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Global Payments, Inc. (GPN)

Q3 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to Global Payments 2017 Third Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will open the lines for questions and answers. [Operator Instructions] As a reminder, today's conference call is being recorded.

At this time, I would like to turn the conference over to your host, Vice President, Investor Relations, Isabel Janci. Please go ahead.

Isabel Janci

Vice President-Investor Relations, Global Payments, Inc.

Good morning, and welcome to Global third quarter 2017 conference call. Our call today is scheduled for one hour.

Before we begin, I'd like to remind you that some of the comments made by management during today's conference call contain forward-looking statements, which are subject to risks and uncertainties discussed in our SEC filings, including our most recent 10-KT and any subsequent filings. These risks and uncertainties could cause actual results to differ materially. We caution you not to place undue reliance on these statements. Forward-looking statements during this call speak only as of the date of this call and we undertake no obligation to update them.

Some of the comments made on this call refer to non-GAAP measures such as adjusted net revenue and adjusted earnings per share, which we believe are more reflective of our ongoing performance. For a full reconciliation of these and other non-GAAP financial measures to the most comparable GAAP measure in accordance with SEC regulations, please see our press release furnished as an exhibit to our Form 8-K filed this morning and our trended financial highlights, both of which are available in the Investor Relations area of our website at www.globalpaymentsinc.com.

Joining me on the call are Jeff Sloan, CEO; David Mangum, President and COO; and Cameron Bready, Senior Executive Vice President and CFO.

Now I'll turn the call over to Jeff.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Isabel, and thanks, everyone, for joining us this morning. I am delighted with our third quarter results. The continued extension of our payments technology strategy and relentless focus on execution enabled us to produce yet another quarter of double-digit organic net revenue growth. Our strong performance also allowed us to expand adjusted operating margin by 110 basis points and grow adjusted earnings per share 29%, one of the highest rates we have reported to-date.

The hard work of our 2,500-person sales organization worldwide and the pace of our global cross-selling efforts provide significant momentum for sustained growth and share gains. Never in our history have we had more capacity to sell and more distinctive solutions to deliver to customers around the world. We could not be more proud of the outstanding performance of our colleagues. And we are not done yet. On September 1, we closed

the acquisition of ACTIVE Network, a cloud-based, mission-critical enterprise software and payment solutions company targeting event organizers in two vertical markets.

We are off to a fine start with our partnership with our combined business having already realized an early significant win in Europe. We've also had an early win from our strategic partnership with Vista Equity Partners. More to come in a few minutes on those achievements.

As we have described over the last couple of years, there are two fundamental drivers of share gains for our business: expansion of our integrated and vertical markets; and our e-commerce and omnichannel solutions. Each of these businesses grew organically at double-digit rates in the third quarter and, together, now account for roughly [ph] 40% (04:06) of our total worldwide net revenue.

We continue to further differentiate our company as the leading provider of payment technologies worldwide through these strategies. Our integrated and vertical markets business provides customers with specific payment technology solutions that are relevant to their verticals. We are unique in this channel in that we both partner with software providers in certain vertical markets and also own the entire software value stack in others.

In addition, our e-commerce and omnichannel solutions leverage our market-leading worldwide footprint in both the physical and virtual worlds. We are unique in this channel in the scope and breadth of our omnichannel coverage. As we continue to advance our technology-enabled software-driven strategy, we have made substantial progress on cross-selling these solutions as well as our other products and services around the world. Our single, unified operating and technology environment enables these initiatives by allowing us to quickly and seamlessly deploy solutions in and across our markets.

I want to highlight some of our cross-selling accomplishments around the globe as well as ongoing initiatives in this area that will drive future opportunities in 2018 and beyond, which we believe further differentiate us from our competitors. First, I am particularly pleased to report that in every region in which we operate worldwide, we have now successfully closed referrals from our Heartland sales channel. Many of these referrals resulted in new omnichannel customers.

In addition, during the quarter, a number of multinational retailers extended their omnichannel relationship with us into additional markets. And just last month, we closed ASO as a new ACTIVE Network customer. ASO manages the Tour de France and Paris Marathon as well as other events. ACTIVE's market-leading software coupled with our payments expertise and worldwide omnichannel offerings, resulted in signing this new marquee customer.

We also recently announced the international expansion of TouchNet into Canada, the United Kingdom, Western Europe, Hong Kong, Singapore, Australia and Brazil. Like ACTIVE, TouchNet is a sophisticated and comprehensive software solution, providing a full suite of business management and payment technology capabilities to colleges and universities. We now have specialized salespeople on the ground selling these integrated solutions to universities in these regions.

Earlier this year, we introduced Xenial, a SaaS-based offering for the restaurant and hospitality industry, building on the capabilities of our Heartland Commerce business. This product is the first of its kind, and we are very encouraged by the feedback we have received from our U.S. customers. We look forward to deploying this solution in international markets in the coming months.

And a few weeks ago, we launched Heartland Analytics, which provides small business owners with comparative key metrics such as sales trends, customer visits, new versus repeat customer business and changes in average

ticket size. We are already selling this solution in the United States and expect to rollout this and other advanced analytic capabilities in other regions around the world throughout 2018.

In addition to these successes, I am also delighted to announce that we have secured our first integrated partner through our strategic relationship with Vista Equity Partners. Just last week, we were selected as the payments technology partner for DealerSocket, a Vista portfolio company. DealerSocket is a technology solutions provider for the automotive vertical that simplifies processes and workflow. Our ability to seamlessly integrate comprehensive payment solutions through their platform extends and enhances their already robust offering.

As we continue to evolve our strategy, we intend to further leverage our assets and investments to wrap more value around payment transactions. Software data and analytics are just a few examples of value-added services that we provide our customers globally, and with the addition of ACTIVE Network, we have more robust data and analytics capabilities that we intend to utilize to continue enhancing our offerings globally.

Before I turn the call over to Cameron, I'm delighted to announce that Global Payments was recently selected by Forbes as one of the global Growth Champions, which identifies the top 250 fastest growing companies worldwide and as one of the world's Top 100 Most Innovative Companies. We are particularly pleased with these distinctions given our focus on creating and delivering innovative solutions for our customers globally. Cameron?

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

Thanks, Jeff, and good morning, everyone. The strength and consistency of our execution worldwide is evident in our third quarter results. We are very pleased with our performance as we once again exceeded our expectations for the business. Consolidated net revenues for the third quarter were \$930 million, a 12% increase compared to 2016, driven primarily by low double-digit organic growth. Our strong net revenue growth and continued synergy realization contributed to operating margin expansion of 110 basis points to 31.3%. Adjusted earnings per share grew 29% in the quarter to \$1.15.

