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Global Payments, Inc. (GPN)

Q1 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to Global Payments First Quarter 2017 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 will be recorded.

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

Isabel Janci

Vice President-Investor Relations, Global Payments, Inc.

Good morning and welcome to Global Payments' first 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. This was one of the strongest quarters we've ever produced, building on the momentum in the business over the past year. We once again accelerated growth across our markets generating double-digit organic growth on a consolidated basis.

In addition, adjusted earnings per share grew 33% and we expanded operating margin by 110 basis points. Just over year ago, we closed the Heartland merger and we could not be more pleased with the progress we have made together as one company.

As we outlined in December 2015, the combination of Global Payments and Heartland presented an opportunity to accelerate growth by broadening our direct distribution channels in the United States and enhancing our vertical markets exposure. We continue to be delighted with the performance of our combined Heartland sales organization and leadership team.

Since closing the merger, we have consolidated sales forces and adopted Heartland's Merchant and Sales Professional Bills Of Rights in our largest market. We have also established a more robust leadership structure for the sales organization and fully supported their recruiting and training efforts resulting in 147 net additional sales professionals being added to the organization and sales productivity levels that exceeded expectations.

In addition, we have seen historically high numbers of sales professionals performing above targeted amounts and low levels of sales professional attrition since the closing of our partnership. Further, we have made investments to stabilize Heartland's technology environment and equipped our sales professionals with better tools and more robust products and services to sell

For example, we integrated our Realex technology with Heartland's e-commerce solution to create leading e-commerce and omni-channel offerings in the United States. This combined offering contributed to growth in excess of 20% in this channel. These actions have allowed us to gain market share, generate record sales and drive historically low levels of customer attrition in the business.

In addition, the investments Heartland made in its technology businesses have complemented or integrated in vertical market strategy. Over the past year, we have consolidated these businesses under a common leadership and are managing them as a combined distribution channel. We're also bringing these capabilities to other markets including Canada, the United Kingdom, Spain, Puerto Rico and Hong Kong to further differentiate our technology offerings and accelerate growth.

We are poised to further our position as a leading provider of technology enabled, software-driven solutions worldwide. While launching the revenue synergy initiatives necessary to meet our 2017 and longer term objectives, we have also continued to make substantial progress realizing our expense synergy expectations from

the merger. The last significant milestone in this effort is the migration of existing technology environments to our target architecture model, which will be finalized in 2018.

The success of our integration efforts over the past year provides the backdrop for the outstanding performance in our North American business for the first quarter. Our U.S. direct sales channels again generated low-double digit organic net revenue growth and accelerated sequentially. This was driven by strength in our integrated and vertical markets business in our Heartland sales channel.

We saw solid performance in our gaming business as well and we're delighted to announce last week, the renewal and expansion of our relationship with Caesars Entertainment. This renewal reflects the strength of our gaming services and commitment to delivering innovative payment solutions in the vertical markets we target.

In Europe, we accelerated revenue growth across the region, led by our United Kingdom and Spanish businesses. In Spain, we continue to see market-leading volume and transaction growth.

Our Asia Pacific business continues to operate at exceptionally high levels, improving upon last quarter's strong performance. Organic net revenue growth was again mid-teens, driven by solid trends across our key markets. And Ezidebit once again contributed significantly to results in the region with over 20% organic growth this quarter.

Lastly, a few weeks ago, we learned Forbes' named Global Payments and Heartland to its list of America's Best Employers in 2017. I could not be more proud of this acknowledgement, as it is a reflection of our extraordinary team. Our people come first and they are our most important asset. They drive our ongoing success.

I am very proud of our performance in all of our regions. These results are a testament to our focus on excellence and execution, and exemplify our exceptional track record of delivering sustained growth.

Now, I will turn the call over to Cameron.

Cameron M. Bready

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

Thanks, Jeff, and good morning, everyone. Our first quarter performance was exceptional, meaningfully exceeding our expectations across our key markets. Importantly, we achieved these results while also investing in our business for future growth, furthering Heartland integration efforts and successfully refinancing our credit facilities.

Total company net revenue for the first quarter was \$804 million, a 68% increase over 2016. Adjusted earnings per share was \$0.85, reflecting growth of 33% or 38% on a constant currency basis. Operating margin for the quarter expanded 110 basis points to 28.5%. On a constant currency basis, operating margin was 28.8%, representing a 140 basis point increase year-over-year.

North American net revenue grew by 101% compared to the first quarter of 2016 and operating margin expanded 250 basis points. Margin expansion was principally a result of strong organic growth in our direct distribution businesses in the U.S., and the realization of expense synergies from the Heartland merger.

Normalized organic net revenue growth in our U.S. direct distribution channels, calculated as if we owned Heartland in both this period and in the first quarter of 2016, was low-double digits for the quarter, accelerating sequentially from the previous quarter. This was primarily driven by our Heartland sales channel, and our

integrated and vertical markets business, both of which again generated low-double digit organic growth. Canada also delivered better than expected performance with mid-single digit growth in local currency.

As Jeff mentioned, our European business performed very well this quarter, delivering 18% net revenue growth on a local currency basis. Reported net revenue growth for Europe was 9% compared to the prior year due to significantly unfavorable foreign currency exchange rates.

Local currency net revenue growth in Europe was primarily driven by low double-digit organic growth in the UK and mid-teens organic growth in Spain, as well as contribution from the Erste joint venture.

In addition, we continued to see strong performance in our e-commerce and omni-channel solutions business in Europe. European operating margin of 45.9% declined from the previous year, as expected, primarily due to the impacts of foreign currency exchange rates and integration costs associated with the Erste transaction. Integration of this joint venture remains on track. And we expect it to be largely complete by mid-2017.

Asia Pacific had another outstanding quarter with 24% net revenue growth and operating margins of 31.2%, an increase of 60 basis points year-over-year. Growth in Asia-Pacific was primarily driven by double-digit organic growth across Hong Kong, the Philippines, Singapore, Malaysia and China as well as Ezidebit, which continues to produce over 20% growth.

