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Global Payments, Inc. (GPN)

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CORPORATE PARTICIPANTS

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

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Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

All right. Feel free to file in and grab a seat. We're going to move on here. And next up to bat, we got Global Payments. Jeff Sloan, CEO, is here from Global Payments. Always a treat to have Jeff. I really appreciate him coming back here as a repeat speaker and I know how busy you are, Jeff. So thanks for joining us.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks for having me.

QUESTION AND ANSWER SECTION

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

And like the others, we'll do a fireside chat and open it up to Q&A. And so I'll kick it off just with a bigger picture question for you, Jeff. Just Q1 clearly was quite strong. It seemed very broad-based, but I was getting this question, so I'll ask it to you. How much of it was macro versus other factors that drove the outperformance in Q1?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Well, as I said in the call Tien-Tsin, I'd like to think that we have the secret sauce...

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

... for everything at Global Payments and I hope we do things very well, but I viewed it very consistently with the volumes and transaction growth that you saw at Visa and MasterCard and at PayPal for their first quarter. So as usual, one of most important things in our business is for a very healthy macroeconomic environment, and I think not just at Global Payments but at all those companies, I think you saw it...

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

... really globally in the first quarter. The second thing I'll say, in particular, as it relates to Heartland are a lot of the investments in terms of technology and ops, a lot of the products that we put into place, the new sales that we talked about throughout most of calendar 2016, and the retention that we have talked about which really is at record levels...

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

... for Heartland, I think you're starting to see the flow-through of those results. You know in our business, when you have a new sale, it generally takes a number of months until that's recognized as revenue. So we said in the last number of calls that Heartland is at a very good sales trajectory and that's about half the business...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Right.

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

A

... in the United States, which is itself two-thirds of the company. And I'd like to think that this is the fruits of the investments that we've put in, now that we've anniversaried our partnership with Heartland that you're starting to see the bear results.

I also said in the call as it relates to the U.S. business that half the revenue of the U.S. business, and probably the vast, vast majority of growth is coming from our technology-enabled businesses which includes OpenEdge. We described our integrated and vertical markets business on the call, in the last number of calls and that business continues to perform at double-digit organic revenue growth. And I think that's both distinctive to Global Payments given the size, but I also think you're starting to see the impact of the combined management of that business not just at Global Payments, but also at Heartland which is a number of vertical markets strategies as well. So I think it's a good economy that certainly helps everybody. But I'd like to think that it's the fruits of the investments we made over the last number of years as well in the United States.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Right. Good. So let's talk about Heartland, for us I know, it's a big topic. I guess, it's been just over a year now. I remember...

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

A

Yeah.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

... sitting down in your office and we talked about the pros and cons of it. And so what's been good in your view for Heartland and what happened?

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

A

Sure. So I would say on the positive side the facts matter. It's hard not to be delighted with where the business is today. I think the quality of the people, the quality of the culture, the sales leadership at Heartland, I think we said on the call Tien-Tsin a couple of weeks ago that we've added about 10% more head count in sales or 147 net additional sales professionals at Heartland over the last year. As I mentioned a minute ago, we've enhanced the suite of technology in ops and the environment that they're in. They also have more products to sell at Heartland and Global Payments than probably we've ever had as a company, and I think you're seeing that in the financial results of the company.

So the first thing I'd say is the proof is in the pudding. And as it relates to the performance of the business, I think the retention rates both of sales professionals as well as merchants is really at all-time high as well as our productivity as David described. On the issue side, we went into that partnership thinking that we would demise

technology and operations and consolidate it into one platform. That's still the plan. Little did I know that the technology was less stable at Heartland than we thought it would be. So I think I probably told you and others the story that right after we close on a Friday, on Saturday, were some technology issues at Heartland. So we really had to jump on the issues that we had on the technology and operating side to make substantial investments sooner than we thought.