North American net revenue was \$686 million, reflecting growth of 11%. ACTIVE Network, which closed on September 1, contributed approximately \$14 million of net revenue or 2 percentage points to growth in the quarter. Excluding ACTIVE Network, organic growth in North America was high single-digits; more specifically, 9%. In the U.S., our direct distribution business again delivered low double-digit organic growth, while our wholesale business saw mid-single-digit declines in the quarter.

Canada performed very well again, contributing mid-single-digit growth in local currency with favorable Canadian foreign-currency trend adding modestly to results. Operating margin in North America expanded 120 basis points to 31.6%. Margin expansion was driven by strong organic net revenue performance across our U.S. direct channels, in particular our higher margin technology-enabled businesses and the realization of expense synergies from Heartland, partially offset by ACTIVE Network due to the seasonality of the business.

We again saw extremely strong performance in Europe with adjusted net revenues growing 17% organically in the third quarter or approximately 13% on a constant currency basis. The UK and Spain grew double digits in local currency driven by resilient underlying economies and the continuation of what has been a robust tourism season. In addition, we continued to see share gains in both of these markets. Likewise, our e-commerce and omnichannel solutions business grew well into the double digits as we further our pan-European strategy. As expected, now that most of the Erste JV integration efforts are behind us, European operating margins were flat at 47.3% for the quarter.

Our Asia-Pacific business continued its strong performance this quarter, reporting net revenue growth of 15%. We saw solid trends across our key markets in Asia, including Hong Kong, Singapore, Taiwan, and China. And Ezidebit once again contributed in excess of 20% organic growth in the quarter, exceeding our own lofty expectations for this business. Operating margins in Asia expanded 330 basis points as a result of strong net revenue performance, which allows us to continue to realize the benefits of improved scale across the region.

Excluding integration costs, we generated free cash flow of approximately \$236 million this quarter. We define free cash flow as net operating cash flows excluding the impact of settlement assets and obligations, less capital expenditures and distributions to non-controlling interests. Capital expenditures totaled \$47 million for the quarter.

As a result of the ACTIVE Network acquisition, we issued 6.4 million shares of common stock in September, which increased our diluted weighted average share count by approximately 2.1 million shares for the quarter. Further, we funded the cash portion of the consideration for the transaction primarily through borrowings on our revolving credit facility, which modestly increased our gross leverage to approximately 4.1 times at the end of the third quarter.

As a result of our strong performance for the third quarter, as well as the closing of the ACTIVE Network transaction, we are again updating our 2017 guidance. We now expect net revenue to range from \$3.505 billion to \$3.53 billion, reflecting growth of 23% to 24% over 2016. This includes an expected contribution from ACTIVE Network of approximately \$40 million to \$45 million for the fourth quarter.

We continue to expect operating margin to expand by up to 120 basis points. It is worth noting that due to the seasonality of the ACTIVE Network business, we are forecasting this transaction to reduce the margin expansion we otherwise would have expected to achieve in North America in the fourth quarter. Nevertheless, our overall target for margin expansion in 2017 remains the same.

We now expect adjusted earnings per share to range from \$3.94 to \$4.02, reflecting growth of 24% to 26% over 2016. As we mentioned last quarter, we expect ACTIVE Network's contribution to be immaterial to 2017 adjusted earnings per share. Lastly, we now expect our effective tax rate to approach 27% for the year. In light of the share issuance associated with the ACTIVE Network acquisition, we also now expect total weighted average shares outstanding for the fourth quarter and full year to be [ph] 160 million (14:56) and 156 million, respectively.

We could not be more pleased with our performance in the third quarter and year-to-date periods. As we close out 2017, we're delighted to be in a position to exceed our overall objectives for the year. Likewise, as we begin to look forward to 2018, we remain excited about the momentum in the business as we advance our technology-enabled, software-driven strategy worldwide.

Before I turn the call over to Jeff, I would ask you to save the date for our upcoming investor conference, which we are planning to host here in Atlanta on March 1, 2018. We hope to see all of you there. Jeff?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Cameron. The strong momentum across our business continued in the third quarter, as it has all year. Our laser focus on our payments technology strategy and our emphasis on operational excellence, have enabled us to deliver one of our strongest top and bottom-line results to-date. We have also laid a solid foundation for future growth with substantial progress for achieving the revenue enhancements in 2018 and beyond that we described at the time of our Heartland merger. While delivering exceptional performance today, we could not be more excited about where we can take Global Payments in the future.

Isabel?

Isabel Janci

Vice President-Investor Relations, Global Payments, Inc.

Before we begin our question-and-answer session, I'd like to ask everyone to limit their questions to one with one follow up in order to accommodate everyone in the queue. Thank you.

Operator, we will now go to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, ma'am. [Operator Instructions] And our first question will come from the line of Dave Koning with Baird. Please proceed.

David J. Koning

Analyst, Robert W. Baird & Co., Inc.

Yeah. Hey, guys. Another great quarter. Congrats.

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Dave.

A

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

Thanks, Dave.

A

David J. Koning

Analyst, Robert W. Baird & Co., Inc.

Yes. So, first of all, just I guess on North America, growth remains really strong. Is it fair to say that your mix continues to get better, the good businesses keep getting bigger? And now with ACTIVE coming on as well, I would imagine that's even maybe faster growth than average. Like is this sustainably going to get kind of back to 10% growth kind of in the future as the good parts keep getting bigger?

Q

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

Hey, Dave. It's Cameron. Maybe I'll start and I'll ask Jeff to chime in with anything he wants to add. So, first, I would say we're managing our North American business through organic growth in the high-single digits. Your point is right in that, our Wholesale business continues to shrink as a percentage of our North America business. And as a result of that, obviously, our faster-growing direct channels continue to drive growth in our overall North American business. And I don't want to leave Canada out; it's actually performed a little better than we would have anticipated this year as well, which has been a nice tailwind to North American growth.

A

Going forward, I would say we remain targeted at that high-single-digit level. Our integrated and vertical markets are the tip of the spear for growth. In North America they're growing in the double digits. ACTIVE will be consistent with that, as we look to 2018 and beyond, so it will be additive to the overall rate of growth. Our wholesale business, again, we target towards flat to down slightly. It was a little more than that in this quarter as we commented on in the script. And in our normal direct channel, non-integrated, non-vertical market, we targeted high-single digits as well.

