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Global Payments, Inc. (GPN)

Q2 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Global Payments' Fiscal 2017 Second 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] And as a reminder, today's conference call will be 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 Payments' fiscal 2017 second quarter 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-K 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 free cash flow, 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 Regulation G, 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, 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 to report the strong momentum we saw in the first quarter continued into the second quarter of fiscal 2017. Once again, we accelerated growth, producing double-digit organic net revenue increases across nearly 90% of our businesses.

Adjusted earnings per share grew 17% in the quarter. We also made significant progress on our Heartland integration efforts and are tracking ahead of plan in terms of expected synergy realization from the merger. Our North America business had an outstanding second quarter led by our U.S. direct sales channels, which generated low double-digit organic net revenue growth. This was driven by strength in OpenEdge, which again produced mid-teens growth, and Heartland, which posted double-digit growth. We continue to operate exceptionally well, delivering record sales month at Heartland, a testament to excellent sales and integration execution.

In Europe, we generated strong local currency net revenue growth in the quarter, led by double-digit organic growth in our United Kingdom and Spanish businesses. The UK produced its strongest quarter in years driven by increased tourism and strength in our ecommerce and omnichannel solutions business. While in Spain, we again saw market-leading volume and transaction growth.

Lastly, our Asia-Pacific business had its best performance since I joined the company seven years ago. Organic net revenue growth was mid-teens in the quarter, driven by solid trends across most of our Asian markets. We saw a double-digit growth in our Greater China market, India, and the Philippines. Ezidebit once again contributed significantly to results in the region with over 20% organic growth this quarter. In addition to our strong core growth around the world, Heartland brings new opportunities to leverage our distinctive distribution capabilities and deliver differentiated solutions to merchants globally.

Just this past quarter, we sold our payment solution to a large Canadian university that was a software customer of our Campus Solutions business. Our Heartland sales team sold and boarded its first merchant in Puerto Rico, selling our payment solution in an entirely new market for Heartland. And we partnered with a vending systems integrator to distribute our unattended payment solutions throughout Asia.

As we look to 2017 and beyond, we are focused on leveraging our combined platform to further advance the technology-enabled distribution strategies we outlined at our last investor conference. We have now combined our integrated solutions with Heartland's vertical software to create a technology-enabled, software-led distribution [indiscernible] (04:58). This allows us to expand our leadership position in integrated payments and to develop and distribute customizable, [ph] vertically (05:07) fluid software solutions for customers worldwide. We expect to accelerate growth in both payment and software revenue in verticals with attractive fundamentals.

In addition, our omnichannel solutions business remains a key growth driver of our strategy worldwide. In North America, we have integrated Heartland's ecommerce offering with Realex to create market-leading omnichannel capabilities.

In Europe, we continue to build on the strength of the Realex platform with bundled omnichannel solutions deployed in the United Kingdom and Spain and with further plans to enter Central Europe through our Erste joint venture. Lastly in Asia, we will leverage our global ecommerce capabilities to expand the scope of our omnichannel solutions across that market. While we continue to expand our offerings, our performance this quarter demonstrates the ongoing success of this strategy across all of our regions.

This is one of the strongest quarters we have ever reported, and I am very proud of our performance in every region in which we operate. I am particularly pleased with the team's ability to drive strong results across our businesses while focusing on expense synergies and laying the groundwork for continued expansion and revenue enhancement opportunities.

Now, I'll turn the call over to Cameron.

Cameron M. Bready

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

Thanks, Jeff, and good morning, everyone. I'm particularly pleased with our ongoing execution, which enabled us to deliver a record second quarter while at the same time, making considerable progress further integrating Heartland. Total company net revenue for the second quarter was $817 million, a 58% increase over fiscal 2016. Adjusted earnings per share was $0.89, reflecting growth of 17% or 22% on a constant currency basis. Operating margin for the quarter was 29.5%. On a constant currency basis, operating margin was 30%, representing a 50 basis point increase year-over-year.

Our North America segment grew net revenue by 85% compared to the second quarter of fiscal 2016, and operating margin expanded 150 basis points despite the inclusion of Heartland, which has a lower margin profile relative to Global Payments' historical levels. Margin expansion was principally a result of business mix and the realization of expense synergies from the Heartland merger.

We are delighted with the progress of our integration efforts. Our superior execution has allowed us to integrate the business faster than we expected and accelerate expense synergies. As a result, we now expect total annual run rate expense synergies from the transaction to be approximately $135 million, an increase of $10 million compared to our prior target.

Normalized organic net revenue growth in our U.S. direct sales channels, calculated as if we owned Heartland in both this period and in the second quarter of fiscal 2016, was double digits for the quarter, surpassing our expectations and accelerating sequentially from the first quarter. This was primarily driven by our combined Heartland sales channel, which generated double-digit organic growth, and our integrated solutions business, which produced another quarter of mid-teens growth.

As we mentioned last quarter, we have fully integrated legacy Global Payments and Heartland direct sales forces in the U.S. and are operating as a combined channel under the Heartland model. On a normalized basis, this combined distribution channel produced low double-digit net revenue growth in the second quarter of fiscal 2017.

Although we do not have exact figures for the legacy Global Payments and legacy Heartland businesses as the channels are now combined, we estimate each grew low double digits organically compared to their respective performance in the second quarter of fiscal 2016. This represents a sequential acceleration from the high single-digit growth we estimated for both legacy businesses in the first quarter.

Canada again delivered solid performance with low single-digit growth in local currency, consistent with our expectations. The Canadian dollar remained a headwind in the quarter, albeit less severe than we experienced in 2016.

Our European business performed exceptionally well this quarter, delivering 18% net revenue growth on a local currency basis. Reported net revenue growth for Europe was 6% compared to the prior year due to significantly unfavorable foreign currency exchange rates, particularly the pound, which declined nearly 20% year-over-year.

Local currency net revenue growth in Europe was primarily driven by low double-digit organic growth in the United Kingdom and Spain as well as the addition of the Erste joint venture. European operating margin of 46.7% declined from the previous year as expected due primarily to integration costs associated with the Erste transaction and the impacts of foreign currency. Our integration of the Erste joint venture remains on track, and we expect it to be largely complete in the first half of calendar 2017.

