pricing standpoint based on what they've disclosed publicly to us.

So, I would suggest that there is, therefore, plenty of room to grow in our businesses. That's where we started businesses five-plus-years now, going ahead, and it's obviously been a very effective means of distribution. That doesn't mean it's not a dog fight. As I said on the call last week, I dog fight every day. We compete intensely with Braintree, Stripe, and Adyen in our markets all over the world, particularly e-com and omni business, which for us is domiciled in Europe, but is worldwide. Our [indiscernible] (10:24) business, where we have 25% of the online market in Australia and New Zealand, I think we have, as I said last week, competitive advantages in our business, in the scope and breadth of our physical as well as omni acceptance, which is very hard for the folks I just mentioned to replicate, but we've been competing head-to-head with those folks in our payment facilitation, whereas PayPal is a big customer and partner of ours, which we're very delighted with.

So, we've had a symbiotic and a competitive relationship with all those folks for the last number of years and I think the proof is in the pudding, and we talked about our e-com and omni business in 2015 as being $250 million of net revenue in 2015 for the year. And we said in July, it's expected to be $400 million of net revenue this year, in 2017; I'm sure March, we'll give another update as to what we expect 2018. So I think that's just an indication that we and our peers continue to fight it out, but we all have the ability to gain share at the expense of our older model's distribution.

Tien-Tsin Huang Q
Analyst, JPMorgan Securities LLC

Right. So we sort of size that the bank market or the model is about half the market give or take.

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

Right.

Tien-Tsin Huang Q
Analyst, JPMorgan Securities LLC

So, it was still very big, and as you said, there seems to be some share giving there, but I have to ask, is the bank channel in the U.S. a market that you could potentially pursue at Global Payments? It's done well in other parts of the world before you.

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

A

Yeah.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

At what point could you jump in and maybe – it's always the managing of conflicts, but maybe you could revitalize growth, is that an opportunity you'll consider?

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

A

Sure. I think we would do it kind of in a Global Payments Heartland way, Tien-Tsin, rather than a way that's traditionally been done. And you're right, we still have existing joint ventures with Caixa in Spain, and Comercia with Bank of the Philippine Islands, which is the second-largest bank in the Philippines, of course, in the Philippine Islands. We obviously have had JVs in the United Kingdom, JVs across – at the time probably 11 markets in Asia Pacific, now 13, since we bought in the JV partner, Caixa is a partner of ours in Brazil today. So, we obviously still have those.

But the U.S. market is really different. It's different because of the diffused nature of bank concentration by law in the United States. Even JPMorgan is capped at 10% deposit share as is Bank of America here in the United States, whereas in most markets outside the United States, you can pick one of the top two or three banks and get pretty meaningful share pretty quickly, which is what we've done with Caixa and HSBC and Bank of the Philippine Islands.

I think the answer to your question is, yes, we would certainly consider looking at bank-related distribution in the United States, notwithstanding what I said about the differences in distribution, but I really think that we would have to do it the Global Payments and the Heartland way, which is to say we're not interested in large – by and large, not interested in large bank JVs, we're not interested in large capital check for something that doesn't grow.

I think we're interested in partnering with financial institutions where we can flood the marketplace with Heartland sales force. We're very much incented with the ability to grow with a low to no base, and other stuff coming, other competition coming in residuals and benefits, and we would introduce more in new products that many of our peers don't have [indiscernible] (13:35) example, but more new products that our peers don't have in those marketplaces, and I think we'd be willing to undertake a discussion where we have revenue shares and sharing the upside rather than sharing the profit or rather than writing a big cheque upfront for a book of business that doesn't grow. And I think if mid to larger banks were interested in that kind of growth undertaking and expanding their businesses the way we've invested our business in the United States and globally, I think that's a conversation worth having. I think the conversation around, well, I have my portfolio under traditional bank economics is not a conversation.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

So, for now, just to close that conversation, now.