So, again, you roll all that together with Canada, it was single digit in local currency, we continued to get back to that high-single-digit rate of organic growth that we're targeting for North America and feel confident in our ability to achieve that going forward in time. Clearly, as we continue to mix shift towards more integrated and vertical markets businesses, obviously, that's going to help the overall rate of growth in North America and it bolsters our confidence to be able to sustain that high-single-digit rate over a longer period of time.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Dave, I would just add on to what Cameron said that as it relates to our M&A strategy, since you asked about ACTIVE, clearly, when we look at transactions and new partnerships, we certainly think about deals that we like to position as accretive to our rates of organic revenue growth. Of course, our integrated and vertical markets business, our e-com and omni business are all in the double digits as Cameron was describing a few minutes go. ACTIVE, I think, really fits squarely in that thesis. So certainly if you play that over time, we're looking to partner and add businesses that help accelerate our rates of growth. So I think you're right in the mix shift over time, but of course, time will tell how quickly that happens.

David J. Koning

Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thanks for that. And then I guess my one follow up, Europe has stayed incredibly strong, especially the UK, I know a year ago, there's a little worry about Brexit. It actually turned into a tailwind for a while. I'm wondering, are you seeing the UK continuing to just be that strong, do you think into the future as well? Or does Brexit start to have a little bit of an impact?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Hey, Dave. It's Jeff. I'll start and I'll ask Cameron to add some color. So, I think we're as pleased with our businesses across Europe really as you are, and I think our prepared remarks really reflect that. I would say that the one thing we probably underestimated sitting here today throughout the last year-and-a-half or so is really our ability to capture share in that market, particularly in the UK and particularly in Spain.

I think if you look at our performance in those markets and you look at what those markets are growing at, you look at our public peers in those markets and what they have reported for their rates of growth in those markets, this is growing six to seven times the rate of growth, particularly in the United Kingdom that one of our competitors is growing. And of course in Spain, it's really the tale of six-and-a-half years of gaining share in the market.

So stepping back for a second, Dave, the first thing I'd say is we get paid to worry. So of course, you worry about things like Brexit. That's what we do every day. But I would say if there's one thing that makes us feel comfortable about where we are is that we consistently underestimated our ability of our colleagues to capture share in the European markets, particularly in the UK and particularly in Spain. That does make us feel a little bit better about where that business is heading as a [ph] trajectory matter (21:04). That doesn't mean we change our fundamental

assumptions about what that market does long-term, but certainly, it gives us confidence, Dave, that we should be able to continue to capture share going forward.

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

And, Dave, it's Cameron. The only thing I would add to that as well is our e-com and omni business in Europe has been particularly strong. Our strategy there to combine our e-com capabilities with our physical brick-and-mortar presence in certain markets around Europe, I think, has been a very effective growth engine in Europe and been a nice tailwind to overall growth, on top of the very strong performance we've seen in the domestic markets in which we operate.

David J. Koning

Analyst, Robert W. Baird & Co., Inc.

Q

Got you, great. Well, thanks, guys. Good job.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, Dave.

Operator: Thank you. Our next question will come from the line of Bob Napoli with William Blair. Please proceed.

Robert Paul Napoli

Analyst, William Blair & Co. LLC

Q

Thank you. Just following up on Dave's – on Europe, the 13% constant currency revenue growth in Europe, was that all organic?

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Hey, Bob, it's Cameron, yeah. That's all organic. We anniversaried the Erste JV on June 1, so Q3 was entirely organic. If you compare Q3 at roughly 13% constant currency, that's basically in line with the normalized rate of growth for Q2, which was around 13% or 14% on a constant currency basis. So...

Robert Paul Napoli

Analyst, William Blair & Co. LLC

Q

Do you think...

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

...two very consistent quarters of strong growth in Europe, which is really a function of what Jeff and I just described.

Robert Paul Napoli

Analyst, William Blair & Co. LLC

Q

Do you expect Europe to maintain double-digit organic as that e-commerce grows? And what are the key drivers to you gaining market share there?

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Yeah. So maybe I will touch on the first point. I'll let Jeff and David comment on the second. I would say our outlook for Europe remains high single-digit growth on a constant currency basis. That is we think a very reasonable expectation given the mix of businesses that we have in market. And we think going forward, we're well-positioned to be able to achieve that. Some of the things we benefited from obviously over the last several quarters in particular, we had a very strong tourism season. Obviously, the weakness in the British pound, the side benefit of that has been obviously more towards going to the UK and more people in the UK, staying in the UK and spending in the UK. So, we've seen better trends in the UK than we would have anticipated.

We're not managing that business to sustain double-digit organic growth; that's not our target for that business. But obviously, we're delighted with the performance we've been able to achieve and have good momentum kind of going into the last quarter of the year and as we look forward to 2018, which gives us confidence in our overall target for the business.

David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

A

And, Bob, this is David. Maybe some of those strategies and tactics to chase the numbers Cameron's describing. Recall in the prepared remarks, we talked about the roll out of Realex e-commerce technology across Europe. That's a big piece of the outsized growth and the share gains Jeff described in the UK. We're now successfully selling that in Spain. You can expect more and more of that to come. We've had wildly successful omni-channel sales across Europe at the same time on a relative basis. So, we're very happy with the way the solution is coming together to manage our direct sales investment.

Pause on that for a second. We're investing in more direct sales capabilities in Europe as well because we see more and more solutions come to market. Jeff also talked about cross-sales in his prepared remarks so we're increasingly selling our university sales, our university software solutions out of TouchNet, out of our Campus Solutions in the States, so more capability to sell more technology-enhanced solutions.

So, we're thinking about that as well as Jeff talked about the Xenial software platform, which includes analytics and email marketing capabilities as well as restaurant software and eventually retail and hospitality software. Those solutions all rollout over the course of 2018 in Europe as well, so more and more product to map to more and more direct sales capabilities. It's really a great recipe for us to sustain the numbers Cameron has described and hopefully beat them over time.

Robert Paul Napoli

Analyst, William Blair & Co. LLC

Q

Thank you. Appreciate it.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, Bob.

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Thanks, Bob.

Operator: Thank you. And our next question will come from the line of Bryan Keane with Deutsche Bank. Please proceed.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Q

Hi, guys. Just wanted to ask about North America, a 9% organic growth seemed solid, but I think you said the mid-single decline in wholesale was a little lower than typical expectations. Maybe you can describe what's going on in that market and then what's the outlook going forward.

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Yes. Bryan, it's Cameron. I'll touch on that a little bit. I'll maybe just start by reminding you, as a strategy matter, we've been pivoting away from our wholesale channel going on four years now. We've invested probably north of \$6 billion to move to more of a direct distribution business here in the U.S. and obviously I think that strategy sort of speaks for itself in terms of how it's played out over the last few years.

We're managing that business, obviously, to continue to see it be a smaller part of our North American business over the course of time. So it's not surprising to us that that business may be down from quarter-to-quarter, and year-over-year as we are managing it to achieve that outcome.