As Jeff mentioned, Asia Pacific had an outstanding quarter with 24% net revenue growth and operating margins of 29.6%, an increase of over 200 basis points year-over-year. Growth in Asia-Pacific was primarily driven by mid-teens organic growth in the region as well as the addition of eWay.

Excluding Heartland integration costs, we generated free cash flow of approximately $170 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 noncontrolling interest. Capital expenditures totaled $42 million for the quarter. In addition, since the date of our last call we have reduced outstanding debt by approximately $50 million and repurchased 1.5 million shares for $105 million. A portion of the share repurchase was funded, withdrawals on our revolving credit facility, which we expect to repay in the first quarter of calendar 2017 with proceeds from the planned sales leaseback of our Jeffersonville service center.

Our board recently increased our share repurchase authorization capacity to $300 million. In late October, we refinanced our existing debt facilities, increasing our aggregate term loan A facility by $750 million with the proceeds being used to reduce a portion of the term loan B facility and outstanding revolving credit facility borrowings. In December, we entered into an additional $250 million notional amount interest rate swap, bringing our total hedge position to $1 billion. We plan to execute additional hedges in 2017 to further reduce our exposure to interest rates as we lag into our targeted hedge position of 40% to 50%.

As you are aware, we have changed our fiscal year end to December 31 and our first fiscal year on a calendar year basis began on January 1, 2017. Consequently, today we are providing our outlook for calendar 2017. We expect calendar 2017 net revenue to range from $3.35 billion to $3.45 billion, reflecting growth of 18% to 21% over our estimate of calendar 2016 net revenue, which includes approximately 200 basis points to 300 basis points of foreign currency headwinds.

On a constant currency basis, net revenues are expected to be in a range of $3.425 billion to $3.525 billion, which represents growth of 20% to 24% over our estimates of calendar 2016 net revenue. Operating margin is expected to expand by up to 90 basis points. Excluding the effects of foreign currency, we expect operating margin to expand by up to 140 basis points. We expect adjusted earnings per share to range from $3.70 to $3.90, reflecting growth of 16% to 23% over our calendar 2016 adjusted earnings per share estimate. This outlook includes approximately 500 basis points of foreign currency headwinds primarily associated with British pound, euro and Canadian dollar. On a constant currency basis, we expect adjusted earnings per share to range from $3.85 to $4.05, which represents growth of 21% to 27% over our calendar 2016 estimate.

Notably our calendar 2017 expectation represent annualized growth of approximately 17% relative to our last fiscal 2017 guide or approximately 20% on a constant currency basis. As a reminder, on our fiscal 2016 Q4 earnings call in July, we provided an early preview of calendar 2016 expectation, based on fiscal 2016 currency rates. On this same currency basis, our current guide for calendar 2017 is well in excess of these ranges for both net revenues and adjusted earnings per share, which reflects a strong momentum we see in the business. We expect to use the majority of our free cash flow this year to support debt reduction and to be near the high-end of our targeted leverage ratio of 3 times to 3.5 times by the end of calendar 2017, consistent with our expectation, when we announced the Heartland deal in December 2015.

As is customary, our outlook for 2017 also includes only share repurchases we have completed to date and does not assume incremental repurchases. With respect to the more detailed assumptions that underlie this outlook, we expect North American net revenue to grow in excess of 20% in calendar 2017 relative to our estimate for calendar 2016 including FX headwinds from the Canadian dollar. This reflects our expectation that our combined U.S. direct business will generate organic growth in the high single digits.

It also reflects revenue enhancement targets stemming from the Heartland merger that we expect to contribute roughly 50 basis points of growth in calendar 2017. Canadian net revenue growth assumptions remain in the low-single digits in local currency. We expect North America operating margins to expand as we anticipate realizing operating efficiencies and synergies from the Heartland merger throughout the year. In Europe, we expect net revenue on a constant currency basis to grow in the mid-teens, including the impact of the Erste transaction. FX headwinds in Europe, especially the British pound, are forecasted to impact net revenues meaningfully resulting an expected reported growth in the mid-single digits.

Operating margin in Europe is expected to decrease in calendar 2017, primarily due to the impacts of foreign currency headwinds. On a constant currency basis, operating margins in Europe are expected to expand slightly.

Asia-Pacific is expected to deliver U.S. dollar net revenue growth in the low-double digits. Operating margin is expected to expand in calendar 2017 as we continue to improve our scale in this market.

Our effective tax rate for calendar 2017 is projected to approach 28%. In connection with our integration efforts, we had identified planning opportunities for the combined business that we expect to generate ongoing savings, which will materialize in our effective tax rate going forward.

Our diluted weighted average share count is expected to be approximately $155 million. We anticipate that we'll invest approximately $160 million in capital expenditures in calendar 2017. We are extremely pleased with the record performance we achieved in the second quarter. Importantly, we've also made significant progress with our integration, positioning us to exceed our original target for run rate expense synergies from the merger.

As we begin 2017, we remain enthusiastic about our ability to maintain the positive momentum in our business, which is obviously reflected in our outlook for the year.

I will now turn call back over to Jeff.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Cameron. We are delighted with our second quarter results and the substantial progress we have made in integrating Heartland. Our team across the world continues to perform very well and as we look towards calendar 2017, we remain focused on continuing our track record of superior execution and generating strong return to our shareholders.

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. [Operator Instructions] Our first question comes from the line of Glenn Greene of Oppenheimer. Your line is now open.

Glenn Greene
Analyst, Oppenheimer & Co., Inc. (Broker)

Q

Thanks. Good morning, everyone. Very nice quarter.

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

A

Thanks, Glenn.

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

A

Thanks, Glenn.

Glenn Greene
Analyst, Oppenheimer & Co., Inc. (Broker)

Q

So first, maybe Jeff, I mean obviously I heard sort of the specific commentary related to Heartland in terms of the cost and revenue synergies widening up. Could just talk a little bit more qualitatively about how the integration is going? A little bit more on the sales progress? What's allowing you to increase the cost synergy target and it did sound like you included at this point 50 basis points within the revenue guide?