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

A

Yeah.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

So, for now, Jeff, the priorities are in terms of investing in the U.S. versus non-U.S., and within the U.S., what would that be? It sounds like buying more software, tech-based distribution assets?

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

A

Well, the nice thing about where we are, Tien-Tsin, is that the vertical markets thesis that you just alluded to, software, for example, does not really conflict with the horizontal. So, as we look at Heartland, which obviously has been a fantastic partnership for us, we're always looking for additional horizontal [indiscernible] (14:40) Heartland, obviously we would. And that was the best of both worlds, that was SMB horizontal distribution, as well as vertical markets in school and campus and commerce, [indiscernible] (14:51) we had already, but certainly we'd look at more horizontal ideals, but they need to generate in addition to making strategic and cultural and execution sense, they need to generate the kinds of returns that are similar to what we saw in Heartland, particularly the larger those deals really are.

But that doesn't preclude, if we're to do something like that, that really does not preclude additional vertical markets deals. And I'm not saying $1 billion isn't a lot of money, but at the end of day, with the size of our company and our capacity and our investments in our technology businesses, at the end of the day, as I said, when we announced the ACTIVE deal, we waited a year and a half, after Heartland close, you could see a couple of quarters of pure organic growth. So, people could see what the underlying business was doing, and we waited until we believed that our balance sheet was in the right place. We waited until you could see the tech integration and the other stuff that we've done in the context of Heartland.

Now that we've done that, our plan would be to do two or three, of which ACTIVE is one, integrated in vertical markets, software and other technology deals. Hopefully, over the next 12 to 18 months, of course, the proof is in the pudding, when we do see strategic and cultural fits, when we do see the kind of returns that we, and we as management are large shareholders in our company, I in particular. And it's important to me that we see the kind of returns that we as shareholders would all expect. We're not going to do deals that are dilutive into the next decade, that's not going to happen, from our point of view. So, it's important as we look at it then, that we layer on to what we've already accomplished and ACTIVE is a very good fit.

Not just ACTIVE in its own right, but our partnership with Vista Partners, which I think is unusual in our business and has already produced fruit a few months in, in the context of DealerSocket, which is the new integrated partnership that we announced last week on our earnings call, with more to come.

So, the vertical and horizontal strategy can really coexist in the same environment, which is nice, [indiscernible] (16:46).

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay. No, that's helpful. So, I guess, I should open it up. But let me just ask you two more and then we'll open it up. Just thinking about North America.

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

A

Yeah.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

This idea around what the sustainable growth rate is. I know you got a lot of questions about what happened with the [indiscernible] (17:07)

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

A

Yeah.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Then you mix in their Heartland, can you just touch up on what happened in third quarter in terms of deceleration?

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

A

Sure.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

And then how that compares to well, you know, the longer-term growth – organic growth?

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

A

Sure, so starting with the Heartland transaction, in December of 2015, we upped our targets for revenue growth, margin, and earnings back in 2015. So, our model since then for last two years has really been 7%, 8%, 9%.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Right.

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

A

Organic constant currency growth for the whole company, that's also true for North America. But for the whole company, at least 75 basis points of margin expansion annually and 15% of compounded earnings per share growth. Not surprisingly, 2017 has been at the wide end of those targets as we've been the beneficiary of additional integration at Heartland, and you saw us produce in terms of earnings 33%, 24% and 29% earnings per share growth reported in the first three quarters of this year. I'd like to say, I'd expect 29% forever, but that's not the model we have and that's not what we expect. But if you back up and look at the last four years, Tien-Tsin, you would see 18% compounded earnings per share growth reported, and up until probably last quarter, that was probably more like mid- to high-20s, because of the currency impact. But reporting is reporting, it kind of is what it is and it's our job to manage through that.

As it relates to North America, our third quarter was very consistent with what I just said. I think you actually asked at the call, Tien-Tsin, asked a question on our July call, it sounds like you guys are guiding to 8% for the back-half of the year in terms of organic revenue growth and yet we produced 9%. So, you're actually right very much in terms of what we were guiding to and we produced a number that was better than that.