I would say into your point, the mid-single digit was slightly a faster rate of decline than we would've anticipated in the quarter. We were actually forecasting kind of a low-single digit rate of decline. I think the variables that took it to being more of a mid-single digit decline is just general weakness in the portfolio relative to what we would have anticipated. Some of that is attributable we think to the hurricane impacts across that portfolio and some of the concentration that may exist in those two jurisdictions, Texas and Florida in particular that were most impacted.

We think that's probably the biggest driver. One of the other variables which was in our forecast as well, of course, is we have one less processing day in Q3 2017 versus 2016. So that obviously out of the gate, it's going to cost you a point.

And lastly, I would simply say we had one other direct ISO customer that moved to an indirect relationship with us as still an ISO customer but as an indirect matter. And as part of that, they are not taking the same level of service that they were from us historically. So those factors really drove it to the level that I described in my prepared remarks. But again, as we look at the business overall, the fact that our wholesale business is declining, we're still producing the rate of growths that we're able to achieve I think speaks to the strength of our direct channel. And then long-term point of view is good for our business.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Helpful. And then international margins, we're still seeing significant margin expansion in Asia, European margins are now back to flat. Just thinking about what that outlook is going forward. Should we see more of the

same or do we finally anniversary the big growth we've seen in Asia that the comps get a little bit more difficult as we go forward. Thanks so much and congrats on the quarter.

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Yes. Thanks, Bryan. So I'll talk about Europe in particular. Our target with margins already in the high 40% range is to sustain those margins. Obviously, we're not managing Europe with an eye towards significant margin expansion, and we don't think it's going to be a meaningful driver of margin expansion for the total company overall.

So our objective there remains kind of achieving flat to maybe slight up margins in Europe, but we think that's a reasonable expectation just given the overall level of margins in that region. As we think about Asia, you're right in that we will begin to lap some of the more significant margin expansion we've been able to achieve over the course of the last probably four to six quarters.

Some of that simply is coming from improved scale. I think when I joined the company back in 2014, Asia was probably \$150 million, \$160 million business, and this year it's on track to be well north of a \$250 million business. So we've added a significant amount of revenue to that business, which has allowed us to improve scale across the region, which has certainly been a nice tailwind to margins.

Naturally as those margins creep up over the course of time, we will be reinvesting in that business to continue to drive and achieve our targeted rate of growth, which is low double-digit for Asia. So I do expect to continue to expand margins in Asia over the course of time, maybe not to the same magnitude that we've been able to achieve over the course of the last four to six quarters.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Q

Thanks.

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Thanks, Bryan.

Operator: Thank you. Our next question will come from the line of Jeff Cantwell with Guggenheim Securities. Please proceed.

Jeff Cantwell

Analyst, Guggenheim Securities LLC

Q

Hi. Good morning.

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Morning, Jeff.

Jeff Cantwell

Analyst, Guggenheim Securities LLC

Q

Hi. Thanks for taking my question. I just want to talk about your overall firm-wide margin outlook. It seems like you've consistently talked about operating margins getting back to that 35%-ish level. I just want to make sure I understand that given what we've seen this year. You've been adding more tech-enabled revenue. Seems like wholesale revenue is declining. You've been adding Canada, Erste Group, other areas I think are higher margin. So do you think that 35% is the jumping off point for firm-wide operating margins? Or perhaps there might be more to go beyond that as we think longer term? Thanks.

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

So, Jeff, it's Cameron. I'll start and maybe ask Jeff to chime in as well. I think the mid-30% margin target in the medium term is a good target for the business. I think as we look around the globe and the aggregate of the businesses that we're managing, we can continue to grow margins at our overall cycle guidance, which is up to 75 basis points. Over the medium term, we think getting to the mid-30% is a right objective for our business.

I think given the mix of businesses we have, as we continue to drive margins up towards that level and maybe slightly higher, the level of reinvestment to continue to drive the rates of growth we want to achieve in the business will likely increase.

And we're also, I would note, if you look at 2017 in particular, given the strong margin performance we've seen throughout the year, we are investing more in the business. We've increased our CapEx guidance a couple times this year already. It's now at \$180 million originally versus a \$160 million target at the start of the year.

So we are taking the opportunity as we are outperforming our own expectations to reinvest in the business to help sustain better rates of growth over longer periods of time. And I think that will continue to be our plan as we move forward in time. But I still think over the medium term that mid-30% target is achievable and the right one for the business.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yes, Jeff. It's Jeff. I would just add to that, as a [ph] business man if you (30:56) step back for a second, what we really wanted to accomplish heading into 2018, I think I mentioned this earlier in one of our calls this year is to really achieve scale in our business.

Now I think we have scale as an operating matter, but scale in the underlying infrastructure of our business as we head into calendar 2018 and beyond, we feel we've built enough scale in what we do that the investments are really incremental. Part of that you're seeing in the \$180 million that Cameron just described relative to the \$160 million.

So here we are producing these results: 33% earnings growth, 24% now, 29% reported, yet we're investing consistently in future growth rather than attracting capital from the business and limiting our rates of growth.

So what do I mean by that? Investing in existing and additional infrastructure, cloud-based infrastructure, so the cloud-first strategy that we've had for the last year-and-a-half at the company, investing in additional HR ops and support, additional finance ops and support to make sure that we're ready to go do the next investment, whether that's a partnership or a new market or a new product that we want to launch, a new market we want to enter.

We wanted to make sure that exiting 2017 that we had the taken advantage of the opportunity presented by Heartland and really now by ACTIVE to get the business at the right level of what I'll call support scale, distinct

from processing scale or anything else. And I think we've largely – 2017 is not done, right, but I think we've largely achieved that. I think some of that explains some of the \$180 million that Cameron was alluding to in terms of CapEx relative to \$160 million.

So if you peel that back to what does that mean for margin, I think Cameron is exactly right. I think in the next number of years with the guidance that we've given in terms of our model, we should be right there, but I also think it's important to understand that even without a mix shift, we feel like we've made the investments we need to make to sustain growth over the coming years.

Jeff Cantwell

Analyst, Guggenheim Securities LLC

Q

Appreciate that. And then on Canada, can you talk a little more about what's driving the growth there? I think I heard you say that growth is accelerating. That's something you've spoken about the past couple quarters as an emerging strategic initiative. So just curious as far as how much that contributed to revenue growth this quarter. And maybe you could just update us about a reasonable set of expectations as we start to think about 2018. Thanks very much.

David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

A

Yes, sure. Jeff, it's David. I'll start and then pass it over to Cameron, particularly around the outlook for 2018. I can tell you, Canada is just quite simply having a fantastic year for us. It's really that simple. Our colleagues there are doing a great job. They're executing very well on the sales strategies we described at the beginning of the year.