Excluding Heartland integration costs, we generated free cash flow of approximately \$150 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 interest. Capital expenditures totaled \$46 million for the quarter. In addition, since the beginning of the year, we have reduced outstanding debt by approximately \$85 million.

Earlier this week, we completed the refinancing of our existing credit facilities. Through this transaction, we increased our term loan B facility by \$610 million, with the proceeds being used to reduce a portion of our aggregate term loan A facility and outstanding borrowings on our revolving credit facility. The amendment also reduced the interest rate spread on all of our credit facilities by 50 basis points and extended the maturities of the term loan A facilities and revolving credit facility to May 2022.

In March, we entered into an additional \$300 million notional amount interest rate swap, bringing our total hedge position to \$1.3 billion or approximately 30% of our outstanding debt. As a result of our strong results for the first quarter, we are raising our outlook for calendar 2017. We now expect net revenue to range from \$3.38 billion to \$3.46 billion, reflecting growth of 19% to 22% over 2016. Operating margin is now expected to expand by up to 110 basis points.

Lastly, we now expect adjusted earnings per share to range from \$3.78 to \$3.95, reflecting growth of 19% to 24% over 2016, which includes a net benefit of approximately \$0.03 from our credit facility refinancing.

We are extremely pleased with our performance in the first quarter. The continued momentum in our business, coupled with strong execution and the effectiveness of our Heartland integration efforts, positions us well to achieve our strategic objectives going forward.

I will now turn the call back over to Jeff.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Cameron. This is an exceptional start to our new fiscal year. Not only have we made significant progress on our strategic objectives, but we have maintained our focus on delivering outstanding results across our business and generating strong returns for 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 is from Darrin Peller of Barclays. Your line is open.

Darrin Peller

Analyst, Barclays Capital, Inc.

Q

Thanks guys. Great job on the revenue growth. I just wanted to start off with that concept, mainly because in the acceleration off of what was already very strong growth clearly underscores what we're seeing in terms of strength on the iPOS business you mentioned and the direct overall. Is there anything changing in what you're actually doing on that front though? Could you give us a little more color on what's driving that in the sense of how you're operating the iPOS business or how you're handling the sales force? And is that sustainable and is there any one-time nature items that we should be thinking about taking out of that?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Hi Darrin, it's Jeff. Thanks for your comments and I'll start and I'll ask David and Cameron also to jump in. First, I would say, if you step back for a second, you have to look at the overall macro environment. We were very pleased with the health of our economies worldwide, pretty much normal markets.

One thing that [indiscernible] (15:08) about this quarter is producing double-digit organic growth across our markets in the entirety, which is one of the few times we probably have done that. So, as pleased as we are with our iPOS business, in particular and also our business here in the United States and in Canada, we're especially pleased as well with Europe and Asia.

And I'll tell you that as much as I like to think that we have a secret sauce here on everything we do, I view our results to be similar in terms of the momentum that you saw from Visa, Mastercard and PayPal, in general, in terms of the macroeconomic health.

Second, I'd say in terms of products and services, what we like to talk about is our integrated and vertical markets. So certainly OpenEdge had another very good period as we described. But I'd also tell you that this is a culmination of a successful investment in expanding the breadth of our integrated and vertical market solutions as we described to the last number of quarters and it's really a continuation of that trend. So as I mentioned in my prepared remarks, we've solidified the leadership of our combined businesses both at Heartland sales, as well as for integrated and vertical markets.

We have invested and stabilized the technology and operating and product environments. In Heartland, we've added more products and services like Realex and e-com into Portico which is the legacy Heartland business that we've been describing in terms of their gateway. And I think what you're really seeing now, Darrin, is the fruits of those investments and those efforts that we've made over the last number of months. So I view this as not a culmination but a continuation of the trend that we've seen over the last three quarters.

I think a good way to see that in addition to the revenue, is what we've been reporting which is very low relative attrition rates across our customer base, particularly, at Heartland but also really around the world which is unusual in my experience. Dave, do you want to comment a little bit more on the...?

David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

A

Yeah. I'd be happy to. I think that's a great answer. Darrin, what I'd add to that is, you asked about one-timers, there are no one-timers in this at all. What you have is really good execution and really good integration frankly across the entirety of Global Payments, whether you're looking at Spain, the UK, the Heartland base business in the U.S., the vertical markets businesses that, Jeff, described that include integrated, as well as our software businesses. You have very solid performance market-by-market and increasingly integrated sales approach going to market with the ability to actually accelerate that growth over time, but fundamentality, no surprises really. You've got everybody hitting on all cylinders all at once.

Darrin Peller

Analyst, Barclays Capital, Inc.

Q

All right. That's really great to hear. So just to be clear, I mean, was there anything extraordinary – and I'll just turn it back to the queue after this – about pricing in the quarter anywhere? I mean, we've had a lot of questions on that over the last couple of quarters but it seems like this is really just good execution, if you can just clarify that.

Cameron M. Bready

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

A

Hey, Darrin. It's Cameron. There's nothing in price that had an impact on the quarter at all. It's really solid execution. And on the sales side, its adding new revenue at faster paces than we have historically and on the retention side, as we're servicing our customers, I think, extraordinarily well, we're retaining our levels of customers than we have historically. And the combination of that, the math is very powerful. As David said, when you have all markets sort of executing well, the earnings power of the business, the revenue growth power of the businesses, it's very powerful.

Darrin Peller

Analyst, Barclays Capital, Inc.

Q

All right. That's great. Great job, guys. Thanks.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, Darrin.

Cameron M. Bready

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

A

Thanks, Darrin.

Operator: Thank you. Our next question is from George Mihalos of Cowen & Company. Your line is open.

