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# Global Payments, Inc. (GPN)

RBC Capital Markets Financial Technology Investor Day

## CORPORATE PARTICIPANTS

Cameron M. Bready

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

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## OTHER PARTICIPANTS

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

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## MANAGEMENT DISCUSSION SECTION

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

From Global Payments, we have Cameron Bready, who is the company's Chief – I almost said, Chief Executive Officer.

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Cameron M. Bready

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

I'll call, Jeff...

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Daniel Perlin

*Analyst, RBC Capital Markets LLC*

...call Jeff right now and do this. He is the Chief Financial Officer. So thank you so much for being here. Always great to see you.

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Cameron M. Bready

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

Yeah. Thanks so much for having us. We are really delighted to be here.

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Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Yeah. I know it's a great thing. And you guys got so many things that are going on. So, let's just – we're just going to jump in to questions.

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Cameron M. Bready

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

Sure.

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## QUESTION AND ANSWER SECTION

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

One of the things I wanted to start with which seems to be an ongoing topic is just how we dissect the growth in the United States, U.S. in particular?

Cameron M. Bready

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

A

Yeah. Yeah.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

I know you got 90% of your business, it's in kind of the direct area and then you got 10% in wholesale.

Cameron M. Bready

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

A

Yeah.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

So, can you at least start with the growth trajectories of each one of those? And then, we'll delve into a little deeper into what's kind of under the hood, so to speak of direct and wholesale?

Cameron M. Bready

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

A

Yeah. Sure. I'll be happy to.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Great.

Cameron M. Bready

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

A

So, I think you framed it up well. If you think about our U.S. business, it's about two-thirds of our global, total company net revenues are represented by our U.S. businesses. And a little over 90% of that in the U.S. is going to be direct distribution. So, that's where we have the direct relationship [indiscernible] (01:10) emerging customer in our business.

And if you think about that direct business, probably 60% of it is what I would categorize as relationship-led distribution, which today is predominantly our Heartland distribution channel, where we sell directly to emerging customers through sales professional in the Heartland channel and about 40-ish percent is what we would categorize as our integrated and vertical markets businesses. Those are going to be a combination of our partnership model for approaching integrated payments which is OpenEdge. It's also going to consist of vertical

markets business where we own the entirety of the technology stack in the software. So, our Campus Solutions, School Solutions, our Heartland Commerce business, and our Gaming business is a vertical market business that we throw into that category as well.

So, maybe starting with and just to round out the discussion, as you mentioned before little less than 10% of our business in the U.S. is a legacy wholesale business, where we provide really wholesale payment services to predominantly ISOs who really control the relationship at the [indiscernible] (02:13) merchant customer level.

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Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Right.

Q

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Cameron M. Bready

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

That's the business that we pivoted away from now. Probably five years ago, we've put several billion dollars of investment into direct distribution in the U.S. markets, and obviously that's the focus of growth and focus of where we're trying to drive our U.S. business as we look forward in time.

So, across the business, I would say, the relationship management channel and I'm using Q1 as a reference point...

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Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Okay.

Q

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Cameron M. Bready

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

...for the conversation it grew low double-digit. So we've seen very strong performance in our Heartland sales channel driven by a few things. One, new sales and the productivity of our sales professionals has been quite good. We're seeing very strong rates of new sales in that channel, and that is certainly a tailwind for overall organic growth in that business for us. We've seen stable same-store sales and we've seen, perhaps most importantly, very low levels of customer attrition rates in that channel relative to what I would characterize as historical norms in that channel.

So the calculus is such that, with strong new sales, stable same-store sales and lower rates of attrition, we've seen very good organic revenue growth in our relationship with distribution channel, again culminating in Q1, where we were clearly – certainly in the low double-digit level with very good momentum as we look forward to Q2 and beyond.

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Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Yeah.

Q

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Cameron M. Bready

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

A

As we talk about our integrated and vertical markets businesses, it's a combination of businesses with different growth rates, but on average we expect that business to grow low double digit as well.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Okay.

Cameron M. Bready

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

A

We expect certainly OpenEdge and Heartland Commerce are probably on one end of the spectrum from a growth point of view. And our gaming business is probably on the other end of the spectrum as the underlying gaming vertical itself isn't growing. Although our gaming business is probably growing in the mid single-digit range, which is certainly good growth for that particular vertical market. Those businesses again are where we integrate our payment technology solutions into either partner, software products, or where we own the software solutions ourselves and obviously go-to-market with the combined integrated payment and software offering in specific vertical markets.