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

A

Hey Glenn, it's Jeff, I'll start and I'll ask David and then Cameron to join thereafter. So we've been partners with Heartland at this point for six months from the close since the [ph] 8th (19:16) of November. And I would tell you by five or six months, we will record in sales at Heartland. I think we've been successful in doing what we do in our partnership because as we've done with Ezidebit, APT, and PayPros is really enabling the people who are best suited to continue the acceleration of their business to go ahead and do that without interference from us here in Atlanta. I think that's really not different at Heartland than it was as you said Ezidebit, APT and PayPros. Of course, those new sales are now [ph] trundling (19:50) it's revenue in calendar 2017. I think we focused on what we think we can do best here at corporate, which is enabling cross sales into additional reach in front of world, which we described I think now in Atlanta in the last few calls, as well as providing a consistent stable technology and operating environment for the whole company that [indiscernible] (20:12) for Heartland. David, do you want to talk a little bit more about that?

David E. Mangum
President & Chief Operating Officer, Global Payments, Inc.

A

Yeah, Jeff, I would be happy to. I'm going to amplify that a little bit, Glenn. When you look around, I would start by saying that the sales leadership that was in place when we executed the merger is still in place. We moved some things around. We've actually restructured a little bit, but that's all as a platform for the next phase of growth.

So, same leaders in place as you would expect. By the way, that's our track record around the world as you know, whether you're in the UK or Asia, you'll run into a local leader who knows the market and then re-enable cross sales, re-enable synergies, and re-enable consistency of service levels, that's what we do best. So, really happy with the team. They're making great progress that you already heard from some of the sales in just prepared comments. Really good progress around the world. That all resulted in 10% transaction growth for Heartland during the holiday period, and far more than that would be the [ph] ecommerce (21:04) was much, much higher than that, but all in that was a really nice number for the peak holiday period.

In addition, just in the period we've owned Heartland, that sales team has delivered low-teen sales growth record month-after-month as Jeff noted. So, really happy with the trajectory, but don't miss the fact that beyond that we're selling leads that they generate abroad with close to lead in the UK. We closed Heartland's first deal in Puerto Rico and also don't miss the fact that it's beyond just that sales force, right? It's also the TouchNet Campus Solutions where we sold a deal in Canada just this past quarter to an existing software customer. We sold them Global Payment's payments solutions, and then obviously Heartland commerce continues to make great progress in Canada as well where we're selling our gift platform to Canadian customers of Global Payments, as well as Canadian customers or dealers.

So, all in really good momentum, starts with the fact that as an integration strategy matter, we wanted to keep the team in place and better equip them to sell more, and all that's working just as planned right now.

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

A

Hey, Glenn, it's Cameron. I'll wrap up and maybe just to spend a moment on the expense side of the equation. As David highlighted, and I think I've said before, our priority from an integration point of view has always been not to disrupt the sales momentum of the business, and I think we've done a particularly good job of that as we worked through the last seven months or eight months since closing the transaction in April.

On the expense side, we have identified incremental opportunities relative to what we assume going into the transaction, particularly in the area of corporate support functions. As I noted in my prepared remarks, we also have identified some tax planning initiatives between the two companies that we think will yield some tax benefits that flow through the effect of tax rate. We've also identified incremental savings in our operating environment.

So we've been able to leverage as we look to combine operating synergy here in the U.S. and continue to leverage our offshore in the Philippines. So from our point of view, again, we've raised our overall synergy run rate target to $135 million from the prior $125 million. A lot of the technology integration work is still in front of us. I think we remain optimistic about our ability to realize obviously the synergies that we have targeted in that area, but much of that work is still yet to come. But sitting here today, I think we're pretty enthusiastic about where we seat.

Glenn Greene
Analyst, Oppenheimer & Co., Inc. (Broker)

Q

And Cameron, a little bit different direction about the segue. So, that the North America margin performance was up 160 basis points and as you suggested that it has some margin dilution actually from Heartland. But could you talk about what sort of happening with North America profitability, I think it's two quarters in a row, or sort of significantly beat our expectations, and I want to get a sense for the core GPN North America ex-Heartland and then how much is coming from synergies?

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

Yeah. Glenn, it's hard to disaggregate the synergy expansion to each individual driver. I'll talk about it more from a macro point of view, and then share a little bit of color around just how the underlying business is performing, but I think also obviously contributes to the results that we've seen. So as we look at the core business as I mentioned in my prepared remarks, our estimates for Heartland growth in the quarter on an organic basis in the direct sales channels with roughly low double-digits. So, I think about it's kind of at 11% or 12%. Legacy GPN we also view as being in the low double-digits in the quarter as well, probably 10% or 11%, this quarter both accelerating sequentially from the first quarter. When those direct sales business, which are our margin businesses are growing at that pace, that's obviously going to contribute to margin expansion in a fairly meaningful way. In addition to that, our technology-led businesses in the U.S. or integrated business as well as our software driven businesses at Heartland, Heartland Commerce, Campus Solutions, [ph] School (24:46) Solutions, each of those grew either high-single or low-double in the quarter as well. Those are higher margin businesses. They're also contributing to the margin expansion we saw in the quarter. And then lastly, synergies are naturally an important driver of margin expansion in the business. They help us to absorb the margin degradation that we obviously have assumed with Heartland coming in at a lower margin. But the growth we've seen in the business has helped offset some of that through a large degree coupled with our ability to realize expenses in the quarter, has driven that certainly what we view to be fairly attractive margin expansion for the North American business.

Glenn Greene
Analyst, Oppenheimer & Co., Inc. (Broker)
Q

Great. Thanks a lot.

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

Thanks, Glenn.

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

Thanks, Glenn.

Operator: Thank you. Our next question comes from the line of Bryan Keane, of Deutsche Bank. Your line is now open.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.
Q

Hi guys, good morning. We think about that organic growth in North America, I think it was high single-digit to the direct business in the first quarter and then obviously it accelerated to the low-double-digit. I guess what can you point to that caused that acceleration? And when you look at the guidance, it looks like you guys are believing it'll go back down or decelerate back to the high single-digit which is still a good growth rate, but I just wanted to understand the dynamic there?