You're quite correct that there's an analogy to Europe as we described earlier in that we are now selling more tech-enabled products and more tech-enabled solutions in Canada than ever before. We do have OpenEdge live in Canada, the ability to sell integrated payments. We have, as you'll recall, sold TouchNet software in Canada. We're increasingly selling our point-of-sale software solutions through dealers and have added several dealers in just the last two quarters to be able to sell more of that in 2018.

At the same time, we've really benefited really from some very nice macro trends as well in Canada. Although GDP is still not a mover, we've had very nice credit growth, solid underlying credit growth, which I think speaks to the quality portfolio we have there. As consumers spend a little bit more in the portfolio, we've got great retail presence, great health care presence, great restaurant presence across a national portfolio. So we benefit really almost immediately when things look a little bit better in Canada in terms of just core consumer spending.

So, all in, really a great situation for Canada, great execution by the team there in 2017. No reason to think we won't continue to execute in 2018, but for that I'll pause and turn to Cameron in terms of how those expectations play out.

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Yes, Jeff, it's Cameron. I'll just add we're obviously delighted with the performance we've seen in Canada over the course of last year, to David's point. The performance in mid-single-digit local currency growth is obviously above our expectation for that business, as David highlighted. Some of that I think is our ability to sell different solutions, differentiated product on the margin; some of it is an economic environment that is probably one of the better ones we've seen in Canada over the course of the last several years. I think Q2 GDP growth was in the 3.75%

range, which is very high for that market, and that's been a nice tailwind for our businesses because our growth always starts with what's the underlying rate of GDP growth in the individual market in which we're operating.

I'd say as we look out for that business, our target remains low single-digit in local currency. Obviously as it relates to all of our targets, our expectation and hope is that we can exceed those. But I think a very realistic target for that business over the course of time remains low-single digit in local currency, and that's appropriate just given in particular the history in that market. I think it's a little premature to suggest that the fundamental growth rates in Canada are going to be different over the medium-term.

Jeff Cantwell

Analyst, Guggenheim Securities LLC

Q

Great. I appreciate that. Thanks very much.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, Jeff.

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Thanks, Jeff.

Operator: Thank you. And our next question will come from the line of Ashwin Shirvaikar with Citi. Please proceed.

Ashwin Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Q

Thanks. Hey, guys. Congratulations, good quarter. I wanted to ask about the pipeline from Vista, what it looks like, and sort of a two-phased question. One is, obviously, you've got to go sign deals like DealerSocket, but then you also I think have to work with a company like DealerSocket to get to their customers as well. And can you sort of help us figure out how that two-phase arrangement sort of works like, especially with a name like DealerSocket which I believe does have an agreement at co-pay. So is this a coexist situation? Is there exclusivity? Details like that.

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Hey, Ashwin. It's Cameron. Maybe I'll start and I'll try to frame up how we go about the process with Vista and then I'll turn it over to David to get into more specifics as to how our interactions with a particular software partner really work and how we get to market with that customer. So as a Vista portfolio matter, you're absolutely correct in that we're working hand-in-hand with Vista to identify the portfolio companies that they own today that number one, would make good payment technology partners for us, and two that, frankly, meet our solution and would benefit from our solutions. Once we identify that pipeline of opportunity, then I think there's something like 45 I think portfolio companies in the Vista group today. We do then go work with the individual company to structure a bespoke arrangement with that particular entity that's going to meet their need; it's also going to work for us as a commercial matter.

As you would appreciate, Vista is not a long-term owner of assets so we can have the best relationship in the world with Vista, but we really want to have the relationship at the individual portfolio company because we want that relationship to sustain whatever life expectancy they may have as a [ph] Vista (37:50). So that's the objectives through this process. It does take time. We could not be more pleased that we already have one signed, which I think, frankly, even relative to our own expectations is greater than we would have anticipated. And we have a nice pipeline of opportunities building and a good discussion ongoing with a number of other portfolio companies that we're going to work to continue to drive forward from there.

David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

A

Yeah, Ashwin. David. A little more color, then so if you think about the process of them bringing someone live or even closing the deal, I'll start with something I said last quarter which is there's nothing better than a warm lead when you're trying to go in for a sale. So in the case of DealerSocket, we were actually already in the sale process with them. It wildly accelerated via the business relationship that Cameron described a moment ago, to the end result of us being able to actually close it in just a matter of weeks post our transaction with ACTIVE, which is just fantastic, hopefully a sign of the ability to move more quickly through those pipelines as we go forward. Of the 45 or so portfolio companies Cameron described, a handful are already in our pipeline and were before, so hopefully again we expect to see or hope to see accelerated sales processes there.

To speak directly about how we bring a customer live, let's actually use DealerSocket maybe as an example. So what DealerSocket really does, they provide a really sort of Middleware engine CRM solution for the automotive vertical. So it simplifies sales and marketing. They tend to target independent dealers. There are also franchises as well. But you're talking about maybe 2,000 or so mostly independent dealers, so a huge opportunity. So probably why we're so excited about is 2,000 dealers. This is why actually we made the call, not just the sale, but this is a material potential partner for us.

To get them live, as you might think about, this is a CRM solution, we have to deeply integrate our payments technology into a CRM solution, add some of our marketing technology as well, and make sure that as a salesperson is working that independent dealer, they can see that on their sales force automation system, they can run marketing campaigns, they can run pricing deals at the end of a month. It's a pretty deep technical integration to create the seamless experience that we talk about the drives, the outsize growth you get from our integrated payments businesses. That'll take 90 days to as much as six months in order to create the full integration. It's part of why it's so valuable as you don't just do this in nine days with the semi-integrated solution. It's a big deal.

So we're going to pile up a number of these DealerSockets over time as our sales force does anyway. These, though, we can almost think of as a little bit of extras, right? We weren't expecting to close three or four Vista companies in the next six months. Now, that's what our pipeline says. We'll see whether we do it. As Cameron correctly said, we have to earn that business and then earn it again every day, but we're really happy to have this series of warm leads and our sales folks are pretty charged up, because that portfolio of businesses looks like real opportunity for us over time.

Ashwin Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Q

Sounds good. And then Heartland pricing, that's a question you get all the time. You talked about value-added pricing on a case-by-case basis almost, but are you sort of at a point where you're beginning to roll out pricing? And when I say pricing, I do mean in all its forms, you have pricing fees, things like that. Are you beginning to do that? Can you speak about that?