As we look forward in time, we remain very focused on growing and expanding that business. It's fair to assume that we looked to put more capital to work in that business as we seek to grow. A part of our thesis as a company as we think the market is going to become more vertically focused over time and more verticalized in general.

We think merchant customers are going to be looking for more vertically fluent solutions, where these sort of horizontal one-size-fits-all answers will not be sufficient to meet the demands of merchant customers. And we think we're certainly very well poised to continue to benefit from share gains in our integrated and vertical market businesses.

And then lastly, we talked a moment ago about our wholesale business which is a bit of a legacy business, that's kind of a flattish growing business for us. Every year we probably have a handful of ISOs that are tried away and that's purposeful as we look to obviously put more of our emphasis and our efforts on growing our direct distribution channels in the U.S. market.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Okay.

Cameron M. Bready

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

A

So, again overall, our U.S. business grew low double-digit in the first quarter. Our expectation over time is it's a high single-digit growing business. It obviously has the capacity to grow low double-digit and then it's going to ebb and flow in that range. We expect over – a cycle over a three year to five year window. We feel that that level of growth for that business as an organic matter is very sustainable.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Yeah. It's certainly been punched above its way right now. I wanted to delve in a little bit. You hit a couple of these topics. So, new sales as a key attribute. We said new sales, same-store sales growth, and then attrition rates. If

we start on new sales, I'm trying to understand productivity of the sales force, efficiency, you're putting more products in their hands. Can you maybe elaborate a little bit more and put some framework around it?

Cameron M. Bready

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

A

Yeah, I'd be happy to. So I would say a couple of things in that channel specifically that I'd like to focus on. One is, I think, we're doing a better job today of identifying and recruiting individuals, relationship managers, who will be successful.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Okay.

Cameron M. Bready

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

A

So we've made a lot of investment and some of this Heartland did prior to the acquisition, some of that we've done post-acquisition. Though we put a lot of investment in our recruiting practices. Really working to eliminate or I should say reduce, it'd be very difficult to eliminate what we call the [ph] fast failure rate (06:48) in that channel, where we have a new sales professional come in, and they really flame out in kind of a 90-day period, because it's just not well suited for the model.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Yeah.

Cameron M. Bready

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

A

So I think we've done a better job of identifying individuals who will make successful RMs over the course of time; relationship managers.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Yeah.

Cameron M. Bready

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

A

Secondly, we put a lot of investment into training them. So when we ultimately release them into the wild, as I'd like to say, to hopefully become productive members of our sales force, we've put a lot of investment in making sure they're well trained. And we have provided. I think a far more robust structure around the training, and how we prepare them to go out and be successful in the day.

And then lastly, we made a lot of investments in our CRM tools, so the technology that we surround them with to help them be successful as sales professionals. So we have our own sort of CRM system that's really built on the back of sales force. That tool is incredibly sophisticated, incredibly robust and has been – and I think instrumental in improving the effectiveness of new RMs as well as increasing the overall and uplifting the overall productivity levels for the sales force in general.

Daniel Perlin  
*Analyst, RBC Capital Markets LLC*

Q

Okay.

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

A

So I think those three things have been the most impactful in terms of improving, I'd say the overall productivity level, and driving higher rates of new sales, new in period sales from that sales force.

Daniel Perlin  
*Analyst, RBC Capital Markets LLC*

Q

Can you remind us how big that sales force [ph] is actually(08:16)?

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

A

So, it's about 1,600 professionals today. And we've grown it by around just short of a 150 kind of year-over-year since closing the transaction.

Daniel Perlin  
*Analyst, RBC Capital Markets LLC*

Q

Okay. So some but not huge.

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

A

Some but not huge, yeah. I mean, it's always a balance. I can go out and bring in 400 people tomorrow, but I'm going to drive productivity levels down. If I'm not bringing in the right people, I'm not training them effectively, and I'm not equipping them with the right tools and technology to be successful. So, it's always a balance in terms of bringing in new head, while at the same time maintaining the average productivity levels of the sales force.

Daniel Perlin  
*Analyst, RBC Capital Markets LLC*

Q

Yeah. I don't want to get often a tangent on human capital, but I have been hearing that it's harder to find people.