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

Hey Bryan it's Jeff. I'll start off and I'll ask Cameron to join me. So I'd say, really it's a continuation of a trend of strengthening of that business. As Cameron mentioned to Glenn, our higher growth higher margin businesses both at Legacy Global and also at Heartland, are accelerating. So when those businesses are already growing north of the market, continue the rates of growth at better margin opportunities, they're naturally going to see higher rates of growth in North America really led by, as we said in our prepared remarks, led by OpenEdge which four and half years after we closed that transaction with APT produced another mid-teens quarter and many of the Heartland business as Heartland payments. But also as Cameron said, Sc hool, Campus, Heartland commerce is better.

So I think it's really the business that's continuing to hit their stride as David mentioned, we have records in sales funds at Heartland. Well that does translate in general to immediate revenue acceleration. It does over the cycle, of course, but now that it's been six months since we closed the Heartland transaction, our expectation is that we continue to see the benefits of that partnership in our rates of revenue growth.

There's really no deceleration expectation in the calendar 2017. As you know, our model that we've been articulating strongly since our Investor Day in October 2015 and then updated in

December of 2015, plus the announcement of our partnership with Heartland, is high single-digits organic growth. So I wouldn't read into, gee you produced 11% and 12%, but now you're saying at high single-digit spending any other trying in a reiteration of what our model is over the cycle. Obviously, we're giving guidance here on January 9, for all of calendar 2017. As you know with our history, it's important for us to make sure we're in the right trajectory heading into the calendar year.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And then just as a follow-up. Did the Mercury migration still impact results? If you could quantify that and when does that officially anniversary going forward? Thanks and congrats on the super quarter.

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

A

Thanks, Bryan.

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

A

Sure. Thanks, Bryan. It's Cameron, I'll jump in on that. So, Mercury did impact obviously the quarter as it relates to reported net revenue. Our ISO or wholesale business was down low double-digit again this quarter similar to Q1. As we have not yet annualized the anniversary of Mercury migrating off, that don't happen really at the end of the first quarter of calendar 2017. So at that point, I would expect it to no longer be a headwind to growth. Obviously, we've clearly grown through that from an earnings point of view, which really are a revenue optic issue that we've been managing through here over the last nine months or so. Since they really migrated off of us. So that way anniversary at the end of the first quarter of Q1, at that point, we would expect the wholesale business in calendar 2017 beyond that point to essentially be flat to maybe downslide we've been guiding for the last couple of years.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Super. Thanks.

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

Thanks, Bryan.

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

Thanks, Bryan.

Operator: Thank you. Our next question comes from the line of George Mihalos of Cowen. Your line is now open.

George Mihalos
Analyst, Cowen and Company, LLC
Q

Great. Thanks and congrats on another nice quarter guys. I wanted to start off on the U.S. business as well. I'm just looking at the 50 basis points of enhancements from Heartland. Is that all cross sell or is there some pricing that's built into that? And I'm just wondering broadly in the U.S., is it macro that feels better to you or do you just think that you're executing better and that's what coming in through the numbers?

David E. Mangum
President & Chief Operating Officer, Global Payments, Inc.
A

Yeah George. I'll start. This is David. I'll let the other guys chime in. In the back half of your question, I would say it's not macro. We think it's actually a very good execution of very well-positioned businesses. When we're tech led as we are software enabled, we think we're in the right spot. You'll find other competitors talking about just beginning to think about entering into the integrated space right now. Obviously, we're five years into that process and really still continue to grow great. So I would look to good execution, a good combination of assets and obviously cross sales helping us drive enhanced growth beyond what one might expect from the space.

In terms of your direct question about revenue synergies for the year, driving the constant numbers that Cameron quoted in his prepared comments, there really are a couple of categories. There's some new products that we're rolling out based on the combined technologies. There's also sort of some new sales strategies and then finally their economic enhancements. So I'll talk about each for just a moment. A couple of new products, our Insight product, which is high-level analytics where we can combine our payments information with customer information for a restaurant and our commerce business, as well as our payments business to give small to medium size customers exactly what we talked about in our Analyst Day a year and a half ago, which is the same ability that their much larger competitors have to take data to take new versus repeat customers and total visits and sales volumes and daypart sales and things like that and analyze that and drive that into marketing campaigns and loyalty campaigns. There's a new lending series of products we're bringing out as well that we're re-enabling for the sales force department now, making it much easier for the reps to sell with outbound marketing campaigns and some new technology. So that's all new revenue growth that wasn't in the combined basis before.

When I talk about new sales strategy, I'll give you one example of that, which is really the Insight sales strategy we've just initiated over the past few months with the sales force based out of Heartland and that's the ability to go chase white spaces that Heartland never chased in the past. So Heartland has traditionally and rightly been focused on towns and cities and metropolitan areas as we spread our 1,500 reps around the country. There's a lot of business in between those spaces that we can chase with inside sales and either turn that over to a face-to-face rep, close it ourselves, turn into a lead, et cetera, et cetera. So nice numbers that could come out of that over the time selling in between Cincinnati and Columbus, for example, instead of just the Cincinnati and Columbus metro areas. So, really nice stuff there.

And then finally, which really I would call at the area of sort of economic enhancements, and really what we're doing there we will not price for prices sake. We're matching economics to a recreate real value for customers.

We believe the combination of Global Payments in Heartland provides world class service on an industry-leading infrastructure. We ought to be able to be compensated for that. It's pretty simple. So we kicked off certain initiatives with the sales team to ensure we're compensated where we're providing high value and incremental value beyond what the market provides to our customers.

Possible examples of that include maybe the types of reporting we provide, recognizing the value of this extensive compliance infrastructure that we at Global Payment have built over this past few years, and then the high-touch customer service we operate in and out of Jeffersonville facility. Really, what we're just ensuring is that we match our economics, the value of creation and the vessels we've made. So all those things were add up into the revenue synergy comments that Cameron provided.

George Mihalos
Analyst, Cowen and Company, LLC

Q

Great, I appreciate that. And just as a quick follow up, maybe on the M&A side, you guys talked a lot about software and so maybe a software-led solution. Should we expect Global to be more acquisitive on the software point-of-sale front?