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Yeah. It's a great question, Ashwin. So let me start by saying we are not doing broad-based pricing initiatives across the Heartland portfolio or any of our portfolios. We continue to look to where we can match value we create to economic value. We continue to believe we provide quite simply the best infrastructure and service infrastructure available to our customers. We think we should be paid for that.

So we continue to be surgical with ideas like where we are providing higher-quality services. Should we adjust the economics there? Yes, quite possibly. So if you think that we sell higher-value service, we are working hard to train our sales reps to sell the initial deal at a higher price, which relieves you of the burden of coming along later, obviously, needing to bring that back to market. That's had great success. We can literally show in our CRM systems if someone's closing a deal that the rep next to them closed that deal at a higher price point the week before. So things like that are working well.

We have tweaked the way we approach terminal pricing as an example. We have new solutions that we've rolled out for compliance, but know that the simple answer is we are not doing broad-based pricing across the portfolio. We continue to try and surgically match value where we create value.

Ashwin Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Q

That's great. Really appreciate that clarity. Thank you very much.

David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

A

Thanks, Ashwin.

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Thanks, Ashwin.

Operator: Thank you. And our next question will come from the line of Glenn Greene with Oppenheimer. Please proceed.

Glenn Greene

Analyst, Oppenheimer & Co., Inc.

Q

Thanks. Good morning. Good quarter.

David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

A

Thanks, Glenn.

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Thanks.

Glenn Greene

Analyst, Oppenheimer & Co., Inc.

Q

I just wanted to drill down a little bit more on the North America growth, and more thinking about by distribution channel, I realize sort of the faster-growing channels were in the low double-digits in aggregate. But maybe if you could parse a little bit I think sort of the relative growth rates of integrated, traditional direct, thinking e-com. The description you gave of the mid single-digit decline was helpful on wholesale, but just a little bit more on the overall growth parameters you're seeing across the distribution channels in North America.

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Sure, Glenn. It's Cameron. I'd be happy to do that. So let me just start again with the integrated and vertical markets business. That grew in the low double-digits in aggregate in the second quarter led by OpenEdge. But our other vertical markets businesses also grew in that same sort of low double-digit range. So that business, again, consistent performance I think Q2 to Q3. And, frankly, throughout calendar 2017, we've seen double-digit growth in that business, and we're frankly very pleased with the overall performance we're seeing out of that portfolio of companies. As I said earlier, that's the tip of the spear for our growth in North America and will continue to be going forward.

Our traditional direct sales distribution channel, our Heartland direct sales distribution channel grew high single-digits in the quarter. That business, again, at the high end of our expectations for that particular channel, we think that channel can be a consistent high single-digit grower for us going forward and that's what it produced again this quarter right at around 9%, so right at the overall sort of average for North America.

Now that is down a little bit relative to what we saw in Q1 and Q2 of this year. A couple of things really driving that. To be candid, Glenn, one would be obviously there was a bit of hurricane impact in that business in the third quarter. We had a combination of obviously merchants in those markets that were not transacting with us during those periods of time. We had sales professionals who weren't contributing new in period revenue in those jurisdictions during that period of time.

And I'd say perhaps probably more importantly, we're now starting to lap the material improvement in attrition that we were able to achieve starting really last summer. So as you'll recall, we have been able to take attrition in that portfolio down from probably 12% to 13% historically down to 10% or 11%. That's probably not going to go to 8%. So as we begin to lap those significant downward trends in attrition, obviously that's going to be a tougher grow over for that business.

So for that business to continue to achieve high single-digit rates of growth this period I think was a terrific outcome for them. So that's really our direct business in the U.S. market in Q3. If you roll those two channels together, collectively they were low double-digit.

Wholesale I already talked about, kind of down mid single-digit. Canada we talked about as well. It grew mid single-digit in the quarter. We had a little bit of a tailwind from the Canadian dollar that added probably 0.5%, roughly 50 bps to North American growth in the quarter. I would say that was probably more than offset by hurricane headwinds that we faced in a number of different channels including the Heartland direct channel, but also in our schools and campus businesses as well.

I think those businesses were actually probably disproportionately impacted by the hurricane. We have a number of school districts in both Florida and Texas. Those are two of our larger markets for school districts as well as

campuses at the university level, and unfortunately those storms hit right at back-to-school season which is our seasonally highest seasons for those two businesses. So they were somewhat impacted by the hurricanes as well, but I would say as management our job is to grow through those things, and I think we did that very effectively in the third quarter.

Glenn Greene

Analyst, Oppenheimer & Co., Inc.

Q

Okay. And then my follow up is for Jeff, and more sort of a thematic longer-term question. But when you think about the software technology businesses, I think you've been phrasing it as 40% of revenue, and obviously that's been the focus. But do you have sort of midterm 3, 5-year goal, what proportion of the business you're sort of looking for that to be? Or how you think about that?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Well, Glenn, you're stealing our thunder for March 1. Cameron talked about the Investor Day on March 1, and now you're getting ahead of it. But I'll give you a sneak preview that not shockingly that number is probably 50% as we think where we'd like to take the business.

If you go back to where we were really in October 15 at our last Investor Day when we were together, I think at that point what we had said is those businesses in the aggregate were probably 30% plus or minus of our revenue. Today we talk about 40% now that ACTIVE has closed, and our target is 50%.

I don't know if there's any limit as to where the 50% candidly would go. I think it depends on where the opportunities are, what that mix looks like. Obviously we'll be talking about that a lot more on March 1. But if you take a step back for a second, you combine what Cameron just answered to your previous question with our strategy, well north of \$1 billion of revenue on an annual basis in our U.S. business, which is our largest market, is coming from these strategies that Cameron was describing.

So we think about where we're taking the business not so much as a percentage but how we're actually setting the business up, we think that that is a defensible distinctive method of distribution for a long time to come. So yes, we'd like more of it, but I also think it makes us feel pretty good about our ability to continue, as we said in the press release this morning, to sustain those share gains.

[indiscernible] (47:48) on top of that what David alluded to in Canada, what we talked about a little bit in the United Kingdom which we're pleasantly surprised by our ability to continue to generate share, I'd say we've done a great job in those markets.

But at the margin, I think we also do believe that the things that we've been describing on the tech-enablement side, bringing OpenEdge and integrated into Canada and into the United Kingdom, bringing Realex and our e-com omni-channels into North America and into Spain as well as the UK, those are undoubtedly helping us in terms of the momentum of the business, but as a key contributor I think going forward to baking that number 50% or some higher number. But now I've kind of given you the preview of March 1. I hope you'll still come on March 1.

Glenn Greene

Analyst, Oppenheimer & Co., Inc.

Q

Sorry to take away your thunder.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, yeah. I knew someone was going to ask that. [ph] I was going to ask to (48:33) about March 1 – here in November, but I do think though that's where we're headed. Obviously we'll be talking about that a lot more early in the New Year.