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

A

Yeah. I don't think that's really been our experience thus far.

Daniel Perlin  
*Analyst, RBC Capital Markets LLC*

Q

Okay.

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

A

I think we have a model that is pretty well proven in terms of identifying the types of individuals that would be successful. And I can't say that I've certainly heard from our executives who run the sales force that there has been certainly an inability to find qualified capable people to fill these roles.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Okay. What about products that you're offering. I understand the recruiting, training and CRM that makes them a better sales person, but they don't have the right products, incremental products I should say, is what you guys have been talking about then it really is a move point?

Cameron M. Bready

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

A

Yeah.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

So what are – can you talk about some of those products?

Cameron M. Bready

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

A

Sure. I'll be happy to. I think if you think back to our strategy overall as a company, we really want to be at the forefront of the industry from an innovation point of view, from a product and solution and capability standpoint. We want to have distinctive product and capability that we're distributing through differentiated distribution platforms, and providing that to our customers all at a reasonable cost. So a lot of our focus is making sure that we're equipping our sales professional with the right tools and solutions to be able to sell, effectively into the market place.

So, whether it's been in focus on selling our lending capabilities, utilizing the sales force at a minimum to be a cross referral channel for payroll, which is a nice growing business that we have in our portfolio. It's selling data and analytics to our merchant customers. We've put a strong emphasis on making sure that, our sales professionals have the right things to sell that, what they're selling is differentiated and it's helping them to close more sales and more wins. But again, going back to my balanced comment earlier, it's also balanced, not giving them so many things they don't know what to sell.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Yeah.

Cameron M. Bready

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

A

So you have to find the right balance between, obviously they are there to sell merchant acquiring services and payment technology services, and we try to bundle that with other value-added products and capabilities that we can deliver to our merchant customers. But making sure, we're not overwhelming the sales force with so many things to sell that they don't know exactly what they should be selling.



Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Is that bundle, that incremental bundle outside of just core acquiring, is that becoming a larger part? I mean is that noticeable...

Cameron M. Bready

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

A

Sure.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

...today or?

Cameron M. Bready

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

A

Well. I think, if you look at the business over time it continues to evolve.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Yeah.

Cameron M. Bready

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

A

The portion of the revenue that's driven by [indiscernible] (11:08) transaction and volume trends coming out of the merchant customer base that is still growing. But the revenue channels that are coming from software product, other services and capabilities that's growing at a quicker pace.

So, the overall revenue mix over time is driven more and more by selling products, service, capabilities, that are incremental to the pure merchant acquiring experience that customers have come to expect from us for over the course of time.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Can we put some framework around, maybe these attrition rates, just as an example. My sense was that, historically, those attrition rates out of that portfolio were probably low-teens to mid-teens?

Cameron M. Bready

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

A

Yeah, that's probably fair. Yeah.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

And so, where are they trending now?

Cameron M. Bready

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

A

Today they probably were double-digit, right around that low double-digit range down fairly meaningfully from where they have run on a historical basis and we've seen thankfully good consistency at that level, really starting in the back half of calendar 2016.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Okay.

Cameron M. Bready

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

A

But certainly through the first part of calendar 2017, we've seen fairly consistent trends in that low double-digit range which has been terrific. And I think building on the customer attrition comment, I think a lot of that is due to a couple of things. One, I think we're doing a better job of servicing those merchant customers. We made a lot of investments over the course of the last few year to stabilize Heartland's technology environment, as we worked to migrate them towards Global Payments, what we call our target architecture model, which will be a combination of Global Payment technology assets and Heartland assets. But if you think about the core processing environment, most of that's going to be coming from Global Payments.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Okay.

Cameron M. Bready

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

A

So we put a great deal of emphasis on making sure that we stabilized the Heartland technology environment, and I think what customers have seen is that higher level of availability, reliability and service from us as we work to do that over the course of the last few years since closing the transaction. I personally think that has been impactful as it relates to attrition rates.

The second thing that I think has been impactful is, we've been effective in – more effective perhaps in our client retention. I think we've married the best approaches to client retention from Heartland and Global Payments and have done a very nice job in, I think, equipping our client retention team with more tools that have allowed us to successfully retain more customers relative to historical levels. So I think the combination of those two things have certainly been impactful in driving kind of the attrition rates to the level we're seeing in the business.