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

A

Yeah, George. It's Jeff. Well I would say it's really an extension of our technology-enabled distribution discussion that we'll be having since really our October 2015 Analyst Day. I think that our perspective is, as we said in the Analyst Day, that a third of the company's revenue is generating the vast majority of its growth. I think the we're very successful as we discussed in phase release over a period of multiple years with that strategy. We've made progress as Cameron described with our partners at Heartland in bringing some of their [indiscernible] (33:40) specific, but technology-enabled related businesses to grow far faster than the market. And that's something we think is a key thing heading over the next period of time in our cycle. So, I would say yes to your question. But I'd really view it as a subset of the technology-enabled discussion that we've been having since October of 2015. If we can find businesses that are in our sweet spot drawers, they're growing it two to three times, the market rate of growth at very attractive margins, north of where we're trading, and also operating and we particularly do accelerate those but what we do, not just – it takes that globally, those are pretty good additions for us to [ph] across the end (34:18).

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

A

Maybe if I could put a final point on that, Jeff. George, if we can find technology businesses that does look like OpenEdge or Campus or Commerce or cloud-based SaaS solutions where we can innovate in a defined vertical market, provide software-enabled solutions as well as commerce solutions and payment solutions, that's very attractive as in a place where software and payment solutions complement each other. So, I would, maybe say it's not a simple as we're looking for point-of-sale software companies, we're looking for places where software naturally attracts payments, and payments naturally attract software, where they complement each other and we can drive enhance growth the way Jeff described it.

George Mihalos
Analyst, Cowen and Company, LLC

Q

That make sense. Thanks guys.

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

A

Thanks, George.

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

A

Thanks, George.

Operator: Thank you. Our next question comes from the line of Ashwin Shirvaikar of Citi. Your line is now open.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Thank you. Good morning, Jeff, David, and Cameron.

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

A

Good morning.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

My congratulations for the results as well. I want to ask about the political assumptions that you guys are making. I guess both on the Brexit front where the impact are not just limited to FX, it's more a discussion about what would be the downturn in the Europe, UK economy in the near term. And then Trump assumptions, here in the U.S. Any preliminary comments about target planning for potential changes in tax rate, maybe regulation interchange, regulatory action and things like that?

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

A

Yeah, Ashwin, it's Jeff, I'll start off. So let me take the second point first. As the U.S. of course represents two-thirds of the revenue of the company, as you know I've said in the several last number of months since the election, there's really nothing but good news coming out of the U.S. economy and the political environment through United States and the immediate in near term. Our business, as we've just described in our second quarter, and David just alluded to a few minutes ago. Our business is experiencing very good growth and very good margins with very low interest rates and that's all prior the election, and David also gave a description of our experience during the holiday season at Heartland. So, I really don't think that there's anything in the election in the United States for two-thirds of our business [indiscernible] (36:33) our view of where our business is going, especially with targeted economy and getting GDP to grow more quickly in a stable environment. So, we're performing very well before that. I think we continue to see indication as we suggested in our guidance that we'll continue to see that. So, I'm very confident in our business here in the United States. People, for example, have asked about – touching Durbin post the election. As we've said many times, I think the interchange up or down generally is good news for our business. Obviously, our markets are highly competitive and those who all anticipate over a periods of time, but we have a lot of experience for example with the network of touching pricing initiatives twice a year across of the super market. So up or down, there's really no difference in many of the things that we would see perhaps in some of the regulatory reforms than we've seen now before another elements of our business. As it relates to Brexit, I think Cameron said as exactly right in our prepared remarks, we probably have one of the best performances that we've ever had across Europe, in particular in the United Kingdom and of course also Spain. But for the purpose of the Brexit in the United Kingdom, we also had a very good experience in our omnichannel solutions as Cameron also described based on Ireland, which is the part of the EU in Realex. So I think as we looked at our business, we haven't seen any impact. In fact, quite the opposite. We performed quite nicely in our UK and European and EU-related businesses since the June 23 [indiscernible] (38:08). So, it's really been a story of FX to the point that you made around euro and around the pound.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Got it. And just a separate question for David I guess. Are you seeing different trends between integrated payments versus software enablement? So any relative pros and cons to actually owning the software versus integrating?

David E. Mangum
President & Chief Operating Officer, Global Payments, Inc.

A

Yeah, Ashwin, it's David. I think what we see with those three businesses is properly positioned or properly executed, you got really nice growers. As Cameron pointed out on another quarter of mid-teens growth from OpenEdge, really nice double digits and mid-teens growth from our key TouchNet software and other Campus Solutions assets. So we like the characteristics. I think what you'll see us do is continue to look at the right way to serve verticals and go deeper by marrying technology to payments. So in many cases, that's partnering like an OpenEdge with this amazing degree of integration we provide to multiple verticals than the campaign management managing the partner base. In other verticals, we're going to look closely and say wow, the integration is so tight between software and the payment and this is a vertical, that's not competitive anywhere else in our space. So why don't we think about pursuing the entire vertical ourselves and on the entire technology stack? That's what Campus does, that's what we do in Commerce. Each of which has zero overlap with OpenEdge. So you can see, we have the opportunities to blanket the United States vertical by vertical with customizable flexible solution and then uniquely, unlike anyone else in the space, globalize the same solution, take them abroad with our technology infrastructure and our unique sales reach.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Understood. Thank you guys. Congratulations again.

David E. Mangum
President & Chief Operating Officer, Global Payments, Inc.

A

Thanks Ashwin.

Operator: Thank you. Our next question comes from the line of Oscar Turner of SunTrust. Your line is now open.

Oscar Turner
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Good morning. Congrats on the quarter.

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

A

Thanks, Oscar.

Oscar Turner
Analyst, SunTrust Robinson Humphrey, Inc.

Q

So just a follow up to one of the answers from a previous question. Could you quantify the potential runway to upside from pricing the Heartland diluted value?

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

A

Yeah Oscar, it's Cameron. I'll jump in. I would say sitting here today, I would leverage off the comments, we've made, when we announced the Heartland transaction back in December of 2015. At that time, we talked about 1% to 2% revenue enhancement opportunity coming from the merger over time. Obviously, the revenue side takes a little longer to scale as opposed to the expense side, where you can start taking out cost fairly quickly and we've been able to I think do that very effectively since closing on the transaction in April.