That obviously was not something we expected going into the partnership, but I would tell you that as stressful as it was in the beginning of that, to have to accelerate the technology and operating integration, I'm glad we did that. So we spent more capital to do it more quickly than I thought we would need to, but I think we're seeing the benefits of that today because [indiscernible] (04:48) accelerating on some of the things that we were going to do anyway.

As you know, two-thirds of the integration is really now behind us; the corporate and operating environment integration. And on the technology side, as we said in the call a couple of weeks ago, we're on track for the 2018 date that we described. So those plans are pretty much in place. So I always tell people, Tien-Tsin, this is like the after picture, after the stress of having gone through the integration. It's not the before picture, but I think in the scheme of things, we're fortunate to be in the position we're in. That doesn't mean that there wasn't some fancy footwork right after the partnership close.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah. And I recognize there's a lot of heavy-lifting. So maybe just on the sales productivity and you've mentioned what product to sell. Can you be more specific there, Jeff? What's selling well? What's been driving it beyond just the head count growth? Has EMV been a contributing factor? Can you...

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Sure.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

... [ph] explain (05:40) on that?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Well I think one of the things that we're most proud of when we talked about in the last call is Heartland had a very good e-commerce product...

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Right.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

... called Portico, which was their e-commerce gateway in the United States. They probably had 125 sales people, Tien-Tsin, selling that product. What we announced last quarter as part of our e-comm strategy is that Global

Payments brought our Realex business, which is our cross-border omni-channel business into not just the United States but Canada and Spain, but for these purposes, the United States. And we've integrated Realex into Portico. So now we've got better products and services in e-comm domestically here in the United States for our salespeople to sell.

We've also made significant investments in head count and selling into e-comm, and of course, cross-border functionality which Heartland did not have in e-comm or more generally in their card business. So I like to think about it as an intersection of better product and service, better tech and support, and more multinational opportunities for the scope of e-comm. And as we announced the last two quarters Tien-Tsin, I think we said in the December quarter, that business, that Portico business grew 20% transactionally for the holiday period. And we just announced a week ago it grew 20% in the first quarter of calendar 2017. So while it still is a relatively small part of the business, and globally for us, e-comm omni-channel is about 10% of our company, so in about rough math, \$3.5 billion of revenue. It's about \$350 million business, up from \$250 million in the last Investor Day from October 2015. Nonetheless, it's only 10% of the company. So I think we have an ability to continue to accelerate that business, but that's a great example.

And then I'd say more generally and we said this in our October call, the stability of our system. So we had a record back-to-school. Heartland had a K-12 school business. When we combined the companies in April of 2016, the school business at Heartland had just come off of a very choppy technical period with a lot of latency and not the kind of service that they wanted, and therefore, not a great selling season. What we were able to do through significant investments in May, June, and July was provide enough technology, stability and visibility in product, so that as we said in October, Heartland had a record back-to-school K-12 period in April and May – in August and September. I think I said like 5 million transactions a day as kids went back to school with no downtime and no latency. And as a result a very good selling season to sell new schools for K-12. And that's another example I think of our ability to accelerate revenue beyond e-comm as it relates to the Heartland business.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

So it's that what's driving the confidence, Jeff, and hitting the Heartland revenue synergy targets. It seems like it's product, service, international and I always get the question I'm sure you do as well if pricing is one of the levers as part of that revenue synergy.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

No, we're really leading with more products and services in more markets. So I think as we've been describing, Tien-Tsin, in the last numbers of calls, it's like 50 basis points of incremental revenue growth which is on a half year basis. So it's like 100 basis points on annually. And what we talked about at the time of the deal, it was 2 points to 3 points of revenue growth is what we talked about in 2015. So here we are a year-and-a-half later and we're kind of halfway there. It is how I think about it on an annualized basis.