But last I would say is that the overall macro environment has been reasonably stable. So it's not as if we're seeing a spike in small business failures. So the overall macro environment certainly has been more conducive to sustaining these lower levels of attrition rates as well.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Okay, that's great. The vertical markets, I mean, this is where a lot of the sexy stuff resolves, right, sits there. So I wanted to run through a couple of things. I think you have both the partnership model and then you obviously own the software piece, partnership something like 50% of that area. I think owning the software is going to be not

quite as much as that and then I think is another breakdown. But the question that I have is, when we think about what you built out in OpenEdge, which is clearly much more vertical, we just had a panel on this vertical, integration stuff.

What are you seeing in the marketplace today that you didn't have, maybe a year ago, that you do today? I mean, is it just more cohesive solution, are you taking that much more share from the ISOs? How does that work?

Cameron M. Bready

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

A

So I think the – I'll try to frame up the integrated business....

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Yeah.

Cameron M. Bready

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

A

...and kind of the way we think about it and I'd also caution people that the term integrated tends to be particularly in more recent times, gets thrown around very loosely.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Agreed.

Cameron M. Bready

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

A

To describe everything from sort of what we would characterize to be semi-integrated solutions, all the way to sort of fully integrated offerings that we offer through both our OpenEdge model, which is a partnership model as well as in vertical markets where we own the underlying software ourselves and integrate our payment technology into those solutions.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

So maybe some delineation between what is fully integrated and what's like really not?

Cameron M. Bready

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

A

So semi-integrated is going to be a solution where the payment is a kind of a module add-on to an existing solution, that's not fully integrated with the underlying software solution itself.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Okay.

Cameron M. Bready

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

A

So it's – think of it as a bolt-one, they may not be using a traditional brick terminal, but it maybe semi-integrated into [indiscernible] (15:48) restaurant management platform...

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Got it.

Cameron M. Bready

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

A

...to some degree. So you're swiping the card with the little swipe reader on the side or using an EMV capable, kind of reader, that ties into [indiscernible] (15:58) but not fully integrated with the underlying software package itself. Whereas our fully integrated solutions, the payment technology is coded into the software environment. So it is a fully integrated component of the underlying software solution itself, ties into every module, I use the dental practice management example, quite a bit, the payment element ties into the patient record, the billing record, the insurance billing component, the scheduling, since all that is fully integrated solution set. And so our view is that, fully integrated solutions like those allow you to offer more vertically fluent solutions to the marketplace, semi-integrated is terrific and it's a good business, but to get the full level of integration benefit, we are driving more towards fully integrated offerings like we have in OpenEdge or through the vertical markets where we own the underlying software ourselves.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Okay.

Cameron M. Bready

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

A

So we think about our integrated and vertical markets business today. If you kind of put gaming a little bit to the side...

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

[indiscernible] (17:00)

Cameron M. Bready

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

A

...a little bit of a different business, about half of the revenue today comes from our partnership model and about half of the revenue is coming from vertical markets where we own the software and we integrate our payment solutions into our owned software and then we go-to-market as collective offering. Clearly, our focus is to continue to grow and expand that business, OpenEdge does a fantastic job every year of identifying and securing new partners in vertical markets where we think that partnering is the right approach to exploit the market opportunity – a good way, not a bad way.

Daniel Perlin  
*Analyst, RBC Capital Markets LLC*

Q

Yeah.

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

A

Exploit the market opportunity for payments and providing payment technology services to merchant customers and that's going to continue to be a strong growth driver for our integrated and vertical markets business over time. We also think there is vertical markets out there where by owning the underlying software ourselves, we can drive faster rates of payment growth, while also benefiting from higher margin and strong growth in software sales.

So, we think there is good opportunities for those two models to coexist in the U.S. particularly as we see the market becoming more verticalized over time. We think the partnership model and the ownership model can clearly can coexist. Our intent is clearly not to go out and compete with existing partners by trying to acquire software vendors and verticals where we already have a presence with OpenEdge. There is plenty of whitespace from a vertical point of view where we can acquire over time software businesses and use that as the means by which to drive payment technology services through that vertical market, as opposed to the OpenEdge partnership model.