Our Canadian business has performed at mid-single digits, better than our expectation of low-single digits. Over the last number of years, we had about 50 basis point enhancement on top of that, because Canadian FX was good year-over-year. Unfortunately, a lot of that was absorbed in the hurricane impacts that we had, Heartland schools for example, their biggest market is Florida, the second-biggest market is Texas. And unfortunately back-to-school season, which is right around Labor Day, late August or early September, was particularly impacted by the events in Florida and Texas.

As an aside, we also had three typhoons in Asia and yet we still produced 15% revenue, while I was in – [indiscernible] (19:29) knows this story of while I was sitting in China, [indiscernible] (19:32) But these are – it's just the nature of what we do. We absorb those things and yet we still produced the wide end of our growth target, meaning the 9% in North America, was particularly pleasing using our direct channels, and we said this last week, our U.S. direct grew at double-digits. Our integrated and vertical markets business, as Cameron said, led again by OpenEdge, double-digit grower yet again in the third quarter. Heartland direct was high-single digit, so that was 9% rather than 10%. But as I just mentioned a few minutes ago, we had merchants who weren't operating in Florida and Texas for the part of the month. And I'd also say at this point that we've largely, of course, by definition anniversaried the benefits of enhanced protection at Heartland. We're now a year and a half past the April 2016 close of the Heartland merger. That reduction in attrition from 12% to 10% is more than anniversaried during the quarter. Those record sales once we had in June, July and August of 2016, sales are very good, but obviously some of those effects have right now been fully [ph] lacked (20:41), as it relates to our expectations.

Really the only difference between the third quarter and the second quarter in the U.S. composition was the wholesale business. That business, as we said, got a little bit worse, declined in mid-single digits. Of course, as we've said for probably five years now, we spent $6.5 billion in our direct businesses, primarily in the United States and North America, largely to diversify our businesses into higher growth, in a great and vertical market channel and move away from our wholesale business.

That was largely due to an ISO that went from ISO status to indirect, where they [indiscernible] (21:17) from us. We retained that ISOs with all the same economics, it just affects the presentation revenue. It can be a one less processing day in the third quarter year-over-year than the second quarter, but of course, we know that, we modeled those, and that's why we got it to 8%. It doesn't mean the Street doesn't buy the rumor and sell the news. But at the end of the day, that is why we got it to as you rightly asked on our call.

But we're very pleased with where we are. We're at the wide end of our 7%, 8%, 9% guidance for the company. We produced 10% as well as for North America. And we couldn't be more delighted with the cross-sales that we made, rendering into [indiscernible] (21:55) with ACTIVE, we've done there heading into 2018.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC Q

That's Helpful. On the wholesale side, anything that could potentially surprise us there? I know TMS and NAB have come together, is these something that we should [indiscernible] (22:10)?

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

A

No, I think, this is more of about – we have contracts with TMS, for example, going through [ph] 2019 (22:15). So, what I would say is, Tien-Tsin that, that is just a continuation of a trend, it's a secular matter. Listen, when you hear from our peers, and I think you heard Vantiv, they did say the same thing that they saw a level of weakness in their ISO channel, and we've heard First Data say that there is some weakness in [indiscernible] (22:30) channel and I view ISOs as being in that same topic, which is to say the non-technology, the non-enablement of vertical and integrated markets, we all know is a share contributor. And that's why the rest of our business is growing at the rate that it's growing.

And I think if we step back for a second, and if you look at Visa's reporting as a proxy for the market, Visa decelerated 130 basis points third quarter over second quarter transactionally, [indiscernible] (22:55) very similar results. So I believe if you look at Vantiv's reporting, First Data's reporting and actually Visa's reporting, as a proxy for the market, we actually gained incremental share in the quarter. So I think that's the way [indiscernible] (23:09).