I would say the vast majority of that as you're saying rightly is cross-border sales, additional products and services that we and Heartland didn't have separately that we have combined. So for example, we just announced the other day the launch of Xenial, which is the first cloud-based SaaS model for restaurants. So we've launched that here last week through Heartland Commerce in the United States, but we also have plans on bringing that to Spain, Canada, the United Kingdom and other markets. Those are not markets Heartland was in. So our folks in Heartland Commerce who've been to Spain probably half a dozen times in the last nine months to get that ready for launch overseas. Great example of what's in the 50 basis points.

So I'd like to think about it as bringing that business to new markets not just Spain but their university business Heartland Campus or TouchNet we brought to Canada. We brought to Puerto Rico and other markets. And those are all net new to the combined companies and that's really what constitutes the 50 basis points. As Cameron, our CFO, said in our earnings call, we haven't touched price. And therefore, it's really more value-added services.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Okay. Good. So I guess balancing direct with some of the Heartland stuff and obviously OpenEdge and integrated – integrated is still pretty highly [indiscernible] (10:10) here earlier and obviously talking of the Integrated book. So how much – at what point do we start to see potentially some fatigue there? It does seem like there's a lot more players trying to get bigger in integrated. You also have the vertically integrated guys [indiscernible] (10:25) going in. So how sustainable do you think this OpenEdge opportunity is?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Well, we're 4.5 – whatever October of 2012 is today, kind of 4.5 years into APT and OpenEdge. And we continue to produce mid-teens related growth. We really talk about it now post-Heartland as we did in our last call, as integrated in vertical markets business, it's really the way we're managing it. So the same executive at Global Payments is managing OpenEdge, is managing campus, school, commerce, et cetera. So we really do manage it as a one combined business and it's now two-thirds of \$1 billion of revenue going to that number of \$1 billion of revenue that's technology-enabled in the United States. So we really do manage it as one business.

The nice thing in the aggregate is those businesses were all growing double-digits. So when you think about OpenEdge, yes that's in the mid-teens, but the businesses I just described – and gaming is another one. The businesses I just described, integrated in vertical markets business, which we manage as a whole, in the aggregate are growing at low-double digits organically top-line. So I really think about it as what's the rate of growth of all our technology businesses. The nice thing is we're all growing 10% or north.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Right.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

So that I think is very sustainable. That's our plan. Clearly, as you've seen over time with Global and Heartland separately, we're looking at additional vertical markets for us go into by way of organically or through partnership or acquisition. And if we do that, we can accelerate that growth even further.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah. So maybe expand on that, the verticals that you're looking at. I mean...

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Sure.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

... I know, again, that will bring [indiscernible] (11:56) again but the B2B, you've got a lot of questions around...

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

Q

Yeah.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

... with Paymetric. Is that something on your radar?

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

A

Without talking about specific...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Sure.

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

A

... kind of company, I mean obviously as we said in the call, we look at everything.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah.

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

A

That's kind of our business. We think about our business as really B2B to C...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah.

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

A

... right? So ultimately it's important for us to have an access back to the merchant at the end of the day. It's also important for us to be able to generate adequate returns in relation to what we're investing in and what the alternatives are, which really for us are buying back stock and other M&A opportunities. I'd also say that our business is very sensitive to margin enhancement. So as you know, having covered us very well for a long time, we just reported 250 basis points up in North American margin.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Right.

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

A

110 basis points for the company we raised in a year.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah.

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

A

To 110 basis point up from 90 basis points in one quarter. So growth of margin in our company is very highly correlative for us into growth of stock price. I would say other companies have higher margins that are degrading. We have margins that I consider to be competitive that are accelerating. So when we look at businesses, for example, that may weigh on our margins, it's very important to take that into account in terms of targets that we look at. So from that point of view, large corporate businesses, and as you know in the United States, we're generally SME and vertical market-centric.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah.

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

A

So for us, those businesses provide better than average margin and growth rate opportunities. Thinly priced large corporate margin opportunities generally degrade our margins. And in general, it's not something we're interested in.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Got you. But given that like with e-commerce and digital...

