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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' Fiscal 2017 First Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will open the lines for question and answers. [Operator Instructions] And as a reminder, this conference will be recorded.

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

Isabel Janci

Vice President, Investor Relations, Global Payments, Inc.

Good morning and welcome to Global Payments' fiscal 2017 first quarter conference call. Our call today is scheduled for one hour. Before we begin, I'd like to remind you that some of the comments made by management during today's conference call contain forward-looking statements which are subject to risks and uncertainties discussed in our SEC filings, including our most recent 10-K and any subsequent filings. These risks and uncertainties could cause actual results to differ materially. We caution you not to place undue reliance on these statements. Forward-looking statements made during this call speak only as of the date of this call and we undertake no obligation to update them.

To better conform with recent SEC guidance regarding the disclosure of non-GAAP measures, we now refer to cash operating margins and cash earnings as adjusted operating margin and adjusted earnings respectively. There has been no change to the calculation of these measures. Some of the comments made on this call refer to these and other non-GAAP measures such as adjusted net revenue and free cash flow, which we believe are more reflective of our ongoing performance.

For a full reconciliation of these and other non-GAAP financial measures to the most comparable GAAP measure in accordance with Regulation G, please see our press release furnished as an exhibit to our Form 8-K filed this morning and our trended financial highlights, both of which are available in the Investor Relations area of our website at www.globalpaymentsinc.com.

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

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

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Isabel, and thanks everyone for joining us this morning. We are delighted to report a strong start to our fiscal 2017, continuing the positive momentum we have seen in our business. We accelerated organic growth across our key markets during the first quarter with particular strength in Heartland, OpenEdge and our United Kingdom and Asia businesses. While delivering these results, we also made substantial progress integrating Heartland and are ahead of our expectations in realizing synergies from the merger.

For the first quarter, we delivered high-single digit organic net revenue growth and adjusted earnings per share growth of 15% on a constant currency basis. We were also particularly pleased with our ability to expand operating margin in North America, which includes the addition of Heartland for the full quarter.

Our North American businesses performed very well in the quarter led by our U.S. direct sales channels, which generated high-single digit organic net revenue growth. This was primarily driven by strength in new sales at Heartland and OpenEdge, each of which accelerated sequentially. Further, Heartland achieved an all-time new sales record in August, demonstrating continued momentum in that channel.

In Europe, we generated strong local currency revenue growth in the first quarter, including double-digit growth in our UK business, which accelerated from the fourth quarter of fiscal 2016. Spain delivered impressive results and we again saw a double-digit volume and transaction growth well in excess of the rate of market growth. We also continue to make strides advancing our e-commerce and omni-solutions businesses in Europe, and I am delighted to announce that we are now live with Realex in Spain. Our businesses in Continental Europe, including our joint venture with Erste Bank in Central Europe that closed in early June, performed in line with our expectations.

Lastly, Asia's performance in the first quarter was exceptional. We accelerated organic net revenue growth to the low-double digits, resulting in the highest rate of growth in this market in several quarters. Our traditional Asian markets performed very well, and once again, our Ezidebit business contributed meaningfully to results in the region with over 20% organic growth this quarter.

Just five months since closing in our partnership with Heartland, we have established our go-to-market strategy across distribution channels and verticals, identified new opportunities to accelerate revenue growth and have begun rationalizing corporate support, operating and technology environments. The progress we have made demonstrates our continued relentless focus on execution, which positions us well to achieve synergy targets, and importantly, to drive a number of incremental growth initiatives.

We are already realizing revenue enhancements to our various distribution channels here in the United States and abroad. In addition to initial cross sales in Canada we discussed in July, we are now sharing sales leads from Heartland with all of our regions around the world. In the U.S., we have combined our traditional direct sales forces and have configured our platforms to be able to sell either Global Payments or Heartland Payment solutions to new customers. We have also enabled both our Campus Solutions and Heartland Commerce point-of-sales software products on Global Payments' platforms in Canada, opening up opportunities for both new sales and the migration existing Heartland software customers to Global Payments. Finally, our investment in enhancing our school solution technology platform supported record payments volume growth and flawless execution during the peak school enrollment season.

Given our extensive planning, focus and strong execution, we are also realizing expense synergies ahead of initial expectations. We have made significant progress in merging corporate functions, consolidating facilities and operating centers, and developing our future state technology architecture model for key systems across the combined organization.

As part of this effort, we selected Heartland's Jeffersonville facility as our go-forward U.S. operating center and plan to close our Owings Mills facility by early calendar 2017.This allows us to leverage Global Payments' worldwide unified operating environment in the Jeffersonville facility to create a scalable, world-class service center to support our global operations. Lastly, we are completing migration plans to consolidate our technology environments to achieve our future state model, which is critical to achieving our full expense synergy expectations.