George Mihalos

Analyst, Cowen & Co. LLC

Q

Great. Let me add my congrats on the strong start to the year. Maybe if I could follow-up on Darrin's question, as it relates to North America and the revenue we saw there, I would have expected a little bit more seasonality, sort of revenue coming down a little bit more from the fourth quarter was almost in line, I think a \$3 million difference. So maybe, Jeff or Cameron, you could talk a little bit maybe outside of Canada, where the sources of upside were? Was it OpenEdge, was it Heartland that did a little bit better but clearly seems like something outperformed again?

Cameron M. Bready

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

A

Yeah, George. It's Cameron. Good morning, and thanks for the comments. Couple of things I would note, particularly. One, as we indicated in our prepared remarks, our direct distribution businesses in the U.S. accelerated quarter-over-quarter. So we did see even more strength in our direct distribution businesses in the U.S., the combination of Global Payments and Heartland in the first quarter of calendar 2017. Certainly, that aided the growth that we saw and certainly resulted in that sort of seasonality downtrend in Q1 relative to Q4.

I'd say the second thing, Canada had a strong performance. Last quarter, it was low-single digit in local currency. It was mid-single digit in local currency this quarter. That certainly helped results. And I'd say lastly in our wholesale business, we anniversaried a large portion of the Mercury migration from last year, which as we talked about last year, was sort of an optical headwind to growth as we now anniversaried a chunk of that at the end of February. We've got a little bit of benefit in the first quarter from that which again from a top line growth point of view helped the overall performance in Q1. So I think those are the primary factors. But to me, it really starts with the organic rate of growth we're seeing in our direct distribution businesses which was very strong once again.

George Mihalos

Analyst, Cowen & Co. LLC

Q

Great. And if I could just follow up with one more. Just on the margins, you guys really came out strong out of the gate, up 110 basis points. As we think about the remainder of the year, is there a fundamental reason why margins wouldn't be higher in the back half when I would think more of the synergies flow through and there's less of an FX headwind?

Cameron M. Bready

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

A

Yeah. I mean, around the expense side, we've always anticipated that margins would expand in the back half of the year for a couple of reasons: one is currency. We expect the currency headwinds to somewhat abate as we

get a little further into the year, which will be helpful to margin. And then secondly, to your point, as we continue to execute on synergies, those will ramp over the course of the year which will be a tailwind for margin in the back half of the year as well.

As it relates to our guide, we increased our overall guide for the year about a 20 basis points. I would note, this is the first quarter. So obviously, we're mindful of that as we think about guiding for the balance of the year, but you're right, as it relates to the trajectory of margin, we do expect margin expansion to be stronger in the back half of the year.

George Mihalos

Analyst, Cowen & Co. LLC

Great. Thanks.

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, George.

A

Operator: Thank you. And our next question is from Glenn Greene of Oppenheimer. Your line is open.

Glenn Greene

Analyst, Oppenheimer & Co., Inc.

Thanks. Good morning. Nice results, guys.

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Glenn.

A

Cameron M. Bready

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

Thank you.

A

Glenn Greene

Analyst, Oppenheimer & Co., Inc.

I guess maybe to drill down a little bit on Heartland. I know, Jeff, you gave some commentary and it's getting harder to parse but to your best guess sort of directionally, Heartland's organic revenue growth trends and maybe just an update on what you're seeing in sales performance. I know it's been pretty good out of the gate, but you didn't really give an update on overall sort of bookings trends there.

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Yeah, Glenn, I'll start, and I'll ask David to join in, too. Listen, we continue to see fantastic new sales over at Heartland. Now, of course, those don't translate into revenue for some period of time until they're booked. But I think you're starting to see in our numbers the benefits of last year's good new sales over at Heartland coupled with, as we've said, relatively low attrition and investments in products and services, technology and operating environment. So I think it's really a culmination of all those things, Glenn, while we continue to see very good performance at the integrated and vertical markets of the combined companies including as well at Global.

A

One thing we haven't said in quite some time is the health of our gaming business. We called that out in our prepared remarks, made an announcement a couple of weeks ago that we've retained and expanded our relationship with Caesars which is one of our larger gaming customers here in the United States.

So I'd say we have the beneficial effect of a very good execution kind of at the core and doing all the right things that we need to do on product, services, tech and ops to make sure that salespeople are focused on what they should be focused on which is selling.

We also said in our prepared remarks that we've added 147 net additional salespeople to Heartland throughout the year. Listen, that helps at the end of the day. We also refer to the fact that we have very good productivity per sales professional at Heartland which, of course, also translates into revenue over time.

So I really view it, Glenn, as a continuation of the trend. I think it's probably been two, three, four quarters now where we've seen kind of consistent trends. And I think, as Cameron said, when those things are all going in the same direction, we certainly need to manage and apply tweaks to it. But I think you're seeing the fruits of the investments that have been made over the last number of quarters.

David, do you want to comment a little bit more on some of the particulars of Heartland?

David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

A

Yeah. I can add maybe, Glenn, a few metrics there or color – a little bit of color that'll help shape that. I would start with on a pure Heartland sales basis. So sales remained at an all-time high level. That's been something we've been building for the past year with that team, and they've done a brilliant job as a leadership team. We did restructure the leadership team to create more scalability, to even put more feet on the street but also more leadership on the street. So we're feeling good about that.

I would say, even within that high sales growth, you've got lots of e-commerce growth, you've got the increasing sales of technology-enabled products, even software products, in and out of our trusted dealer network, as well as our core reps on the street.

So we're selling more technology, more services. We're wrapping more value around the sale itself, which obviously creates frankly a higher revenue conversion rate over time, which you're beginning to see in some of the commentary that Cameron made.

Beyond that, Jeff mentioned the 147 net salespeople up versus the same time a year ago. We're also running at historically high levels of reps who are outperforming their goals, meaning they're beating goal, they're on their way to sales club, so historically high levels of that kind of performance. Historically low levels of new rep attrition.