Glenn Greene

Analyst, Oppenheimer & Co., Inc.

Q

Great. Thanks a lot.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, Glenn.

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Thanks, Glenn.

Operator: Thank you. Our next question will come from the line of Paul Condra with Credit Suisse. Please proceed Condra.

Paul Condra

Analyst, Credit Suisse Securities (USA) LLC

Q

Hey. Good morning, guys. Thanks for taking my question. Cameron, I just wondered now that you have Heartland integrated ACTIVE in 2018, can you just kind of talk about seasonality just kind of for the benefit of our models that we should paying attention to? And then specifically, as we go from 4Q to 1Q and calendar processing days, just anything to kind of call out?

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Yes. Probably the single biggest thing I would want to call out would be ACTIVE seasonality. Now that we have that transaction closed, I can give you a little bit more color as to kind of how we see seasonality in the business. As I mentioned in my prepared remarks, we're forecasting ACTIVE to contribute somewhere between \$40 million to \$45 million in Q4. If you look at their business overall, it's seasonally strongest in Q1 and Q2, Q2 being a seasonally strongest quarter. Q3 and Q4 tend to be wider from a revenue point of view.

So if you take that \$40 million to \$45 million target that we have for ACTIVE for Q4. I expect that business for all of calendar 2017 to produce \$180 million to \$185 million based on that expectation which is in line with our earlier commentary on Q2 where we indicated that the business would approach \$200 million of revenue for calendar 2017, to be a little more specific around that right now we see it in the \$180 million to \$185 million range.

And that is a double-digit growing business as we talked about before, so you can factor that into the model as you look to 2018 and begin to forecast both annual and seasonal trends for the business. I'd say the rest of the business overall would be largely as experienced in 2017 as a seasonality matter, ACTIVE has a little bit of a different seasonal profile than I would say our legacy Global Payments business pre-ACTIVE would've had.

Paul Condra

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Got it. Thanks. And then on the direct ISO channel, I mean is there a point where that gets small enough that it becomes a little bit more of a revenue lift? And then I'm just wondering is there a reason you don't exit that business more quickly just given the declines?

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Well, I would say it's still a profitable business for us, so there's no reason to exit it rapidly quite frankly. We still have a number of good ISO partners and we think we're a very good partner to them. So there's nothing inherently wrong with the business. Our strategy obviously is focused into different part of the distribution channel where we want to be direct and then control that direct relationship with our customer. We think that's where the business needs to go and will continue to go over the course of time.

I mean, as a mathematical matter as it continues to shrink, as a part of our North American business, it does become less of a headwind to growth and that I think in the long term is good for our business, and if we can manage it to flat to down, low to mid single-digit over the course of time, we can grow through that and over the course of time it will become an increasingly smaller part of our business, but we still probably have 90 ISO customers and it's a profitable business. It does add some scale to our overall business, so there's no real reason I would see to exit it more rapidly. We're not focusing lot of resources on it. We are supporting our partners in that channel well, but it's certainly not a strategic focus for us.

Paul Condra

Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Great. Thank you.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, Paul.

Operator: Thank you. And our next question will come from the line of Andrew Jeffrey with SunTrust. Please proceed.

Andrew Jeffrey

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Hi, guys. Good morning.

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Good morning, Andrew.

Andrew Jeffrey

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Sort of a qualitative question, Jeff and David, I think. When you look at Europe and the strong performance there and you talk about omnichannel in particular, can you kind of characterize where you think Global stands

competitively? I guess specifically what kind of lead do you think you have over your competition? It sounds like maybe the UK is the most sophisticated market in Europe but I'm thinking about the continent Eastern Europe. Is there a multi-year competitive lead that you think sustains the kind of growth you're seeing there?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yes. Andrew, it's Jeff. Listen, I think we've got to earn our business every day there because it's [indiscernible] (52:55) competitive, but yes, I do believe that we're one of the faster growing businesses across Europe. Obviously, the level of competition there is intense but as we said in our prepared remarks, I think the thing that's distinctive about us is that we could combine physical world acceptance with online acceptance. Many of our peers if you think about Adyen or Stripe or Braintree, which of course is part of PayPal and the like, really are primarily focused on online acceptance, at least historically or even more so focused on online acceptance with low levels of service for low prices at very high volumes.

I think what's different about us is, first, we bring the broad breadth of coverage as I mentioned in our prepared remarks across a number of significant markets in Europe. They already have good growth trajectories before we get involved. But I think the second thing that we bring is the fact that we're primarily as we are in most of the rest of world for Global Payments, SMB to mid market focus. That's not to say that we don't pursue large deals in either our physical world or virtual world environments, but it is to say our bread-and-butter in the United States, in Europe and globally as a company is really SMB, the small to midmarket folks and that's where we think we can really provide a lot of value. That is very different than adding in – and many of our competitors who are almost squarely focused on self-service at a very high-level, volume at a very low price.

So I do think we have a very good angle there and I do think that does, based on our history, really tend to sell pretty well for the right group of companies. The other thing I'd say is, our partnerships in Europe, particularly in Spain which David can comment on in a minute, with Caixa, where we're partnered with the leading provider of financial services in technology, not just in Spain, but for multinational customers coming out of Spain, I also think is very distinctive for us. So I don't think there's anyone who really has what Caixa has in and around their markets, and I think we're very fortunate to be the beneficiary of what it can bring to the omni-channel strategy. David, you want to give some examples of...

David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

A

Yeah, I'd be happy to. I think the key is the distinctive distribution married to solutions targeted SMBs. And we can go upscale – sort of upstream to the MNCs and we do quite successfully as we announced in the prepared comments.

But when you take a business where we've grown sales in Spain faster than any competitor for the last six years to build a 28% market share in that market, I think you get some sense of what we can do when we take then a Realex-solution for the e-com piece [ph] married to Spain's face-to-face (55:22) and say okay, what can we do to sell and accelerate growth on an already large number. You saw just this quarter in the European results. The same thing is happening in the UK, obviously. You can't grow in the double-digits in the UK just based on what's going on at a macro level. You have to be taking share and you frankly have to be taking share in small to medium market. You don't grow that way by targeting large customers either to be perfectly honest.

With Caixa, we have a unique partnership that brings banking services issuing as well as then omni capabilities to certain merchants. That works beautifully. Note that Caixa is also our partner in Eastern Europe, so we're trying to do in Eastern Europe with Erste who is a wonderful partner, with Caixa is take that success we've seen in Spain,

take it to earlier stage markets in central Europe; your Romanias, your Czech Republic, as well as Hungary, Slovakia and see if we can drive the same kind of outsized growth with this combination of distinctive distribution and real omni-solutions targeted at small to medium businesses.