From the revenue enhancement side, sitting here today, we targeted 50 basis point of expansion in our calendar 2017 guide. I do that as the foundation. Obviously, as we worked towards the 1% to 2% we talked about back in December of 2015, which would represent about $30 million of $60 million of incremental revenue coming from these enhancement opportunities that David described earlier, I'll just reiterate something he said and I think it's very important. This is not pricing for pricing sake. This is obviously cross-selling between our various distribution channels both domestically and internationally. It's a new product. It's additional enhancements for our customers. And it's ensuring again that we're paid and compensated appropriately for the level of value service and capability that we're delivering to our customers through our combined business.

Oscar Turner
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Thank you. And then the second question, you guys spoke a bit about some of the rest of the world initiatives focused on the integrated channel. I was just wondering if you can provide some color on size and penetration levels of the integrated opportunities in Europe and Asia? And how do those compare to the integrated market in U.S.?

David E. Mangum
President & Chief Operating Officer, Global Payments, Inc.

A

Yeah, Oscar. It's David. I'm going to broadly answer the integrated question and suggest to you that we have substantial opportunities as we have enabled more and more platforms to sell fully integrated solutions across Europe and Asia. That includes some in Jeff's prepared comments which is taking our [ph] micro (42:14) payments, unattended payment technology services around the world. We're distributing that in Asia right now through a systems integrator.

In addition, Heartland Commerce, our restaurant and hospitality, fast-paced integrated software solution can be sold all across Asia and in all across Europe. We're enabling payment platforms to work with those folks as well. And TouchNet, the software solution that powers Campus Solutions is enabled for Puerto Rico, Canada, and shortly, UK and Asia. We're actually investing in a sales force in Europe and in Asia to resell that combined

Campus Solutions, Commerce solution, the Global Payments' payment with Heartland Software in the Campus area, and, in fact, the next month or so, we should be enabled in selling that actively.

So, really good progress there. I think your question may be about the integrated solution globalization project we kicked off about a year, a year and a half ago we talked about at the Analyst Day. That continues to make great progress. So, we have over 60 partners signed in Canada. We also have a number of partners signed in the UK. We're exploring broader integration, broadening that to Asia. In addition, we've taken U.S.-based partners in UK and Canada.

We actually have delivered over 1,000 merchants in Canada and the UK via OpenEdge globalization, which may not sound like an enormous amount in the greater context of Global Payments. But each of these singles adds up to enhance growth around the world and not just the beginning of taking integrated payments around the world as you can tell from my comments earlier about the vertical software marriage of the OpenEdge globalization strategy.

Oscar Turner
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Thanks.

Operator: Thank you. Our next question comes from the line of Tien-Tsin Huang of JPMorgan. Your line is now open.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Hey. Good morning. Good acceleration here. [ph] Just a few (43:56) questions. Asia-Pac that's running above trend now, a couple of quarters well above trends, so you're guiding above I think your cycle guidance, which was high single digits. Are you more confident in your distribution or is the market growth just maybe better than you thought?

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

A

Hi, Tien-Tsin. It's Jeff. I'll start. No, I think we're more confident in our execution and distribution strategy. So, I certainly think that there is likely going to be some benefit heading forward as we annualize some of the macro issues that we had in Greater China. But even before we did and I think you alluded this in your question, this is probably the third quarter in a row where we've seen very good performance not just of course at Ezidebit where we've been partners for about two-and-a-half years now but in what we call business as usual. Asia, which is Asia ex Australia and New Zealand, this quarter in particular, we singled out Greater China, India, and the Philippines, of course, [ph] all outside to (44:51) Australia and New Zealand.

So, I would say it's better distribution strategy, better execution and technology, better product requirements. For example, I think we're the only payment services technology company that enabled Apple Pay in all the markets that Apple Pay has been around the world. We obviously, as you know, have a common technological and operational infrastructure for almost all of our markets, including in particular [ph] in this conversation (45:15) for Asia, especially [indiscernible] (45:15) Asia.

Our partnership, which is now a year and a half old with Bank of the Philippine Islands is performing quite nicely in one of the fastest GDP growth economies in Asia, the Philippines, where [ph] you now have 28% (45:31) or second largest market share in that country. So, I think, Tien-Tsin, it's the aggregation of all those factors. We like to think that the market itself will continue to accelerate and make it easier for us. And I think we're hopeful that's the case [ph] because even (45:46) across Greater China, what I would say though is I think it really is attributed to the team out there who has done a fantastic job probably in the last three quarters in a row that's helping to take our business where it really hasn't been the last [indiscernible] (45:58).

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

A

To continue, it's Cameron. I'll just add on top of that, we've certainly improved scale in that business over the course of time. I think revenue in Asia since the end of fiscal 2014 is up probably 75%. If you think about the business we're operating today, we've diversified distribution outside of kind of the Greater China market, those businesses having to be growing at faster rates than even our Greater China businesses. We've created a much more scalable platform in that market, and I certainly I think what you've seen in Q1 and Q2 is the headwinds we saw in the Greater China market back in fiscal 2016, obviously anticipated. We're seeing a more normalized macroeconomic environment that coupled with I think a fantastic execution from our team there has really created a more optimistic outlook for what we can deliver in calendar 2017.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay. That's great. That's all good to know. So, just my second question on Heartland, the acceleration there. Can you specify, is that coming more from the core merchant business or in the non-card variety, both in revenue and new sales? Thanks.

David E. Mangum
President & Chief Operating Officer, Global Payments, Inc.

A

Yeah, Tien-Tsin. It's David. I'll give you some business [ph] color (47:07) and let Cameron answer any direct math questions. I'm not authorized to do that. So, I'd point you back to a couple of things. One is we continue to post record sales month. So, that's the core-based merchant sales force with which you're familiar, but I would point out that merchant sales base is increasingly selling technology-enabled solutions. They are directly involved in each Heartland commerce sales and also involved in selling these add-on and cross-sell products we're talking about, each of which adds more value and more technology to our customers. But we're seeing consistent low-teen sales performance. As I said earlier, we had really nice double-digit transaction growth in the holiday period, much faster ecomm growth. So, that core base is performing very, very well. And then the more integrated channels, the software-led, technology-enabled channels, Campus Solutions and School, are both performing at double digit or high single-digit levels led by TouchNet software, which is [ph] its own (48:02) mid-teens.