So we added 147 reps. Perhaps your question is productivity. I can tell you, productivity is up, as Jeff mentioned, and you can see it in the low levels of attrition of our new folks. That's a testament to the investments we've made with the leadership team for Heartland sales and recruiting, training, and our sales automation tool.

So, again, just more good execution, good leadership from the team that came with the Heartland partnership in the first place, most of whom are now at higher, more senior positions, driving more growth for us.

Cameron M. Bready

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

A

Oh, sorry, Glenn. It's Cameron. To the first part of your question, you're absolutely right. We've now anniversaried the Heartland transaction. It's very hard to parse, obviously performance between what was legacy Global versus what was legacy Heartland. My expectation is relative to the second quarter of fiscal 2017, both of those channels accelerated probably by around 100 basis points. So if Global legacy was around 10% or 11% before, it's probably around 11% this time, maybe a little north of 11%, and Heartland's probably a little north as well. So as we think about the rates of growth, on average, it's probably about 100 basis points better than the second quarter of fiscal 2017, which you apply that to the overall starting point, it's a fairly meaningful amount of growth for the overall channel.

Glenn Greene

Analyst, Oppenheimer & Co., Inc.

Q

That's helpful. Then for my follow-up, Cameron, on North America margin expansion, 250 basis points, and in theory, it should have been a seasonally light quarter. I don't know if the answer is the same as it's been, but my guess is it's not a lot from synergies. But is it largely just business mix, or what's the real story on the strong margin expansion in North America, and how sustainable is it?

Cameron M. Bready

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

A

Yeah. Well, we certainly think it is sustainable. Whether it's still sustainable at the sort of 250-basis-point level or not, I don't know that sort of were driving the business towards that type of margin expansion overall. I think you're seeing a couple of things.

One is obviously our integrated and vertical markets business had very good performance in Q1. That's a higher-margin business. So we're obviously seeing the benefit of that flowing through the margin performance in the quarter as well.

On the direct side, as David mentioned, we have strong new sales, but importantly, we continue to see low rates of attrition in that portfolio, and that's essentially all margin. So as that flows through, you're seeing a margin benefit from obviously the organic growth we're seeing, the lower attrition rates that's beneficial to the overall North American margin as well.

And then lastly, it is synergies. If you think about it mathematically, we started integration a year ago. So in the first quarter of calendar 2016, the prior-year period, we didn't have Heartland at all. We took a lot of synergy out over the course of the last year. We still have more work to do, of course, as we work through the balance of calendar 2017, but that is beneficial to margins in the first quarter.

Glenn Greene

Analyst, Oppenheimer & Co., Inc.

Q

Okay. Great. Thanks.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, Glenn.

Operator: Our next question is from Andrew Jeffrey of SunTrust. Your line is open.

Andrew Jeffrey

Analyst, SunTrust RobinsonHumphrey, Inc.

Q

Hi, guys. Good morning. Thanks for taking the question.

Cameron M. Bready

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

A

Good morning, Andrew.

Andrew Jeffrey

Analyst, SunTrust RobinsonHumphrey, Inc.

Q

At the risk of beating the dead horse here on U.S. and Heartland, in particular, can you characterize sort of your share performance versus the market's growth as a whole, recognizing that we are in a really good macro environment? I wonder if you could just kind of talk about share, macro trends and then just the shift to iPOS, say, versus traditional acquiring?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Andrew, its Jeff. I'll start and I'll ask David to join in, too, as it relates to Heartland, in particular. But listen, I don't think there's any doubt about it mathematically, we're taking share across most of our markets, but certainly here in the United States. If you think about U.S. GDP, let's put aside the first quarter which is traditionally low. At least here in the United States, the way it's measured it's sub-1% growth. Let's say its 2.5% to 3% for the year. These businesses are growing well into the double digits organically as we described, particularly, integrated and vertical markets of which iPOS obviously is a part.

But, if you look at it, we're 3 to 5 times the rate of market growth. I'd like to say we're the only one who's doing that. I talked before about Visa, Mastercard, PayPal, et cetera. So I don't know that we're unique in capturing share in the markets that we're in. But as you can see from what we've been describing over the last probably year and a half, we've made very heavy investments in those businesses that we think are growing more quickly than market. So our integrated and vertical markets business which has, as their defining characteristic, a distinctive and defensible distribution edge and primarily where we're selling technology.

We design and have been growing much more quickly than the rate of market growth. So for example, in our Heartland campus or TouchNet business, we're primarily selling software and payments is dragged along with it. In Heartland commerce, in our QSR channel, we just released a new product called [indiscernible] (29:40) this week which is essentially commerce in the cloud for QSRs and it's already live this week with a number of restaurants and stay tuned on that.

So those products by definition are designed to grow more quickly than the rate of market growth given their vertical market focus. So I think it's good identification, Andrew, of the areas that we think will grow more quickly. And I think it's good fundamental execution around those opportunities. David, do you want to add anything to that?

David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

A

Yeah. I think I'd also point out, Andrew, that sort of as a volume matter, we're outgrowing network based volumes around the market. Also Jeff was speaking about macro in general, we're outgrowing the network volumes and I think that's a combination of a couple of things. One is the more tech-enabled solutions we sell, obviously, that on one side drives greater retention, which Cameron pointed out earlier. Obviously, that gets rid of a piece of the headwind of growing over somebody's attrition. So that's a nice, stable base because of the systems investments, because of the quality investments we've made over time and because of the high touch customer care.

But more importantly, you made a point in your question about the shift to iPOS from traditional. Increasingly, as Jeff said, we don't see as much of a distinction because our reps, whether you think of them as traditional acquiring reps or a sales rep in OpenEdge, for example, they're selling technology-enabled, often software-driven solutions. It could be a semi-integrated solution to the point-of-sale. It could be software that's dragging payment, as Jeff mentioned, or payment that's dragging software and, in particular, businesses in TouchNet, in school solutions, in Heartland commerce and in OpenEdge, are a technology sale that's going to grow faster than overall transactional volume in the market. That's what's going to drive our growth rates as on a sustained basis above market growth levels.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

I think, the size of that business, Andrew, it also explains a little bit mathematically is the way we define our technology-enabled businesses that we talked about on our Investor Day, call that billion-ish revenue and the vast majority, not surprisingly of that, is here in the United States or in North America as it relates to Canada with OpenEdge and e-com, but let's call that \$1 billion where our U.S. business is just over a couple of billion or thereabout.