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

Cameron M. Bready

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

Thanks, Jeff, and good morning, everyone. We reported another quarter of strong financial performance while also making significant progress on our Heartland integration efforts and executing synergy plans ahead of expectations. Total company net revenue for the first quarter was $817 million, a 52% increase over the first quarter of fiscal 2016. Operating margin was 29.5% or 29.9% on a constant currency basis, consistent with our expectations for the quarter. Adjusted earnings per share was $0.86 for the first quarter, reflecting growth of 9% or 15% on a constant currency basis.

Our North America segment grew net revenues by 79% compared to the first quarter of fiscal 2016, and operating margin expanded 80 basis points despite the inclusion of Heartland, which has a lower margin profile relative to Global Payments' historical levels. We are particularly pleased with our ability to expand margins in North America as this is the first period that includes Heartland for the full quarter.

Normalized organic net revenue growth in our U.S. direct sales channels calculated as if we owned Heartland in both this period and in the first quarter of fiscal 2016 was high-single digits for the quarter. This was primarily driven by our Heartland sales channel, which generated high-single digit organic growth, and OpenEdge, which produced yet another quarter of mid-teens growth.

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

Our European business performed very well this quarter, delivering 11% net revenue growth on a constant currency basis. Reported growth for Europe was 2% compared to the prior year due to significantly unfavorable foreign currency exchange rates, particularly the pound which declined nearly 14% year-over-year. Growth in Europe was primarily driven by low-double digit net revenue growth in the United Kingdom and the continued expansion of our e-commerce and omni-channel solutions businesses, as well as the addition of the Erste joint venture.

European operating margin of 47.9% declined from the previous year as expected, due primarily to integration costs associated with the Erste transaction and foreign currency impacts. As we noted in our July call, we anticipate a significant portion of these integration costs and currency headwinds will be realized in the first half of fiscal 2017.

As expected, we have yet to see any real impact on our business resulting from the UK EU referendum, except of course to the devaluation of the pound. In fact, as Jeff noted, our business in the UK accelerated this quarter despite the outcome of the referendum. We will continue to monitor developments going forward to assess potential implication for our business.

As Jeff mentioned, Asia Pacific had an outstanding quarter with 17% net revenue growth and operating margins was 28.4%, an increase of 50 basis points year-over-year. Growth in Asia was primarily driven by low-double digit organic growth in the region including Ezidebit, as well as the addition of the BPI joint venture and eWAY.

Excluding Heartland integration costs, we generated free cash flow of approximately $107 million this quarter. We define free cash flow as net operating cash flows excluding the impact of settlement assets and obligations, less capital expenditures and distributions to non-controlling interests. Capital expenditures totaled $38 million for the quarter. In addition, we reduced outstanding debt during the first quarter by $44 million. And since the date of our last call, we repurchased an additional 379,000 shares for $28 million. Our current share repurchase authorization capacity is $191 million. As a reminder, we continue to expect to use the majority of our free cash flow this year to support debt reduction.

As Jeff mentioned, our integration of Heartland is tracking ahead of schedule and we now expect to realize over $60 million of expense synergies in fiscal 2017 as compared to our prior estimate of over $50 million. We are delighted with the progress we are making, and have been able to execute on planned synergies more quickly than previously assumed, further positioning us to achieve our full expected run rate synergies from the merger.

Given the strong performance in the first quarter and our updated expectation for synergy realization for the year, we are increasing our outlook for fiscal 2017. We now expect adjusted earnings per share to be in the range of $3.45 to $3.55, reflecting growth of 16% to 19% over fiscal 2016. In addition, we now expect the operating margin to expand by up to 50 basis points for the year.

We continue to expect net revenue to range from $3.2 billion to $3.3 billion or growth of 47% to 52% over fiscal 2016. It is worth noting this outlook reflects our expectation that foreign currencies will be marginally weaker for the remainder of the year relative to our forecast when we guided back in July.

I will now turn the call back over to Jeff.

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

Thanks, Cameron. From the outset, the goal of our integration has been to ensure a frictionless combination of the two businesses, building on the momentum that Global Payments and Heartland have each had individually.

Although we are still early in the process, we could not be more pleased with the progress we have made. Not only are we ahead of our expectations with respect to integration, we have accomplished this while accelerating revenue growth at Heartland, which will help drive overall revenue and earnings per share growth for the combined company.

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] And our first question comes from Bryan Keane of Deutsche Bank. Your line is now open.

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

Hi, guys. Good morning. I just wanted to ask about the European margins. What kind of an impact did the Erste JV have? Can you quantify that in the currency headwinds in the quarter? And then is the outlook for margins to stay basically sequentially similar in the second quarter and then improve in the second half? And if it improves in the second half, what drives that? Thanks so much.