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Good. Let me stop there. You can take questions from the audience, otherwise, I can. Anyone. Yeah. Right up front.

Q

When you model these higher growth software acquisitions like ACTIVE for example, what sort of return bogies are you trying to achieve, whether you're looking at IRR, ROIC within a particular period of time [indiscernible] (23:40)?

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

A

So, all of our deals, we target at a minimum high-teens IRRs over the cycle or over a five-year cycle in our transactions. The faster-growing companies that we buy, we generally target 20% minimum threshold returns over the next five years. That's primarily a United States comment. If we buy something outside the United States, we layer a risk premium based on the country on top of those numbers. But U.S. deals, I would say in the case of ACTIVE low-20s [indiscernible] (24:15).

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah, right behind you.

Q

Maybe as following up on that on the acquisition front, if you were to rank or talk about opportunities in ISVs or Europe as an example, where there's a lot of rumored activity and other people [indiscernible] (24:37) and others kind of playing in that versus something else in other region, Asia where you obviously had a lot – how would you rank the prospects to deploy capital over there, attractiveness over the next three years?

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

A

Sure. So I think, we said last week in our call, our pipeline is pretty full. Where the pipeline is, is really a function of supply and kind of what we're reading into what the requirements for returns might be, particularly with the overlay that I just described in response to that gentleman's question in the front row. I would say sitting here today, our pipeline is largely concentrated in the Americas and Europe, we're obviously out looking in Asia, we haven't done a deal since [indiscernible] (25:13) in April of 2015 in Asia. That plus Ezidebit have both gone very well, but it's been harder to find integrated and vertical markets, e-com deals that we would like to do there and we continue to plug away.

So, I would say sitting here today, it's really the Americas and in Europe, and those are both whole company and in some cases public company deals as well as integrated and vertical markets kind of private deals, some private equity, some just private company-owned, owned by founders.

You know, we start with what is a strategic fit, and then the second thing is what's the cultural fit. And then third, what is the financial impact of doing those deals. And those are the three things that we really look at in that order to figure out where we [indiscernible] (25:56). And usually overlay on what's the IRR on a share repurchase at the time. Obviously, we target numbers that are, you know, 10 points in excess of what we think the IRR on a share repurchase is. But certainly, if you could look at that in terms of accretion and when we think about what [indiscernible] (26:12).

Q

[indiscernible] (26:25).

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

A

Yeah.

Q

[Question Inaudible] (26:27-26:50)

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

A

Yeah. Right. Sure. So the first question is what about the banks, just for people who are hearing the webcast. And the first question is about what about the banks, is it competitive mode? Have they improved et cetera?

So, not surprisingly there's kind of JPMorgan sitting, [indiscernible] (27:00), so not surprisingly, I would say, JPMorgan is probably a class by itself as relates to U.S. based bank competition. Clearly outside the United States, as I said a few minutes ago, banks really have the lion's share of the deposit base, and not surprisingly treasury-related functions in markets outside the United States. So, obviously, it's very different.

In the United Kingdom, for example, we compete very actively with WorldPay, which is the old RBS, and then Barclays. So between WorldPay, Barclays and us, we have a lot of sharing thing. The U.S., for the reasons I mentioned a minute ago, is a very different competitive landscape here relative to outside the United States. I would say that JPM, and you can see this and their focus in online and e-com, I think the last time I heard JPM as a payments [indiscernible] (27:48) payment tech, probably is 50% of the top-100 Internet-based retailers in the United States is a [indiscernible] (27:56).

They do have ACTIVE as an example of – it's an example of one of those things. And of course JPM just announced WePay-related acquisition in payment facilitation. One of the faster-growing businesses.