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

A

Yeah.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

... there's so much focus there. I mean how would you prioritize that as an area to get bigger in?

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

A

Well, it's very important to our business, the nice thing about where we are is I think we're a market leader, I believe, in worldwide e-comm...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah.

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

A

... and omni-channel just given our presence, given our acquisition of Realex...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Right.

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

A

... a number of years ago. PayPal, for example, white labels are technology in most of what they do. So I think it's a good reference point really in that. So I think we're one of two or three globally in cross-border. I also think though domestically here in United States, but also in Canada and also in Spain, we have domestic e-comm strategies, which go into the 20% number I was kind of quoting you before. We've got 125 people in Heartland selling that today, but what's important to understand for us, Tien-Tsin, in e-comm is that when we're selling it domestically, it's primarily the SMEs. We generally are not focused on businesses that JP and Paymentech would focus on like an Amazon that are high volumes and low margins. Our business is really bringing SMEs online.

And then importantly in the case of Heartland Commerce enabling quick service restaurants so that you can buy online or on the phone a burger, pay with Apple Pay with your thumb and then pick it up in the store. So that actually is a very good avenue of growth. And in that business, we compete very intensely with JPMorgan, for example, but what we like to get the payments processing as part of that we're equally comfortable as with Xenial in selling a modular strategy where we get paid for the mobile, or get paid for the online and we'll pick up the payments business later. There's about a 50% flow-through rate of stuff that we have in Heartland Commerce into payments. It's about 30% or 40% and growing in school and campus. So our ability to get our foot in the door by selling software and then back-sell the payments business is something for us that's growing very quickly and very different competitively than many of our peers.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

How about just Braintree and Stripe, and they've done very well with their developer community and tap it into that startup market. Is that an area where you can potentially get bigger in?

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

A

Yeah. So, we compete with those guys every day. Obviously, PayPal is a good partner, and I think Braintree is a very good company, but we compete with Adyen, Braintree, and Stripe daily, particularly in our omni-channel and multinational business through Realex, but also right here in the United States and other markets. I think where

we've got a leg up is, first of all, in SME distribution. Really, Stripe is focused there, less or so Adyen, for example. That's point number one.

Point number two, relative to those guys, we have both the card-not-present application as well as the face-to-face. So when you meet with Adyen, what they'll tell you is we're great on card-not-present, but, boy, it's really hard to build out omni-channel functionality because you have to be licensed and physically present in those markets. Well, we have all that. So I think we're coming from a position of strength where we're physically present in 30 countries. We do business in about 80, and we can cross-sell the cross-border functionality. It's very hard for those guys to do the reverse, to sell the physical acquiring.

Lastly, I'd say we've made a lot of headway in marketplaces. So you think about where you see some of these other guys and they're really, in the case of Stripe, trying to enable SMEs to go online very cheaply. We can do that but we can also add marketplace functionality with our relationship with PayPal. We're very familiar with the payment facilitator model and kind of the master merchant. We've been doing that for a long time. Our ability to cross-sell that into new marketplaces like an Uber or Lyft is a very good example. And to do it not just in one market, but to do it multinationally is a very good example of how I think we're different than some of those guys. So I think we're in the sweet spot of SME to midmarket globally. And I think we're in the sweet spot, as it relates to enablement of marketplaces...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

All right. Good stuff.

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

A

...which is high growth.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Good stuff. So, let me maybe just to round that all out, just from an M&A standpoint, it's been over a year since you've done Heartland. It does seem like there's more consolidation overall. Would you prioritize international versus U.S. versus technology versus distribution or density? What's the order, if there is one?

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

A

So, as I said on the call a couple of weeks ago, we've a very full pipeline...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah.

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

A

...in M&A. It's not like Global Payments to go a year-and-a-half and not do deals, as you know, you've covered us for a long time. And we announced Heartland in December of 2015, and it closed in April of 2016, and we were very focused on doing exactly what we said we would do...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah.