So we often get asked about channel conflict in that space, and I think that's a little bit of a red herring quite frankly, managing risk, managing conflict that's part of what management gets paid to do. So it's kind of easy to sit on the sidelines and say, I don't want to take any risk around these things, at the same time, there is plenty of whitespace opportunity for us to work in verticals with the ownership model, where we're not going to be competing with our existing strong partners in the OpenEdge model and those two I think distribution modes can continue to work in harmony over the course of time as we look to grow that business.

Daniel Perlin  
*Analyst, RBC Capital Markets LLC*

Q

Are there big verticals that you're looking at? I mean, you did mention early you want to put more capital to work in particular in areas where you own the software. Yeah. Right. So you buy the software, you have the payments, you kind of work those under one umbrella. But are there bigger verticals that you're looking at right now?

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

A

Yeah. So as you can imagine, I probably don't want to get into specific verticals that we...

Daniel Perlin  
*Analyst, RBC Capital Markets LLC*

Q

Only the names...

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

A

Yeah. But there are clearly verticals where – I'll give you the attributes of the verticals, perhaps without getting into maybe specific verticals themselves.

Daniel Perlin  
*Analyst, RBC Capital Markets LLC*

Q

Okay.

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

A

So we're generally looking for verticals where the software is highly fragmented, where there is a good opportunity to grow software revenue as well as growing payment revenue. Clearly, we are looking for large addressable spend markets and we are also looking for software companies by and large that are, what I would characterize as quasi-payment companies, where even today 30%, 40% of the revenue maybe payment revenue as opposed to being just software revenue. So that's the nature of what we're trying to find from a vertical market and even to some degree company standpoint. But we're also looking for those opportunities, where we think we can export that technology to other markets around the globe.

One place where I think Global is clearly unique from an integrated payments point of view is our ability to take these solutions to other mature markets around the globe. And we've seen good success with that already on the heels of our partnership with Heartland, taking and integrating solutions for Canada in the Campus space. Taking those solutions to the UK, trying to bring our Heartland Commerce, which is restaurant hospitality solutions to other markets around the globe. We're very much focused on verticals that have some sort of international applicability, where we think we can take that underlying software and integrated payment solution to the other markets around the globe and look to distribute it through our existing platforms in those markets.

Daniel Perlin  
*Analyst, RBC Capital Markets LLC*

Q

How much share do you think you're actually taking from the ISO market? I mean, when we look at that space, we see ISO still represent 15% or so of total payment volume in the United States, not all vertically focused, but they represent a big chunk?

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

A

Yeah. They do. And I can't give you a specific number as to when we're winning, who are we winning from, and how much of that's coming from ISOs versus maybe traditional commercial banking providers in the marketplace, I would say predominantly and particularly through the Heartland channel that's who we see. So we're tending to see and we tend to win, we're winning from one of those two channels.

In the integrated space, I think there is very few people that are really on the integrated side certainly with the OpenEdge model, a lot of the emphasis is on identifying and securing that new partnership relation. And our team does a fantastic job of identifying new partners and securing those new partners. And I think what we have that really no one else can deliver is certainly Global Payments has been at this business for over five years now. Our partner companies that we acquired in that space have been at it over a decade. So we have a track record of integrating that with over 2,000 different software partners across 60 to 70 different verticals that I think is very unique.

And what you have to understand from the software provider point of view is they're not just going to open the hood to anyone to start coding into their software environments. They want to work with somebody that has a proven track record of being able to do this with a multitude of partners across a variety of different vertical markets. And I think that's where we really excel, plus our ability to provide high levels of service, availability,

reliability to our customers is enhancing to the software vendor. So they are going out and offering a solution where they know that the level of service that customers are going to receive from us is to the same standards that they are hoping to deliver, and I think that also differentiates us in that space.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Okay. Just to round out the U.S. two things, we always get a question around – and in particular around Heartland is pricing opportunities. And I know you have no intention to re-pricing the whole portfolio. But how are you thinking about delivering new incremental value and getting paid for it within that portfolio? And then just where do we stand in terms of the last mile of cost synergies?

Cameron M. Bready

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

A

Sure. So on the pricing side, what I would say is, we're growing that business double-digit today without changing price. So to some degree, our view around pricing is, end of the day we want to make sure we're getting paid fairly for the level of value and service that we are delivering to our customer base. And we want to make sure that as we're delivering new innovative products and solutions that we're getting paid for that as well. That's our primary focus. There is absolutely no reason sitting here today to think about sort of wholesale mass changes on the underlying pricing of the merchant base, given the rates of growth that we've been able to achieve in the business. We're far more focused on sustaining higher levels of growth over a much longer period of time, and gradually ensuring that as we're signing new customers and as we're delivering new innovation and new product that we're getting paid fairly and appropriately for that. And that's going to continue to be, I think the focus for how we think about kind of pricing across that overall portfolio.