And then, of course, that obviously is bundled in or at least in terms conceptually bundled in for us with the rest of our tech solutions and tech-enabled double-digit growers, mid-teens growers like OpenEdge. So, really nice business performance across what you might think of as both sides of the Heartland channel, the traditional 1,500 sales folks as well as the tech-enabled, software-led solutions in Commerce, school and Campus.

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

A

Tien-Tsin, it is Cameron. I'll just add a little bit of color around the math side of it. As we talked about before, clearly, the Heartland sort of payment side of the business, as we talked about our estimate, was it grew low double digit this quarter, call it 11%, 12%, somewhere in that range, which was an acceleration relative to Q1. I would say the collective software businesses that David described also accelerated slightly Q1 to Q2.

In aggregate, those businesses probably grew low double digits as well led by, again, Campus and Commerce, and school also had a good quarter growing in the high single digit. So, I'd say each of those businesses performed very well in the quarter and accelerated to some degree relative to their Q1 performance, which contributed to the overall Q2 results.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Got it. Thanks, guys. Happy New Year to all of you.

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

A

[indiscernible] (49:15).

David E. Mangum
President & Chief Operating Officer, Global Payments, Inc.

A

[ph] Terrific customer (49:17).

Operator: Thank you. Our next question comes from the line of Steven Kwok of KBW. Your line is now open.

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hi, guys. Thanks for taking my questions. Most of them have been asked and answered already. Just following up on, I guess, two questions. One was just any early read into how December is doing given some of the, I would say, mixed retail sales numbers that we've been getting.

David E. Mangum
President & Chief Operating Officer, Global Payments, Inc.

A

Yeah, Steven, I can tell you at a high level, December looks fine with kind of down the middle of the fairway for us overall, particularly if you're asking about kind of the Heartland [indiscernible] (49:51) retail quick service restaurant and restaurant exposure. We think we have a solid sales month and solid transaction month.

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. And then just around – are there any plans perhaps to hedge some of your FX and interest rate exposure? Just wanted to see given over the volatility around FX rates and then interest rate rates are expected to rise, just wanted to see your thoughts around that. Thanks.

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

A

Yeah. Hey, Steven. It's Cameron. I'll jump in there. On the FX side of the equation, we talked about this a lot in the past. We were naturally hedged in, to some degree, in every market we operate in around the world and that we have local-denominated expenses associated primarily with our sales and distribution capabilities and market.

We don't do any sort of natural, other hedging, excuse me, of FX exposures around the globe largely because we view the business as being a multinational business. Part of being a multinational business is having foreign currency exposures. I think we took obviously a big amount of FX risk out of the business by virtue of executing the Heartland transaction, which pivoted us from about 50-50 U.S. dollar to foreign currency exposure to roughly two-thirds U.S. dollar, which we think was a good thing for us to do in light of the strong dollar environment we've seen here over the last few years. But I wouldn't expect us to do "derivative" hedging of FX exposure around the globe. Again, we think that's just part of managing a multinational business. And we think the right way to operate the company, more importantly, is the way we're operating where a lot of the expense structure is U.S. dollar because we're leveraging common technology in operating environments that are typically U.S. dollar driven. That's the most efficient way to operate and scale a business like this, and I think that's the way we'll continue to operate obviously going forward.

On the interest rate side, as we've talked about before, we did enter into an incremental interest rate hedge, $250 million notional amount in December. That brings our total hedge position today to about $1 billion, represents about 22% of our variable rate exposure. We do anticipate entering into additional interest rate hedges in calendar 2017 such that between debt reduction and incremental hedges, I would expect as we're exiting calendar 2017 to be towards our targeted hedge ratio of about 40% to 50%.

We think that's the right place for us to be as a business. As you can imagine, our outlook for calendar 2017 assumes underlying rates are going to rise. So, that is already baked into our expectations for calendar 2017 as well as us entering into incremental hedges as we work through that targeted hedge position.

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. That's helpful. Thanks for taking my question.

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

A

Thanks, Steven.

Operator: Thank you. Our next question comes from the line of Dan Perlin of RBC Capital Markets. Your line is now open.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Thanks. Good morning, guys. I wanted to just kind of dig into a question and it really pertains to each geography but starting in North America. When we think about the growth which has consistently been above market, how much would you attribute to kind of incremental product sales at existing client versus share gains from competitors or even kind of taking share from your own legacy wholesale business?

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

A

Yes, Dan. It's Jeff. I'll start and I'll ask David to comment as well. What I would say is we probably have a three- or four-year history now of growing more quickly than the market. And we also probably have a three- or four-year history of what we call our wholesale businesses like our ISO and indirect businesses being relatively flat on a normalized basis in a margin environment [ph] theme (53:32).

First, in North America, primarily United States, which is two-thirds of the company, that's growing kind of mid-single digits plus 5% transactional. It's kind of hard to separate product from new sales, because obviously, what our sales folks are selling, particularly in some of our business units like Heartland but also in OpenEdge and also in school and Campus and probably Commerce, what they are selling are, in many cases, new products. What I would say is at this point, American Express OptBlue, which is something we spent a lot of time talking about probably a couple of years ago, has [ph] I don't know like, Cameron, probably (54:04) double or triple anniversary [indiscernible] (54:11) large step-like functions of products that really neatly shift the revenue curve in its own direction needs either double or triple anniversary those at this point here in the United States. Obviously [indiscernible] (54:21) all the time. But in terms of looking for those kind of quantum leap things, we just posted a, as Cameron said, 11% or 12% depending on how you calculate it, legacy Global, legacy Heartland, U.S. direct growth business, yet double or triple anniversary something like an AmEx OptBlue.

So, clearly, the majority of what is driving the growth is just better sale, execution and target that more attractive end market. As you know, here in the U.S., we're primarily SME-focused, not just at OpenEdge but also at Heartland. And I think historically, that's been a very good place to be. And I think going forward with some of the things that happened in the last couple of quarters and the election and everything else, I think that will continue to be a very attractive place to be. So, new product sales are something we do all the time, but as you can see from our performance this quarter and into last year or so, we certainly don't need to see step-like function for us to continue to grow [indiscernible] (55:17) growing at the last period of time.