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

A

...which we think we've done from an execution point of view, a revenue growth point of view, but also a balance sheet point of view. And I think we're at a point now, it was important to get us past the anniversary to get us in a good place financially, in a good place as an execution matter. I think we're there now. And so, I think, our plan all along was in the back half of calendar 2017, kind of starting after our earnings call in early May to really take another look at where we are. Obviously, we've been building pipelines over that time. So I think we've got a very full pipelines as we described before. So as time goes on, if the markets hang in there and we find the right partners, I certainly would look for us to build out the strategies that we've been describing.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay. So, Europe, I guess, let's dig in on that with all the regulation happening there, PSD2. And I think we've asked you probably [indiscernible] (18:30) last couple of years. Could that open up more consolidation opportunity within Europe?

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

A

I think PSD2 was a good thing for us.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah.

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

A

At the end of the day, we're not a bank.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah.

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

A

So the ability to open up the bank account, the ability to allow non-banks to play on an equal footing relative to banks, I do think that they loosened a bit the Card Not Present, authentication measures, which I think is good for all of us in the e-comm and omni-channel businesses that we're in. We already, through Realex, have an open API business, which is another goal of PSD2.

So as I think about it, well, I think we're already heavily regulated. And generally, I don't like additional things that add complexity into the ecosystem. The idea that they're opening up the ability for non-banks like Global

Payments to compete with banks on a more level playing field through technology, which is really our core, puts us in a very good position to continue to capture share. If you look at the first quarter, we grew that business in Europe, low-double digits revenue organically, probably one of the best rates of transaction growth in last couple of quarters we've had in Europe, particularly in the United Kingdom, and also of course in Spain...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Spain.

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

A

...for some time. Anything that could help us to sustain or accelerate that rate of growth by making it easier for us to do business sounds like a really good idea.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay. But do you think it accelerates potentially or slows down the pace of the electivity? It sounds like – we had Visa and MasterCard here yesterday. They thought there's still quite a bit of time before we really understand what all of this means.

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

A

Well, that's true. I mean, you have to graph the Brexit on top of it, right?

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Right.

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

A

So I think it's important to take into context that the regulatory change is across the continent. But the current plan, as I understand it, for PSD2 is for rule proposals in 2018, implementation in 2019. How that ties into the UK leaving in March of 2019, I don't really know at the end of the day. But I would say is, in general, complexity is good for us. We provide solutions to complicated questions. Technology is good for us. Being a non-bank is good for us. So putting aside whatever implementation period there is, I think the trend is certainly a good thing.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Good. Good. I'd agree. So let me ask you one more on Asia, and then we'll open it up.

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

A

Yeah.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Just it's been growing above market. But China, and there's been a news again, opening up, and changing the cabotage rules again. What does that mean for you? You guys are a little bit unique. You have relationship with UnionPay...

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

A

Yeah.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

...and obviously present in, what, 11-plus countries in the region. So is this something meaningful for Global Payments?

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

A

Well, I think it's another indication of where the market's going which is more open, which is better for us. So, we're in 13 countries in Asia today. We're probably coming off the best six quarter in a row run that at least since I've been with the company for about 7.5 years now that we've had. That's been the fruit of conscious investment in new markets like Australia, New Zealand, with our integrated products called Ezidebit, our omni-channel e-comm product called eWAY, 25% of market for e-comm in Australia and New Zealand as well as bank partnerships like Bank of the Philippines Island, which is a JV we did about a year and a half ago. So, I think it's the result of a lot of conscious effort and investment.

Anything that opens those markets further, in general, is good news for us. We have additional bank partnerships throughout Asia that we've been working on, including in Mainland China. That's all good news for what we're doing. So, I certainly don't see anything but good news coming out of those announcements. Alipay, obviously, has been doing a lot in Asia, particularly in the consumer side, but that's something enables an acquirer in Asia. So all those innovations, Tien-Tsin, whether they're domestic to China or Pan-Asia, in the case of Alipay, really feed into our sweet spot of being a value added solutions provider.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah.