So when you think about the percentage of our U.S. business, which is our largest market at two-thirds of the company, while nearly 50% of are those revenue amounts, \$1 billion on – low-\$2 billions are directed at this kind of distribution. So unlike some of our peers, it's not a small piece and a fast-growing piece, but a small piece of our business. It's like half the business as it relates to our largest market and I think you have to keep that in mind on the math when you see the levels of growth.

Andrew Jeffrey

Analyst, SunTrustRobinsonHumphrey, Inc.

Q

Okay. That helps a lot. Thank you. And just as a follow-up, you talk a lot about e-commerce and omni-channel. Could you just frame up sort of how you think about your competitive position in those areas, given that there are some big players? PayPal is one that are in those markets and growing pretty fast.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Sure. I'll start and I'll ask Cameron to jump in, too, Andrew. So what I would say is we think about e-com and omni-channel in a couple of ways. First, I think we've probably got one of the two or three market-leading omni-channel businesses worldwide. We are physically present in 30 countries today at Global Payments. We conduct business in countries well above that.

PayPal is actually a very good long-term partner of ours, and in some cases, is wholesaling our technologies. And that should give everyone, including us, confidence that we have market-leading products and solutions for someone like PayPal to think about going to market with globally. That's kind of one idea.

The second thing I'll say, so the breadth of our products and services as well as geographic distribution, I think, is a distinctive competitive edge. There's only a few people in the world who I think have that. Secondly, what I would say is we've done a very good job of taking those centers of excellence like Realex in Ireland and in the UK, and moving those into our other markets.

As David, I think, described in the last couple of calls, we've brought that solution to Spain in the last quarter or so, we brought that solution to Canada, and then we brought that solution, as I talked about in my prepared remark, to the United States, to Portico, which is the Heartland gateway here in the United States.

What's a little bit different about us in the U.S. here versus our peers, to get at your question, is we're primarily SME-focused in the United States broadly and then specifically in e-com. So while we have a lot of respect for those partners who spend a lot of time and effort hoarding the very large e-com sellers like Amazon, our stock and our focus historically has been very centered on margin and our ability to sell services that are distinctive but also defensible, at the end of the day.

So I would tell you is that SME focus, including here in United States, is somewhat distinctive to us as it relates to e-com and omni-channel in this market. And I think, as Dave described, that's why I think our cross-sell Realex into Portico here in the United States has been so successful. So those are the ways, I think, were the same in the ways I think were different as it relates to e-com and omni-channel globally.

Andrew Jeffrey

Analyst, SunTrustRobinsonHumphrey, Inc.

Great. Thanks a lot.

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thank you.

A

Operator: Thank you. Our next question is from Dave Koning of Baird. Your line is open.

David J. Koning

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

Yeah. Thanks, guys. Great job. You guys crushed it again. And I guess my main question, I guess, first of all, now that you have the new calendar quarters, Q1 was obviously very good, a lot better than what most of us thought.

How do the sequential trends into Q2 go? Is it something like up mid-single digits sequentially, and how are each of the different three regions? Are they all kind of in that same up a certain amount mode, pretty similar to each other?

Q

Cameron M. Bready

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

Yeah, Dave, it's Cameron. Good morning. Thanks. And first of all, thanks for the kind comments. So I would say, and I think we've talked about perhaps this a little bit before, that the cadence of the quarterly growth is going to be fairly consistent with how you should think about our whole fiscal calendar.

So, if you try to overlay the most comparable period, you're going to get trends that are fairly consistent overall. Q2 is going to step up obviously from Q1 from a net revenue performance point of view, and that should be true

A

by and large across North America and Europe, probably not so much in Asia-Pacific. Asia-Pacific has a strong quarter in Q1 largely timed around New Year, holidays and things like that. They tend to be strong drivers of transaction volume growth in some of the Asian markets. So Asia, I wouldn't expect quite that much certainly change quarter-over-quarter. But certainly in North America and Europe, I would expect that.

And then Q3, I think, again, sequentially stepped up again. Q3, I would expect to be, from a net revenue performance point of view, one of our strongest quarters, should be the strongest quarter just seasonally due obviously to summer trends and transaction volumes that we see in the summer that are going to be impactful to overall revenue and revenue growth.

And then lastly, Q4 is a little bit of a step down from Q3 just seasonally, obviously. But overall performance again and from a growth point of view, relatively consistent kind of year-over-year to what we'd expect to see in Q3 as well. So, I hope that kind of help shape it. Happy to get into more detail offline with you kind of as to how to think about the overall shaping of the revenue growth. But hopefully that provides a little bit of color.

David J. Koning

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

Q

Yeah. No, that's great. And I guess my follow-up question, the methodology of EPS guidance, it seems like your Q1 was so big. FX, I believe, now is less of a headwind. And now with this refi, it just seems like you've allowed yourself still a little conservatism in the EPS guide so that if you drive more good execution, you potentially have more upside. And I'm just wondering if that is kind of the methodology that you've had now for a couple of years, I think, and if that's continuing?

Cameron M. Bready

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

A

So, I would start by saying I've been accused of being worse things. So first of all, it's the first quarter. So I think we're always mindful. We're in the first quarter and we think about that as we contemplate the outlook for the balance of the year. We raised revenue guidance roughly \$20 million at the midpoint. We raised margin guidance by 20 basis points first quarter out of the gate. We raised an earnings guidance by \$0.07 at the midpoint, \$0.08 on the bottom, \$0.05 on the top. So obviously, very good Q1 performance and we factored that into our thinking for the outlook of the year.