David E. Mangum
President & Chief Operating Officer, Global Payments, Inc.

A

Yeah, I think, Dan, I agree that. First, it is about taking market share and not about cross-sales. Maybe I'll twist it just a little bit. If the question is really particularly about strategic initiatives for brand-new cross-sales, whether that's Heartland and cross-selling Heartland technology or Global Payment's technology across the Heartland base and then broadening that or initiatives like the OpenEdge initiatives I commented on earlier on the Oscar's question, we're really just getting started on this.

So, you can see the beginnings of what we think can be the returns of that in the revenue enhancement guidance that Cameron said, think ahead to 2018, I'm very confident these are going to be really meaningful numbers come 2018 and beyond. We're planting seeds for all these cross-sales. We're planting seeds for these cross-sales right now, and in some way, they're just getting started. What Jeff described is the way we run the business every day is cross-sales. It's new products that we can sell in North America, send in UK then to Asia as well, so lots more to come I think over some period of time.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Okay. Yeah. And I was just trying to figure out the – I mean, the product portfolio is so much bigger now that all these guys are going to market with it. That just incrementally is driving a lot of business but also is driving sales. It sounds like both but...

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

A

Okay. I would say you've got an important point there. So, if you go back to I think we were answering to a previous question about our mix of businesses, so we were talking about technology-enabled back certainly when we partnered with AT&T in 2012. If you think back to October of 2015 Analyst Day, when we talked about tech-enabled being a third of the company driving 80% of the revenue, we got a bunch of our peers who have come out and said, they hope to get that business one day. I think it's important to understand that what our people increasingly are selling is less of the traditional wholesale like sale referrals [indiscernible] (57:00) question and more of the products and services that are really dedicated to technology-enabled sales that are distinct to distributions team. So, I do think you're seeing some of that in our numbers, how we talked about the good strategy and good execution rather than step-like functions in a product. I certainly think we're seeing the benefits of having made those investments over time.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Yeah. I didn't mean to [ph] belittle (57:25) the execution. I was just trying to make sure I understood. So, I just had a quick…

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

A

[indiscernible] (57:31).

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Yeah. The calendar year cost synergies, I didn't hear that number. And can you just briefly update us in terms of what your plan is for filling up the sub period, of course, in the future calendar numbers? Thanks.

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

A

Yeah. Both good questions, Dan. I didn't give you a specific estimate for realized synergies in calendar 2017. So, you're right to pick up on that. My expectation is about $90 million of realized synergies in calendar 2017. So, that will translate into an exit rate of about $110 million, from which we will scale from there as we get into calendar 2018 as we wrap up a lot of the technology work. That will get us to that overall $135 million run rate target that we're now seeking as a company.

Secondly, to your other question, we're going to fill out calendar 2016 results when we finalize our sub period audit, which we're in the midst of beginning right now and file our 10-K with the transition period. It's a 10-KT, which we would expect to file towards the end of February or early March. That is a 10-K for the seven-month period from June 1 to December 31. Once we get that work done, we will [ph] go out (58:40) the calendars for 2016, so you can see, obviously, actual results for all of calendar 2016 as well as the quarterly distribution of results. Actually, as you can tell from the growth rates we've given you today for our calendar 2017 guide looking back into our current estimate for calendar 2016 recognized as based on 11 months of actual and one month of estimate for December is we're still in the process of closing those books.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Excellent. Thank you, guys, very much.

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

A

Thanks.

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

A

Thanks, Dan.

Operator: Thank you. And our last question comes from the line of Dave Koning of Baird. Your line is now open.

David J. Koning
Analyst, Robert W. Baird & Co., Inc. (Broker)

Q

Yeah. Hey, guys. Nice job.

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

A

Thanks, Dave.

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

A

Thanks, Dave.

David J. Koning
Analyst, Robert W. Baird & Co., Inc. (Broker)

Q

Yeah, I guess, two questions from Europe. I guess, first of all, just Spain and UK, very strong this quarter. Can you just talk about in the UK we should see deceleration in the coming quarter just as you anniversary the interchange benefit, but Spain holds up strongly going forward, is that the right way to think about that?

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

A

Yeah, I think that's a fair way to think about it, Dave. We did anniversary the pricing benefits in December that came into effect in the UK. We're seeing good, strong fundamental performance in the UK, as we talked about in our prepared comments, double-digit growth led by very strong transactional volume growth in market, but we are going to anniversary those pricing benefits which will create a little bit of a headwind as we go into the beginning of the year.

I would say Spain, Q2, fantastic performance, again, building off of market-leading transactional volume trends, and the execution there has been superb. Our partnership with Caixa remains, I think , the gold standard for bank-based JVs around the world and continues to perform exceptionally well. So, as we go into Q1, I think we feel good about how we're positioned in Europe, which obviously gives rise to our guide for the calendar year. Obviously, that's going to be impacted fairly significantly by FX headwinds, largely from the pound in Europe.

David J. Koning
Analyst, Robert W. Baird & Co., Inc. (Broker)

Q

Got you and that really transitions into my second question. So, when you say for calendar 2017 reported mid-single-digit growth in Europe and constant currency growth of mid-teens when you include the acquisition, is that still low double digit on an organic constant currency basis?

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

A

It's probably going to be high single is my estimate, Dave, for Europe. It did probably double digit in Q2, but again, as we go into the year, I would say our expectation is the region, the segment is going to perform kind of at our cycle guidance, which would be high single-digit growth organically. Obviously, our guidance reflects a range of possible outcomes around a variety of factors including growth. But I think our base case assumption going into the year is that Europe produces high single-digit organic growth. You get a little bit of benefit from not having anniversaried the Erste joint venture until June. And then obviously, that produces an overall mid-teens expectation that ends up being mid-single when you factor in the fairly significant decline in the pound and euro in particular as well as the Czech koruna.

David J. Koning
Analyst, Robert W. Baird & Co., Inc. (Broker)

Q

Yeah. Makes sense. Great. Thank you. Nice job.

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

A

Thanks, Dave.

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

On behalf of Global Payments, thank you very much for joining our call this morning.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone, have a great day.