But I would say that JPMorgan is the outlier. I think Jamie Dimon has made it pretty clear that payments is a core element of how he sees go-to-market. U.S. Bancorp [indiscernible] (28:28) comparisons, it's important to them too, but if you've seen their publicly released numbers, that they've given which I'm sure you've commented on, looked at, those numbers are consistent with some of the numbers that you heard [indiscernible] (28:37) in terms of what [indiscernible] (28:40) P&C and Wells Fargo has been reporting.

I would say in the case of JPMorgan, you know, as it relates to Global, we kind of pick our places in terms of our competitive niches. Around the world, we're generally SMB. We are primarily e-com and omni outside the United States, although with Heartland we picked up a decent e-com-size business in their Portico product, which we've reported on the last holiday period; I'm sure we'll do that again. But JPMorgan is largely focused on large corporate, high-volume guys like an Amazon, and I guess, like an ACTIVE. Here in the United States, we are largely SMB-focused, not just in the United States but globally, including an e-com and omni, around the world.

We have those facilitation assets in the form of PayPal who's a good partner of ours and probably the ultimate payment facilitator.

Tien-Tsin Huang Q
Analyst, JPMorgan Securities LLC

Yeah.

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

We also have through Realex and our businesses in Europe and the Americas [indiscernible] (29:38), in Australia and New Zealand, we have all the elements that we think is competing on today as it relates to facilitation, so for example, [indiscernible] (29:46) which is the Uber of Asia, we have them in Asia market, right.

So, we're already in that business. We're competing in that business, primarily as against Adyen, Stripe and Braintree, but I guess now in United States, WePay. But of course that's very distinctive to JPMorgan. You don't see a lot of other banks in United States buying the assets the way JPMorgan has done. So, I do think it's very distinct to the way they think about their footprint.

What was your second question?

Q

Retention?

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

Oh the retention. So, the question was around retention trend. So, through the third quarter, retention, Heartland which is the core kind of classic payments business for us in the United States and kind of [indiscernible] (30:26) in the U.S., retention remains at very high levels, call it 90%. So, we've improved retention from 88% at the time we did the deal to 90%. I don't expect that to go to 92%. I think at the end of day, we're incredibly pleased with where we are at 90%.

As I mentioned a few minutes ago in the context of Square, obviously, their reporting is an amalgamation of their numbers. But they're spread at roughly a 103 basis points whatever they said last week is orders of magnitude in excess of [indiscernible] (20:59), both the legacy Global and legacy Heartland in terms of our core SMB market, which is about $250,000 [indiscernible] (31:08) than those spreads today.

So, I think from a pricing, retention is good. And from a pricing point of view, I think we have a very good umbrella at least based on that. And that data and based on what we see in the marketplace [indiscernible] (31:12). As I mentioned – as I think Cameron and David mention on the call, we've yet to tap wholesale pricing changes across portfolio at Heartland. That doesn't mean that we don't selectively look at products that we sell, that we've come out with and charge we think is market for those products, which is something we'll continue to do. But clearly we're far below at least in numbers that Square is reporting in terms of pricing.

Q

Hi, yeah, I wonder do you see any direction towards larger transactions and did transaction sizes vary across market, geography, different countries.

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

A

Is that an M&A, are you asking an M&A question?

Q

No, I meant, well, particularly for the payments versus payments.

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

A

Oh! do I – it's like a cross-border payment, is it?

Q

Yeah. I mean, perhaps take a step back, is transaction size, the payment size part of your internal KPI, something you measure?

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

A

So, the question is around average payments as like I guess people can hear on microphone. But what I would tell you is, we track average ticket size. So, average size of a transaction is an important metric for us. It's not as a KPI, it's not so important as a driver of revenue in the scheme of things, but it's an important modifier is the underlying health of the economy. What we tend to find is, if an economy is slowing, then the average ticket size or average spend per transaction tends to moderate and actually declines.