But on the margin, I would say we're probably slightly more cautious on Europe. And there's a couple of big events here over the next weeks and months that we're certainly paying close attention to. First of all, being the election in France this weekend, the UK elections on June 8, the fact that Brexit now has officially been triggered with Article 50. The implications of all those as it relates to the macro environment in Europe and in particular what that may mean for currencies is certainly on our mind, and we've factored that into our thinking for the balance of the year.

I think we narrowed the range appropriately. We took the midpoint up by \$0.07. We've reflected the refi. Just on the refi specifically, obviously we expect good benefit from the savings that we'll get on spread. But we're also seeing underlying LIBOR rates slightly higher than we anticipated in our budget. So there's a little bit of offset that we've allowed for in the guidance as well.

So, I think we're delighted with where we are from a guidance point of view at the midpoint of the range. We're reflecting sort of 21% to 22% growth over calendar 2016 on a constant currency basis. That's probably more like 26%, 27%. Those growth rates are obviously fantastic. And I'd say perhaps more importantly, as we think about how we're poised for the balance of calendar 2017 and even going in to calendar 2018, if you apply our cycle

guidance to the midpoint of our 2017 earnings expectations, that suggests something in the mid-\$4 range for calendar 2018, which is obviously terrific.

And if you think back to at the end of fiscal 2015, we reported split-adjusted around \$2.50. For calendar 2018, we're going to report something in the mid-\$4s. The growth we've been able to drive in this business over the last couple two-and-a-half, three years has been absolutely tremendous, and I think we're well poised to continue to deliver on that going forward.

David J. Koning

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

Yeah. It's all good. Congrats. Thank you.

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Dave.

A

Cameron M. Bready

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

Thanks, Dave.

A

Operator: Thank you. Our next question is from Jim Schneider of Goldman Sachs. Your line is open.

James Schneider

Analyst, Goldman Sachs & Co.

Good morning. Thanks for taking my question. I was wondering if we can maybe kind of like dig into some of the head count and productivity metrics you talked about earlier. You talked about a number of salespeople you added, direct sales force.

Q

Can you remind us how much that is of the total, so what percent did that grew by? And then over the last year, can you give any quantification of the metrics around sales force productivity that would kind of give us an eye towards what we could we expect in terms of the ability to sustain the double-digit growth in direct?

David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

Yeah, Jim, it's David. Happy to help you with a few of those things. I'm not sure I'm going to fully quantify all the productivity measures for you, but we can talk about the pieces. That 147 is a roughly 10% increase in head count. And that's obviously productive net heads. So, again, we should be painfully obvious about that. That's net of any attrition. That is a net add from where we were this time a year ago. Obviously, the way the model works, the more of those heads will come in and were productive, obviously, we're getting more sales, more revenue, et cetera.

A

So I'm going to point you to a few other metrics, some of which I mentioned, some of which I didn't mention a little while ago. So historically low levels of sales – or low levels of attrition of new reps. So the 147 come in; they're productive immediately. Productivity is up, and productivity in 2017 is above budgeted levels.

Beyond that, we've got historically high levels of reps performing above target, meaning again their target is set and if you beat target, you have a chance to get to the club, get the different awards, get to different levels. We actually call them diamonds. So getting to different levels of diamond. We have historically high levels of folks performing above target and therefore, getting extra rewards or extra notoriety for their performance. I'm not going to tell you exactly what the levels are and how the productivity actually works, just can't because that's a piece of trade secrets, I think we call it, as I look across the room at my colleagues.

But fundamentally, that group of folks is then selling also – and this I think is a really important piece of the story. They're selling value-added solutions on top of what you would think of as traditionally is payment processing. Maybe we've added a payroll solution to an existing customer. Payroll continued to grow very well for us this quarter. That won't show up in transaction metrics, for example. Perhaps we've added an analytics product, a reporting product, a new lending product is one of our synergies for this year.

I can tell you, we've launched all of our synergy initiatives to hit the 50 basis points of extra revenue growth that Cameron quoted you guys three months ago. So embedded within the productivity is more to sell. This sales force and frankly Global Payments overall around the world has never had more product and solutions to sell around the world.

So generally speaking, I would tell you, we've added 10% of heads. While productivity is increasing, performance is increasing. All of these things bode well for us as we go forward. We continue to set or actually perform at record sales levels across the board. So hard to complain about how the pieces are going where the momentum sits right now.

James Schneider

Analyst, Goldman Sachs & Co.



Thanks, David. And then maybe I'll be so bold as to step away from the U.S. growth question for a second and ask, Jeff, at a very high level from an M&A perspective, you've seen a lot of your competitors and peers in the space acquire B2B assets and sort of get into more ancillary areas. So I was just wondering from – as you look forward to further business combinations and M&A, what's more important to you, growth in ancillary areas or building additional skill in the core acquiring business?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.



Yeah. Jim, it's a great question. First, let me just say, because I know you guys like to ask, that our revenue pipeline is pretty full. I think when we started this year, we said that it was important for us to get to the right place from a balance sheet and capital point of view. I think Cameron's addressed that in some of his commentary.

We've now more than anniversaried Heartland. The integration is proceeding. It has proceeded at a very good pace. We're really in the final legs of that. So I certainly feel as we think about the company strategically that we're in a very happy place, and the pipeline, as a result, globally really is full. So, that's kind of one overarching thing.

The second thing I'd say is it really starts with what's available for sale, the quality of the partnership, the quality of the culture. Very rarely, Jim, do we buy something and just buy assets. It really starts with what do we think of the strategy, what do we think of the culture of the people? And then, of course, do we think we can manage and generate the kind of returns that we really want to generate at the end of the day.

So, I think we're open minded on all those things as you've been signaling, and I think you should assume that we look at everything. So when people announce B2B deals, for example, I think it's fair to assume that, in general, we look at those things around in the marketplace and make a determination on them. And we have a very good track record of closing those things that we are interested in given our history.