As it relates to synergies, I think we're delighted with where we stand today. When we originally announced our Heartland deal, we thought we could take out about a \$125 million of cost synergies, on a run rate basis, that would have represented about 50% of their pre-transaction EBITDA. Today, our current target is a \$135 million, which is probably closer to 60% of their pre-transaction EBITDA. So, that effectively drives some multiple paid for Heartland down to probably 10% on an EBITDA basis, which I think compared to anything that's been done in the space is incredibly attractive and it's going to generate significant value creation for our shareholders.

The integration has gone extraordinarily well and we can be more pleased with where we are today. The remaining work from an integration point of view is really in the area of technology that's always the long pole in the tent, from an integration standpoint, we expect to have most of that complete by say this time next year.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Okay.

Cameron M. Bready

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

A

Middle of 2018, when we would expect to be kind of at our run rate synergy level of \$135 million.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Okay. So, let's jump across the pond and talk about Europe for a moment, which is also pretty unique market for you guys. So, if we could just quickly talk about kind of UK, Spain and then kind of pan-European e-commerce business that you have there?

Cameron M. Bready

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

A

Sure. Yeah. So our UK business is obviously the foundation of our overall European business. It's our largest business in Europe and has continued to perform very well, despite obviously what's been a choppy political environments in the UK over the last 9 months now – 10 months probably. So we remain very pleased with certainly the macro trends and the performance of our UK business. I think we benefited from a little bit of a unusual phenomenon with the pound devaluing so much on the heels of the Brexit referendum last June. You've seen more people staying in the UK and spending in the UK. You've seen more people traveling to the UK and spending in the UK. So we've seen very healthy volume and transaction levels coupled with the interchange reductions that came into effect in December of 2015 have created an environment where I'd say the overall business performance in the UK has been better than we would have anticipated...

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

It sounds like...

Cameron M. Bready

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

A

...certainly on the heels of Brexit. And I think looking forward today not withstanding sort of the election outcome last week, I continue to see the UK is a market that'll sort of muddle through the next few years as it works to exit from the EU and negotiates a solution, and today that obviously works for the UK, works for the EU, which will I think it's going to take a number of years to play out, but our business there remains very healthy. Obviously, we remain cautious just given the level of uncertainty that exist around Brexit and the pound devaluation over the last year and what that may mean from a macro environment. But sitting here today, we're certainly pleased with the team's performance over the last going on year with the uncertainty that's existed in the macro environment.

Spain has been an absolutely fantastic. It continues to be an unbelievable story for our company. We continue to gain share in a market where we're already 27% of the market. The top line growth has been really fantastic. We have a wonderful team and a wonderful partner in Spain that continues to execute at an extraordinarily high level. So we're delighted with that business.

And what I'd say about Spain is, the macro environment is quite good. We were growing that business attractively at a time when GDP was declining in Spain. So now that GDP is actually growing in probably one of the faster growing GDPs in Europe, we have a nice tailwind in that business. The secular trends remain very good. And I think our business is incredibly effective at winning market share and has been since our partnership with Caixa going on there eight years ago.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Okay.

Cameron M. Bready

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

A



So we remain very pleased with how Spain is performing. And our pan-European business continues to be a nice e-comm business, and omni-channel solutions business continues to be a nice tailwind for growth in Europe. That business grows double-digit on a pan-European basis, we continue to see success in bundling e-comm and merchant acquiring face to face capabilities and look for that business albeit small to continue to be a nice driver of growth for our European business over the course of time.

And then lastly, I want to round out Europe in talking about the success of our Erste joint venture. We've seen good progress in the Czech Republic, Romania and Slovakia, albeit relatively small markets, all markets with very good secular trends. Erste has been a terrific partner and it has done exactly what we hoped it would, which is bring great distribution that we can bundle with our technology products and services to create a differentiated offering in those three markets in particular. So we anniversaried that deal at the beginning of June, we're well on track with integration and I think over the course of time that will end up being a very nice little deal for us in Europe.