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

A

So it's like having more choices in life. That's a good thing for consumers and merchants, and a good thing for us too.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

So, since you mentioned Alipay, Alipay, Tencent, are those players more friend or foe? I know you mentioned that you do some of the enabling, but clearly they're trying to own that customer relationship as well and take that

payment more into this end-to-end platform of theirs. How do you see that evolving? Is there anything to learn from that?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah. I would say if you look at – I don't know if it's going to get done or not, but the Alipay announcement on MoneyGram.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

And if you look at PayPal, I think, has been buying some more wallet/consumer-related businesses. To answer your question, I think they're really symbiotic because those guys are very much focused on share of consumer mind and wallet. Global Payments is a B2B company. I'm not competing with Apple and Google and Visa and PayPal and worrying about what card you have in your wallet. And whether you use my digital wallet or not. Instead, all I care about is enablement at the end of the day. So the ability to bring 2.5 million merchant locations worldwide to Alipay and to UnionPay and everybody else is a core asset of ours.

What the consumer uses or who is the consumer's mode of choice for wallets is not something we spend a lot of time on at Global. I'm thankful that we don't. Many of those companies have more cash than – PayPal has market gap. So you just have to be careful in how you go after and that is not really a business that we're in.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah. Helpful. Thank you. Any questions from the group here? Otherwise, I can keep going, but happy to take questions.

So, given what you had said there, Jeff, you see a lot in the world. I know it's more small, mid-sized oriented, but how do you see this everything evolving? You've got a lot of regulation in Europe, [ph] the regulation (23:57) potentially in the U.S. You've got some new tech players coming in, Alipay and PayPal, like you said, driving more content experience.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

You're the enabler. How do you see this world changing?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Well, I think one of the most exciting things is really changes in product enablement. So, I think if you look at our Xenial announcement last week, Tien-Tsin, the first in the restaurant space, cloud-based SaaS solutions. So, now we can release into environment. And if you get a chance, I know it's a little corny, but you should look at the video that we have on the website where there's a young guy. He's probably Isabel's children's ages, [ph] probably (24:31) eight or something, who is at a restaurant. The point of sale thing isn't working. He essentially goes on his phone or buys an iPad or whatever it is, he downloads our application from the App Store in 30 seconds, and the restaurant is up and running in a minute. And all that data is in the cloud and could be accessed from any device. And we charge by the number of locations. We really don't care about how you're doing it.

And as I said before, kind of half the time we're getting the payments volume too, but the other half, we're not. So we can sell it in a modular fashion. Those businesses did not exist five years ago, if you think about the way we're selling that business today, much less to OpenEdge and the other things that we're doing. So, it's hard not to look at our businesses and feel delighted about the ability to offer more products and services more quickly, more efficiently, and more places around the world. So, there are plenty of examples, in Heartland Commerce, where we have bits and pieces of the business. Mobile ordering of a taco on your phone or online. You pay with Apple Pay. You pick it up in the store. That didn't exist five years ago either.

So when you look at the products and services that we are introducing into the marketplace, I really view ourselves as a product and technology company more than anything else. Most of the deals we've done more recently have been around that. That gives us a lot of comfort in the rate of growth. That's one answer.

I think the second answer is, we're in an ecosystem that's continually evolving, putting aside Global. So, for example, contactless card, which the networks have started talking a lot about, but really has no usage in the United States, is very well developed even beyond the pace in Asia and Europe. So, you go to Tube today in the UK, and most consumers are used to bring their wallet or waving their card, RFID chip, EMV over the Tube. You can also use Apple Pay to do the same thing. I think it's an interesting question whether our contactless comes to/takes off in the United States.