So, when we've been in recessionary periods, we tend to see people not surprisingly spend less, right? At the end of the day, what they spend might be more in gas and groceries, right? And less on discretionary. So, we track it. I would say generally it's an output rather than an input to what we do. So we certainly model it out, but our pricing schemes are really variable. Some are pure volume-based that aren't tied to the average transaction per se, they're obviously tied to volume, and some are per transactions in the case of gas, for example, at $0.07 or $0.11 per transaction and we don't care what that transaction size is at the end of the day. Some are a mix of basis points on volume plus, cents per transaction, so it varies within a country, it varies by market, it varies by the country that you're actually in.

So, we track it, yes, as we think about what the health of the economy is. But do we track it to make decisions? Generally not. A great example of that is in our UK business, where our contactless, not Apple Pay, but EMV contactless issuance is probably 20% of our business in UK, growing at 30% year-on-year. It's had a substantial impact on the average ticket size, because people use it for [indiscernible] (33:49). But that's not an indicator as to what's going on with the economy. That's an indicator that contactless is growing through the roof, and the average ticket size is not surprisingly lower, because you're paying too. So that's why I say it's an output not really an input, but we do look at it to explain trending of what we're doing as a KPI.

Q

Do you hear me? Quick question, I guess, Square has done a lot with small business loans and next day...

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

A

Yeah.

Q

...same-day financing funding. Curious, is that an area that you guys are involved in. If not, why not? Does it work for your merchant size? Could you talk a little bit about, I guess, the opportunity there...

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

A

Sure.

Q

...for you guys?

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

A

Well, what I would tell you is that we already do and have done for a long time next-day funding. So, there's really nothing new as it relates to some of the....

Q

Same day, same day.

A

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

Yeah, [indiscernible] (34:41). So, the first thing I'd say is next-day funding is there is market and most of the markets that we're in. When it comes to same-day funding, we have done that in the past. We're looking at that Visa program, that's part of the same-day funding for those guys. But, I think you have to realize that that is specific to certain vertical markets, particularly grocery. Since we do next-day funding anyway, you're really talking about a Friday into a Saturday, where our funding would probably be on a Saturday for large merchants or a Monday for people who don't settle, large guys settle on a Saturday. But the smaller guys who make Friday to Monday, that's almost like a cash [indiscernible] (25:16) lending business where you want to get someone $10,000 on a Friday for a Saturday, but large guys already get on Saturday, right, so that we already do.

But we're talking about small groceries that are desperate to get the funding, not on Monday, but on Saturday. That is generally not a business that Global Payments is in. We have a lot of SMBs. We really don't do a lot of groceries or people in that environment. If there is a market demand for that, we'll certainly do it. That has not been something that our salespeople have really asked about. I think if you look at Vantiv, I guess, with Square, Vantiv has obviously has lot of grocery – they have a huge share of the grocery business in the United States.

I can see why for someone like Vantiv who does a lot of debit business, by the way Global Payments doesn't do a lot of PIN debit business [indiscernible] (35:58). If you have a lot of groceries, if you have a lot of small stores that can't make it to Monday without floating a paycheck, I can see why that's attractive, that's generally not a business we're in. So if we see market demand for that, that's something that we'll plan to go ahead and do. But sitting here today, there isn't really a lot of demand for that among our customers [indiscernible] (36:19).

Q

And the same for, I guess, small business loans as well, is that, even if it facilitates...

A

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

So, we do – yeah, exactly. So, listen, we're not going to go out and get an [indiscernible] (36:27) because the last guy who tried that was Walmart, I think, and they're still waiting for [indiscernible] (36:34-36:40).

But I would tell you is that we partner with American Express in the United States and other banks like Caixa, not surprisingly in Spain, we're not a lender, we don't trade on book value or tangible book value the way GPN would. We don't like to take credit risk in our businesses. So, we partner in United States with the American Express to provide their lending product and we have for years. And by the way, so is First Data, so has Vantiv, so has Total. So, this is then proprietary to Global Payments, we get paid a fee for referrals, if they do alone. What we specifically don't want to do as a reputational regulatory manner, we don't want to do lending.