I would say on the tradeoff between integrated and vertical markets and kind of more generally, we have a thesis on geographic markets, we have a thesis on new markets that we're not in, we have a thesis on products and technologies that we're not in, and we have a thesis on getting bigger in markets that we already are executing in. So it really does depend on taking opportunities where they come.

Clearly, I think the company is very focused on growing our vertical market strategy. We've talked about that in the last, number of releases that we've had. We talked about it again this morning. It was a key part of Heartland and we've talked many times about campus school, commerce and the like, at Heartland and how important that's been to our strategy.

So sure, sitting here today, Jim, I think if you said I've got this great vertical markets opportunity that's software [ph] and some (45:40) payments, I think we'd be highly interested if they met the other criteria that I laid out. I'd say what's a little different about us, too though Jim versus some of our peers is, it's important for us to think about multinational applicability.

So one of the things that I think we bring to the table is a little distinctive, is that we are in those two dozen plus countries around the globe. One of our key criteria is really, can we bring this to other markets as we've brought OpenEdge to Canada and the United Kingdom as we had Ezidebit across Asia-Pacific, as we've done with Heartland, as David has described on the last number of calls.

So, that is a veneer that we would apply, that some of our peers would not apply and we look more favorably on those things that have a multinational focus given our history. So those are some ways to think about where we are.

James Schneider

Analyst, Goldman Sachs & Co.

Q

Thank you.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, Jim.

Operator: Thank you. Our next question is from David Togut from Evercore. Your line is open.

David Mark Togut

Analyst, Evercore Group LLC

Q

Superb results, congrats. I'd like to ask about Europe. Great to see the expansion of Realex. Can you talk, Jeff, about your strategy for PSD2? And, in particular, will you be able to leverage Realex to accept consumer ACH payments for ecommerce?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, Dave, it's a great question. So we're very focused on PSD2. I would tell you, we were also very focused on PSD1 and SEPA and many of the other changes that you've seen from time to time in Europe and around the world. I think you're exactly right in your question. I think PSD2 is very good for our business in Europe. If you think about what that regulation is intended to accomplish, it's focused on moving away the traditional connection between the account at the bank and the provider of payment functionality. Good news, we're not a bank and we're not a bank especially in Europe, we're not a bank in our market. So I think that's very good news to allow more portability of the underlying banking transaction to people like us who are non banks and are technology providers.

Secondly, I think your question's exactly right in a sense that we have open APIs at Realex and one of the other initiatives around PSD2 is to allow open API applications to be built by third parties. Well, if you go to Realex's website, on their website, that's exactly what you see. So I think that really very much leans in our favor. So we think PSD2 is going to be a very good thing when it rolls around in 2019 in our markets for our businesses. We think SEPA and the lowering of interchange even though we don't book revenue on that, lowering of cost to our merchant base was, as you have seen in all of our markets but including in Europe, also a very good thing for our business.

And I think really catapults ahead our omni-channel and e-com strategies worldwide, but especially in Europe. And one of the things that we have, David, that I think some of our competitors don't have in those markets is the omni-channel capability. You meet with people who compete with Realex, particularly in Europe, what they'll say is we're really good at e-com but we're having trouble with the last mile i.e. face-to-face connectivity.

If you think about the size of the footprint that that we've been able to build worldwide, but especially in Europe, one of the things that we have is we're in so many markets physically around the world. Markets like Spain, the joint venture with Erste Bank in four countries in Continental Europe of course; Ireland, the United Kingdom, et cetera. That is a head start versus what these other firms are doing. And I think in all candor, I think our competitors would tell you, gee, that part's really hard, and we agree which is why we spent 50 years building it.

So, I think it puts us in a very good competitive position as PSD2 comes to the market and as we continue to integrate our Realex offering not just in Europe but globally.

David Mark Togut

Analyst, Evercore Group LLC

Q

Glad to hear you're so well positioned for PSD2. Just as a follow-up on that, Jeff, what will the revenue model look like for Realex as you kind of integrate that into PSD2 capability for merchants?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. So, it's a mix of models today, David, and obviously this will change over time. But traditionally, Realex was a gateway model. So, we were white-labeling in the United Kingdom before we did the deal a few years ago. We were white labeling their gateway, and their model historically was cents per transaction, and of course we get paid as an acquirer.

Today, now that we've integrated that, we obviously have moved away from gateway-only pricing into a provider of value-added services. So, what did that mean? That means support and analytics, that means data reporting, and very similar to the strategy, David, that one of your peers asked about in the United States.

We're very focused on providing technology solutions like software, and dragging some element of processing with it is a good thing. But we're just as content selling technology solutions that aren't tied directly to basis points or cents per transaction as we are selling software and SaaS and fraud protection and prevention and data reporting and analytics types of services.

So, I think the answer to your question is we took it from a gateway-only business that wasn't doing any acquiring to a bundled solution in a market that it's in. Now, we've taken it to a value-added products and services solution that is settling in many currencies that people like to settle in around the world that aren't just tied to any one market. You can see the movement away from basis points and cents per transaction toward a more wholesome value-added food chain.

Cameron M. Bready

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

A

And, David, it's Cameron. I'll just add one maybe minor distinction that I think is worthy to know. We don't really think about Realex so much as a "standalone" business. Realex is really enabling and equipping our e-commerce and omni-channel solutions capabilities around the globe.

So we're managing it as a revenue model. It's really enhancing and enabling our ability to drive e-com and omni-channel growth in all of our major markets, key markets around the globe. We think about it more that way as opposed to sort of managing Realex and operating it as a standalone business under the Global Payments umbrella.

David Mark Togut

Analyst, Evercore Group LLC

Q

Understood. Congrats, again.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, David.

Cameron M. Bready

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

A

Thanks, David.

Operator: Thank you. Our next question is from Jeff Cantwell of Guggenheim Securities. Your line is open.