And I think we're well positioned to do that. In our business at Global Payments, it's about 20% of our UK business and it's growing at 35% year-over-year, contactless in the UK. Now, a lot of it's small ticket transit, as I was describing before, but it's hard not to look at the growth rates in that, and be very excited about what may be as you go to other markets. Our numbers in Asia are very similar, the way I'd describe it it's a smaller percentage, but a very high rate of growth.

So, I think that the innovation is not just at Global, but coming from the ecosystem. Contactless is a good example. It presents a world of opportunities. That's before even get into QR readers with Alipay in Asia. That's before you get into Paytm in India with demonetization, which is obviously – we're all experiencing hyper growth in India. I'm not sure it's a good social policy. But as it relates to our business, I think it's a very interesting trend. And it really is just a variant of what you saw in Russia, and a variant of what you've seen elsewhere, which is a strong preference for credit card based transactions rather than cash and check in kind of a gray market. So, I think all those trends are good things for us, and will change the markets fairly considerably, as we think about how seamless our businesses are over the next number of years.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC



Any questions?

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

A

It's a very shy group you have here.

Tien-Tsin Huang
Analyst, JPMorganSecurities LLC

Q

Yeah. The software question I have to ask as well, you mentioned sort of product enablement. And so, Square, obviously, pushing more software services; Clover also more vertically integrated, kind of building that marketplace within that. So how do you think about vertically integrated versus, sort of, the powered by model that you have? And then you have touched that also you're very close to the school. So what – how do you see that world evolving?

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

A

Well, that's – first, I think it's helpful to give some benchmark. So as I said just a minute ago, and in our call, about half of revenue in U.S., about \$1 billion is coming through that technology-related sales and the vast majority of our growth. I think in the case of Square and First Data, what they've said is none of their revenues is coming from that. That doesn't mean that they're not – they don't have restaurants and stuff like that, but it does mean, at the end of the day, that I think we've got a really nice head start.

And I think you were seeing that reflected in the market share that we're capturing in our core market in the United States and increasingly globally. So, I think you've got to keep it – perspective of size. I think they – between the two of them, they have one or two salespeople selling it today. Obviously, we have very many. That's one thing.

The second thing I would say is, it's important for us to have diversity of distribution in our businesses. So, if you go back to the old Global, which was very reliant on outsourced revenue and the like, and probably, I don't know, 40% [indiscernible] (28:52), whatever math was, when I got there. Today, that business is 5% of the company, and none of the growth.

Tien-Tsin Huang
Analyst, JPMorganSecurities LLC

Q

Right.

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

A

Right? So I think what we've invested very heavily in our business is not knowing when they win, Tien-Tsin, three to five years from now, but investing in diversity of distribution. So, both legacy Global and legacy Heartland, in the case of Global, in the case of Ezidebit in Australia and New Zealand, our integrated business owns the self-storage software itself.

In the case of Heartland, in Campus, in School, in Commerce, actually owns the vertically fluent software. Our gaming business does the same at Global here in the United States. So I think it's important for us and very distinctive to us versus many of our peers, we actually own the underlying software, to the extent, that we look at doing more technology-enabled and software-driven deals that we've talked about in last number of quarters. Those are all likely to involve us going to new vertical markets [ph] or (29:43) buying software...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Yeah.

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

A

...that can also drag along the payments. So the way I think about it is less what's going to win or not win, and more around what is the diversity of distribution, and what chips are we placing the table, so that three to five years from now, we sustain or accelerate the rates of growth that we're seeing today.

We were big fans of the Heartland Campus business, TouchNet, before they bought it in the first place. We bought Ezidebit. They bought TouchNet. But we knew we like that business in Campus before those guys bought it really in the first place. And I think you're seeing the benefits of that in the acceleration of our strategy today.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Right. So, thinking about Canada...

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

A

Yeah.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

...and I have covered a long time, I remember back in the NDC days. So, would you diversify in the U.S. potentially to do more merchant bank business? Would that even be on the table, Jeff?