You guys aren't paying us to manage the balance sheet that way, I don't want to get caught up in a high effective rate of interest conversation. You're not going to see us do an [indiscernible] (37:24) anytime soon. So if that works for those guys that's fantastic, but I don't view our competitive advantage as out-competing JPMorgan [indiscernible] (37:32).

Q

Hello.

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

A

Yes.

Q

So, as the payments industry continues to lead with technology and the payment facilitators, just want to know how you envision sort of that relationship over time, how the economics will be shared. If consumers are demanding a payment solution due to the technology that's being provided or the solution that's being provided, how would you integrate that in sharing the economics?

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

A

Right. So, we're already imagining that today. We're in the payment facilitation business, as I mentioned it with Tien-Tsin, we have, PayPal is one of our good partners really worldwide, except for intra United States and intra Canada, anything cross-border generally has really been the lion's share with us and PayPal for a very long time for the last 10 years or so, where they wholesale our technology. We are also doing that with some online grocery stores in the United States with [indiscernible] (38:38) of Asia in a number of markets with those guys.

So, we're already in the payment facilitation business today and we're experiencing the benefit. Just look at our financials, particularly in Europe where we book it, we're experiencing the financial benefit of that partnership with people like PayPal around the world. So, we're already getting that benefit today.

The second thing I would say is, this fits squarely into the diversity of distribution thesis, because taken through its extreme, what I like about that model is the growth. What I don't like about that model is someone else's taking the credit risk. That sounds like a great idea. What I don't like about that model is the further removal of us from the underlying merchant base. Now the truth is, those are mostly small merchants that we would not go after in the first place. So from that point of view, PayPal and their peers provide a very healthy function of credit intermediation, that's not a business I wanted in for someone that size and [indiscernible] (39:28).

Having said that though, it's very important as we look historically at in our ISO business, that we have enough of the direct distribution scheme for merchants that we do care about earning directly, that we have diversity of distribution. So, with that we're not [indiscernible] (37:40) into that distribution element.

So [ph] Uber left (39:43). That's great. They opened brand new markets. PayPal opened its brand new markets. I'd be more reticent about pursuing that business more directly in markets that we're already in and in serving someone in between the two of us. That has not happened. So that's why it's important for us in the technology market to make sure that we own a lot of the means of production software, otherwise what we do – or we will wake up one day and find the economics are not going in our favor. It's yet to happen, but that's why we've managed the business the way we do by owning the underlying software.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

We have time for one last one, I thought. We have one. Just make this last question.

Q

Yeah. Jeff, could you talk about the opportunities in commercializing the analytics and datasets of the business?

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

A

Sure. So it's great question. And we announced a couple of weeks ago that we have rolled that Heartland Analytics, which allows small merchants to think about restaurants, to look at their same-store sales, repeat customers, push loyalty and the email marketing and text campaigns to their customers and we're actually doing that today in the United States. The other thing we announced last week is that we're bringing our Xenial product, which is our SaaS-based cloud product, which runs restaurant chains and hospitality environments into Europe, specifically into Spain by end of this calendar year, with a lot of the same data, and analytics, bringing that to Spain first in terms of campaigns, and targeting, so you can get on your phone a little bit of like Starbucks $5 off or whatever it is, €5 off if you could come in the next hour into the local chain in Spain.

So, we're rolling that out this quarter in Spain. We're bringing more elements of that distribution into the European marketplace in the first half of calendar 2018. So, we're already in market with that stuff today and that's before you overlaid ACTIVE, which bought us a bunch of data analysts and data scientists. We'll use those folks to better mine the data that we have, build better data and reporting analytics and sell that into other environments around the world.

So, more to come at our Investor Day, which we're yet to size what that is, but I would say sitting here today, we're already monetizing those data streams as we speak in [indiscernible] (41:45).

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Right. We should probably stop there, Jeff. Thank you so much as always.

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

Thanks for having me. Seriously, guys.