Jeff Cantwell

Analyst, Guggenheim Securities LLC

Q

Hi. Thanks for taking my question. We talk about Asia, growth has been strong there. I was wondering if you could update us on your longer term objectives there. Just interested in which geographies apart from Australia are looking like sustained, solid, double-digit top line opportunities. What's your thinking about your longer term strategy?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Well, Jeff. It's Jeff and I'll start. And thanks for what you said about Asia. We really couldn't to be more pleased with our performance really across Asia but especially in those markets that Cameron alluded to in his prepared remarks. So really, when we started looking at the business a number of years ago when we started running the company, we really grouped Asia into – as we do with all of markets, but Asia into two or three categories. One is growth markets where we think we could have a technological advantage relative to the peers.

It's pretty easy now, Jeff, in hindsight to say, well, Ezidebit Australia and New Zealand, sounds like a really good idea, as does eWAY which is e-com and that's a quarter of the market in Australia and New Zealand, that would be a very good example of markets where we think we can get hyper growth by technology-enabled software-driven solutions.

The second category is markets that are attractive in their own right, perhaps not with technology, but where there is good GDP growth with an accelerating middleclass and a relatively low card penetration. I think the Philippines are a great example of that market. And, of course, a year and a half ago in August of 2015, we closed our joint venture with Bank of the Philippine Islands, which is the second-largest bank in the country of the Philippines and is a fantastic partner for us.

And as Cameron alluded to in his prepared remarks, we saw a double-digit organic revenue of – well into the double-digit organic contribution growth in the Philippines, and that's a market we're very excited to continue to grow. And I think we've got probably 25% to 30% of the acquiring market in the Philippines today with our partner, Bank of the Philippine Islands. That's the second category.

And the third category is more traditional markets that may not have the same growth trajectory but are important for us to have our foot in the door as things change and develop. And I would put in that category, we like to talk about Greater China, but let's put mainland China in that category for the time being, and let's also put India in that category. As Cameron alluded to in the last couple of calls, not surprisingly, Jeff, demonetization is actually a very good thing for our business, the idea of banning cash. Not surprisingly, since we're a card provider, it sounds like a great idea in the scheme of things. Whether that long term is the right policy is for other people to really decide, not us.

But what I would say is benefiting from those trends is a good example of foot in the door, and we think that markets are very attractive and ripe for what we're doing, and we were lucky rather than smart, in the case of India, but I would say, certainly, the strategy is sound.

In the case of China, and we'll probably talk more about this in the future in the case of mainland China, expanding the source of our distribution and diversifying to include not just Visa Mastercard, Amex, and the like cross-border, but adding and growing our business with China UnionPay but adding people like Alipay, which we've done in our markets, is very important for us to access new payment types.

So while it's not a – while mainland China itself is a very large percentage of our business worldwide or in Asia today, Cameron did call it out as a double-digit organic grower this past quarter in his prepared remarks. So, from that point of view, that's the third strategy, India and China. And it's important for us to have exposure to those markets.

So Jeff, I'd say it's really those three buckets. We're very fortunate, as Cameron said, to be enjoying, probably Cameron, our fifth or sixth consecutive quarter of accelerating growth in Asia Pacific with very good margin enhancements. And listen, I think if we can find more Ezidebits to do, we will – and more joint ventures with

people like – partners who are terrific like BPI, we would certainly do those. But I think the strategy has played out very nicely.

In terms of the focus going forward, we are certainly looking at QR codes, different modes of payment. Obviously, we're exposed to RuPay in the Indian market and things like that. And we continue to look at those things, Alipay, I already described. We continue to look at those things as they emerge, as we continue to access sources of growth in that market.

Jeff Cantwell

Analyst, Guggenheim Securities LLC

Q

Appreciate that. And then just as a follow up. Can you just remind us how you're thinking about pricing from Heartland as you think about the medium term? Are Heartland's products and services being appropriately compensated from your standpoint? What's your thinking there? Thanks

David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

A

Yeah. So this is David. And we're thinking about the same way we have for quite some time. Right? We want to be compensated where we create value. We don't price for pricing sake and we won't price for prices sake. But we do believe that combination of Global and Heartland runs an industry-leading infrastructure with world class service. So we do want to be paid. What I'd tell you is more directly to answer your question, we're steadily making our economics for new sales better aligned with that high level of quality and service.

We've actually enabled some of our tools to make it easier for sales reps to price the products based on value. And so we're trying to make things more visible and obvious where we're creating incremental value and encouraging the sales reps to begin to price at levels that are more appropriately actually matched to the service we give. So we're putting all these pieces in place. I want to draw a really important distinction there and I'm going to repeat myself, that's not priced for prices sake, that's looking hard at, hey, when we bundle this service with that service that service, should we be paid for that. When we enable our Level 4 merchants to comply with the new PCI standards and we create an investment for that and create a product for that, we should be compensated for that.

So, again, not pricing for pricing sake, but do think of it as lots of enhancements to the way we run the sales force, to the way the sales force goes to market to give them the ability to think about the value of the service we're creating and priced accordingly. All that's fully in place as we enter 2017. And as Cameron said, you'll see some of the benefits of that begin to build in the 50 basis points of revenue synergies we'll drive over the course of the year.

Cameron M. Bready

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

A

And, Jeff, it's Cameron. I'll just add one minor comment which is in Q1, we're really not seeing any of that. That is building as we work through the year. And to David's point, none of it is pricing for pricing sake and certainly none of that in Q1. So we see good momentum as we're building towards the 50 basis points of revenue enhancements that we indicated we would deliver in calendar 2016, working towards the overall 1% to 2% over time. Those are initiatives that are in flight. But certainly, I think Q1 is – we're not seeing a lot of impact from that at all.

Jeff Cantwell

Analyst, Guggenheim Securities LLC

Q

Appreciate it. Thanks very much.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Well, on behalf of Global Payments, thank you for joining the call this morning and thank you for your interest at Global.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This concludes your program. You may now disconnect. Everyone have a great day.

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