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

A

Yeah.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

It's worked well in Canada, in UK and others. So, is that something you would consider in the U.S.?

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

A

We're considering it now. So, one of the revenue synergies with Heartland is to look at the midmarket banking business in the United States, which we really don't have a presence in today on either side, and asked whether we can change the economic model by bringing Heartland sales folks to the midmarket banks. So, for example, instead of doing a 30% to 50%, or whatever the math is, rev share back to a financial institution or more specifically doing a JV, as JPM have with First Data many years ago, doing a JV would split the economics. Maybe what we should do is provide a smaller rev share that bring a lot more salespeople because we can afford it with Heartland because of the commission-based structure, and say to the bank, yeah, you could give up some rev share economics, but you'll triple the size of the base...

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Right.

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

A

...and come in at that way.

So, one of the things that we're thinking about in terms of revenue synergies is why not change the paradigm as it relates to distribution around the middle market and banking. So, we're piloting that today not just in the United States, but outside of the United States. And that would be a new business really to Heartland and a newer business from Global Payments, and really change the industry in terms of the way the industry approaches bank referral partnerships. That is an advantage of being in the position we're in with the types of vertical markets in and the types of sales distribution. I think it will be very hard for the incumbents who can't afford to dedicate that number of sales professionals into those markets, and I think very good for us.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Right. So the difference here is to sort of energizing the branch with tech or in a processing platform. Here, you're actually putting your actual people on the ground to help the bank sell more of [indiscernible] (32:06).

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

A

Yeah, it's both. What I would say is instead having, I'll make it up, five sales people with a given bank on a base salary, which might be the traditional model, we can flood it with 100 people commission-only right at the end of the day, and get better distribution. They're selling our technology already. The numbers at Heartland – what the Heartland guys would say is that 50% of what Heartland core payments is selling today is semi-integrated or integrated, right? So far higher percentage. That number was 25%, number of years ago, for Heartland.

So across the business, what goes into the \$1 billion of revenue at Global and Heartland is technology-enabled. It's not just all Global and not just the ancillary businesses at Heartland, but actually half of Heartland's core payments business. So there's no reason why we and they can't sell more using that kind of technological advantage at a traditional financial institution. It's just the referral. But we can close it with technology-enabled sales, but we can do it more cheaper with more people and more simply than someone else can. So it's something that we're actually looking at piloting now.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay. I have one more question, but any last ones? So just – that reminds me a good question. Just the ability to rescale and retrain the sales people to sell different things.

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

A

Yeah.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

I know Heartland brought in payroll, and they had different specialists for payroll. Here you're going into a lot more techie areas, but – even to a bank area that's very different environment. So how portable – or I guess can you rescale that talent pool to go after some of these markets you're talking about? Or can you maybe add more head count?

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

A

Well, it's a mix of both. So roughly about 10% head count net in Heartland today as we discussed on the call. But I would tell you that payroll is very specialized, you're right in what you said. And that's actually gone very well for us and we're very pleased with where that is. But at the end of the day, these are individual entrepreneurs and sales people who clearly want to make money at what they do. So I would tell you that they're very flexible and train themselves.

It doesn't mean that you don't have specialized sales forces to go after the very large restaurants or to go after some of the markets in OpenEdge. But today, as I've said before, one out of every two Heartland sales in core payments is coming from semi-integrated or integrated solutions, up from 25% a number of years ago. It's hard not to look at that and ask how good that might be two or three years down the road with additional focus and training. So I'm pretty confident at the end of day that we can continue to maximize value in the sales force, and that's why performance has been so good. [ph] As David (34:25) described it on the call that's why retention of sales professionals has been so good and that's why retention of merchants has been so good over the last a year or plus.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

All right. Great. Thank you for the update, Jeff.

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

Thanks for having me. It's great seeing you guys.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

We're grateful to have you.

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

Thanks for coming.

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