Daniel Perlin  
*Analyst, RBC Capital Markets LLC*

Q

Okay. And then Asia?

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

A

Asia has been – certainly, the last two quarters are probably been the best two quarters we've had in Asia, since we've been in those markets. Benefiting obviously from more stability in the Greater China markets, so we went through a period obviously in the tail end of calendar 2015 into early calendar 2016, where we saw some headwinds in China, Hong Kong, Macau, Taiwan, what we collectively refer to is our Greater China markets. But with those having stabilized and no longer really being a headwind to growth, the growth that we have in other markets in Asia, principally Australia, New Zealand, Singapore, Malaysia, the Philippines has really allowed us to drive very strong rates of organic growth across our Asia Pacific business. We've done I think a fantastic job diversifying our business in Asia, away from kind of the Greater China markets. Those are now less than 50% probably of our total revenue in Asia Pacific and we're seeing growth in the other markets that I just mentioned obviously having more of a significant impact on the overall growth rate in that region and couldn't be more delighted with their performance.

Daniel Perlin  
*Analyst, RBC Capital Markets LLC*

Q

That's great. So, for second time, let me just end on this last question. So, on the M&A front I think you're currently around call it, 4 turns of leverage...

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

A

Yeah, right at that on a gross debt to EBITDA basis.

Daniel Perlin  
*Analyst, RBC Capital Markets LLC*

Q

Yeah. You've been talking about getting down to 3.5 turns, I think is a...

Cameron M. Bready

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

A

Sort of targeted ratio.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Target. But it would seem now that this Heartland deal has anniversaried management's bandwidth is kind of what really drives your M&A strategy a lot of times, like how much talent can you really drive to figure this out. So, I would imagine we should be expecting something in the next couple of quarters, do you have anything from you guys or no?

Cameron M. Bready

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

A

So, I think that's fair. Our perspective is always to make sure that we're integrating and executing well on the things that we buy.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Right.

Cameron M. Bready

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

A

So, a lot of our focus over the last year to your very fair point has been making sure that Heartland is, we're realizing the value, that our go-to-market strategies are aligned, we're executing well in that business and that we're delivering on all the promises we made when we obviously acquired it back in April of 2016. And I think it's fair to say, we feel very good about that today.

Daniel Perlin

*Analyst, RBC Capital Markets LLC*

Q

Yeah.

Cameron M.  
Bready

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

To your point, I am very happy with where the balance sheet is, we're deleveraging well. We are on a path to be towards 3.5 by the end of year, if we were not to put capital towards other things. But I think needless to say, I think we're kind of back to business as usual from an M&A standpoint.

So, the things that we've done over the course of time that I think it really served to augment our strategy and enhance value for shareholders. The pipeline is probably as full today as it has been for some time. So, in North America again, it's going to be very much focused on expanding our vertical market and integrated solutions. As we talked about earlier, we continue to be bullish about our European business long-term. We'd like to have a bigger presence on the continent, largely in Europe it's a function of finding the right distribution to allow us to grow and expand either existing businesses or enter new markets that we may not be in today.

Similar probably philosophy or thesis for Asia, looking to enhance distribution in markets where we maybe subscale, looking to enter new markets in Asia that have large GDPs and good secular trends. And in Australia, we'll continue to be a story of technology. That's a market that's really driven by technology. We have a great technology business there today, have a lot of confidence in our team in Australia, and would like to do more. As I tell people all the time, I only complain about Australia's it's 25 million people....

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**Daniel Perlin**

*Analyst, RBC Capital Markets LLC*

Not that big.

Q

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**Cameron M. Bready**

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

Just not that big. I wish we were 10 times bigger, but it is what it is.

A

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**Daniel Perlin**

*Analyst, RBC Capital Markets LLC*

That's great.

Q

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**Cameron M. Bready**

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

It's a good market.

A

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**Daniel Perlin**

*Analyst, RBC Capital Markets LLC*

Well, thanks for being here, and thanks for all the momentum you guys have. We appreciate it, and we continue to support it. So...

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**Cameron M. Bready**

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

Yeah. Thanks so much for having me. And thank you very much for your interest in Global Payments.

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**Daniel Perlin**

*Analyst, RBC Capital Markets LLC*

Thank you.

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**Cameron M. Bready**

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

Thank you so much.

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