Andrew Jeffrey

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. That's helpful. Thank you. And with regard to Xenial in the U.S., can that help you move up-market in restaurants? And maybe a comment on how important you think gateways generally are in the restaurant-acquiring business?

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Yeah, a great question. And so if you think about Xenial, yes, it can help us move up-market, but I should note to begin we actually are up-market in the U.S. in our software businesses. And when we talk about gateway, I'm going to maybe pick on that a little bit. Gateway is valuable as you think about integrated solutions and semi-integrated solutions. What we're really talking about with Xenial is helping a small business all the way up to someone the size of a major national chain. I can't name either now, but I can start with any of the ones probably around the corner from you, Andrew. Right now they're usually customers of our software products for point-of-sale right now.

So Xenial's targeted all the way from QSRs who are individuals, sort of proprietors, the burrito shop around the corner from you, all the way up to someone who might be a piece of young brands, as an example, so any of those big brands. And what we want to do is point-of-sales software all the way back to kitchen expediting, wage modules for the folks who are working there, inventory modules, all those types of pieces of software. Not as simple as a gateway, but you're quite correct, the gateway is a core component of what we're providing.

We think what we can then is marry dealers who deliver those products to our Heartland sales force, 1,500 people blanketing major metropolitan areas around the U.S. to sell the combination of payments and software. So the Xenial play is building on something used to be called Heartland Commerce, which is small point-of-sale software businesses combined to one cloud-based growth engine that we can globally sell over some period of time. So in 2018, we take it across the U.S.; QSRs, table service, as well as retail. 2018 into 2019 we start to globalize it in the likes of Spain, UK and across Asia, again, with a focus on this combination of software that runs the business plus the payment, plus at the back end of that, Xenial analytics, Xenial reporting, Xenial e-mail marketing.

All these things are on the table and being worse case tested at a live restaurant in the U.S., going live in terms of the analytics products as we speak, as I think Jeff announced in the prepared comments, in the United States with the analytics products also going out across the world in late 2018. So pause for a moment and summarize, Xenial's a big play for us on global cloud-based software to help run restaurants, whether you're talking about small proprietors or enterprise-level, it will take us further upstream. Yes.

Andrew Jeffrey

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Awesome. Thanks.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, Andrew.

Operator: Thank you. And our last question will come from the line of Jim Schneider with Goldman Sachs. Please proceed.

James Schneider

Analyst, Goldman Sachs & Co. LLC

Q

Good morning. Thanks for taking my question. I was wondering if you could maybe follow on the European strategy very broadly, Jeff. Maybe comment on as you think about expanding Europe beyond the product side on the geography side, how you're thinking about the idea of expanding organically into more countries versus additional JVs, and whether you're seeing any kind of changes in kind of asset pricing in that market?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yes. Thanks, Jim. So, look, I think expanding by way of additional JV is obviously something we're very comfortable with. Certainly, in Continental Europe, we've got a great history of doing that with both Caixa in Spain and Erste, which David just described, which is based in Vienna, but that business is in four other countries in Continental Europe.

I think given the size of our business, and I know we've talked about this quite a bit in the past, Jim, given the size of our business, I almost always prefer to find a partner. We think that we're very good at bringing sales product, additional distribution technologies, operating infrastructure. But let's be honest, we're not resident in these markets that we're not in, and somebody else is. As Paul used to say when we did the partnership with HSBC in Asia, at the time, HSBC have been there for 150 years; we've been there for a day. So in that context, I think it's important to understand that our partners bring a lot to us and we couldn't be more pleased with how those are going.

I will say that sometimes we have detours. So, for example, our partnership with Erste, Erste is based in Vienna. For a lot of historical reasons, they don't have an existing portfolio of acquiring in Austria. We've been working with them for some time on expanding our services de novo and organically from the Czech Republic, which is the largest market we have with them organically, Jim, into Austria, which is something we're planning on doing. I think that's a bit of an exception that kind of proves the rule, because it's unusual to find someone in their home market, but they don't have an existing book of business. That's not typically how we would approach it.

But I think when you step back and you look at the trend in all of our markets, particularly Europe since you asked about it, if you think about PSD2; if you think about SEPA, which, obviously, is behind us; if you think about GDPR (sic) [GDPR] (1:01:15), which is a privacy regulation that also goes into effect in 2018; if you just think about EMV and PCI, these are the things that are driving our potential partners to come toward us before even get to how much technology can you bring by way of cross-sell from Realex in e-com and omnis from Caixa in DCC additional products and everything else. So those things will continue to accelerate, Jim, so we're not seeing any shortage of opportunities in our geographies including Europe. We prefer to do those by way of partnership just the bang for the buck of doing it. But if we find someone like Erste who wants us to go de novo into Austria, obviously, it's something we're going to look at.

James Schneider

Analyst, Goldman Sachs & Co. LLC

Q

That's helpful. Thanks. And then, maybe just as a quick follow-up, following on your comments on the Vista portfolio, kind of any big game hunting you're doing in terms of that portfolio? Can you maybe characterize the pipeline? And also the relative yield at which some of those portfolios might come on, would that be net accretive to your kind of corporate yield on the portfolios?

Cameron M. Bready

Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

A

Yeah, Jim. It's Cameron. I'll maybe touch on that momentarily. I would say Vista has a variety of different companies in their portfolio; some very large and some that are not particularly large. I would say most of them are interesting in some form or fashion for us and we're looking at really every portfolio company they have that has a sort of direct-to-consumer relationship and would require some sort of payment technology expertise. Most of their businesses do, some do not, but we're obviously hashing through that portfolio today.

As it relates to the economics, I would say bringing in, and I'll use DealerSocket as example, they'll come in as a traditional integrated partner. So the economics of that relationship will work very similarly to other existing OpenEdge partners that we have today. We, obviously, think that is a premium product, the level of integration that we're able to drive that David articulated very nicely earlier, the value that brings to end-use customers as a premium product that warrants obviously a premium price from a market standpoint and the commercial relationship we have with DealerSocket to go-to-market is going to look and feel just like most of their relationships and structures that we have in place at OpenEdge today. So I would describe these as market deals.

We're not getting and we don't look to the relationship with Vista to drive disproportionate economics through the commercial agreements we're able to strike with the portfolio of companies. And today, we're doing market-competitive deals with those entities, and we think our ability to partner with them, improve their overall product offering and deliver differentiated solutions is what's allowing us to win the day.

James Schneider

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, Jim.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Well, thank you for your interest in Global Payments, and we very much appreciate you joining us this morning. Thank you.

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