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

Hey, Bryan. It's Cameron. Good morning. I'll start and then ask either Jeff or David to add any other thoughts they may have. So I would say in the first quarter, the margin declines in Europe were pretty much exactly what we anticipated. And if you look at the two primary drivers, one being Erste and our integration efforts specifically around Erste joint venture and the second being currency, they probably each contributed about a half of the decline in margin that we saw in Europe, that 450 basis points in the first quarter. So about half and half coming from Erste and currency.

I think as you work through the year, I would expect that to get progressively a little bit better. Some of the FX headwinds will begin to update as we get into the back half of the year. And as we continue with the integration efforts on Erste, I would expect most of that work to be done in the first few quarters of the year, especially that by the time we get to Q4, sitting here today, I would anticipate we'd be back to flat to expanding margins in Europe which, as we've talked about in the past with margins nearing 50%, our objective in Europe is really to sustain that level of margin, not really looking to expand those margins for that particular segment.

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

Bryan, it's Jeff. I would just add to what Cameron said that as we mentioned in our release, our businesses in Europe performed exceptionally well this quarter. Our UK business accelerates revenue growth into double digit. You may also recall that Spain has now double annualized the interchange reduction as of September 1. So going forward to Cameron's point, we expect to see continued growth in revenue profitability in our Spanish business, which has been a bit of a headwind over the last 12 months.

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

Okay, terrific. And just a quick follow-up. On the synergies from Heartland, I think you guys increased those $10 million for this fiscal year. Just to clarify, is that just a pull forward from the total run rate of synergies, or is that an additional increase in synergies for what you think you're getting into Heartland? And maybe what is causing the pull forward? Thanks so much and congrats on the first quarter.

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

A

Yeah. Thanks, Bryan. I'll jump in there. So I would say, as it relates to the expense synergies themselves, what we're really seeing as far as an acceleration of our plans, we were realizing synergies in fiscal 2017 more quickly than we otherwise anticipated that we could. I think it's a little premature to suggest that the overall run rate – the full expected run rate synergies that we expect from the merger will be higher than the target we provided when we announced the deal last December. But I would say, obviously, the progress we're making gives us a tremendous amount of confidence that we have the right momentum towards achieving that target and potentially exceeding it over time.

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

Q

Okay, great. Thanks.

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

A

Thanks, Bryan.

Operator: Thank you. And our next question comes from Ashwin Shirvaikar of Citigroup. Your line is now open.

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

Q

Hey there, Cameron. Congratulations on the quarter.

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

A

Thanks, Ashwin.

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

Q

The impression I have is you have pretty good revenue performance coming out of multiple parts of your business. Is it just basically due or linked in the year, you kept revenue outlook the same, or is it primarily the FX [indiscernible] (18:07) in the underlying business? Any color with regards to how comfortable you are with the upper versus lower part of the range?

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

A

Yeah, Ashwin. It's Cameron. I'll jump in and I'll just note we had a little trouble hearing you. I think you're asking about the revenue guide and why the revenue guide, perhaps, wasn't increased in the quarter. I think inherently you can think of it as an increase because we are now forecasting more FX headwind than we were when we guided in July so I think you can essentially look at it as an implicit increase. We're absorbing more FX headwind on the top line, yet maintaining that overall revenue guidance at $3.2 billion to $3.3 billion.

We did obviously increase our expectation around margin expansion for the full year as well, which is driving, obviously, the increase in earnings per share guidance [indiscernible] (18:56) as well. So I think we do see obviously revenue tracking ahead of what we would have anticipated, but we're also currently forecasting more FX headwind than we were back in July is the short answer.

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

Q

Got it. And then with regards to OpenEdge, at what point might you expect to see some benefit to the Canada growth rate? You're rolling out OpenEdge in Canada. Are you beginning to see some benefits in terms of market share and so on?

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

A

Yeah. Ashwin, it's David. This one is a great question. We are beginning to see real progress – intangible progress in Canada. We've got the full rollout now of integrated solutions there. We actually have signed new partners. We're building the pipeline. So what I would say to you is we really feel good about the seeds we're planting in Canada to accelerate revenue growth in Canada. We expect to see the benefit of that really this year, and certainly in calendar 2017 begin to see some of those trends stand upward in our favor.

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

Q

Got it. Thank you, guys.

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

A

Thank you.

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

A

Thanks, Ashwin.

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

George Mihalos
Analyst, Cowen & Co. LLC

Q

Great. Thanks for taking my question, guys. I want to start off sort of piggybacking a little bit on Ashwin's question. You started the year with a revenue growth rate of 52%, sort of the upper end of the 47% to 52% that you guided to. And then I would think the comparisons, as we go to 2Q and 3Q, get a little bit easier year-over-year than what you had in the first quarter. Is there any reason why, at least over the next two quarters, the revenue growth rate shouldn't increase from the 52%?

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

A

George, it's Cameron. Good morning. I think your thesis is right. I would remind you that when we get to Q4, we obviously are going to annualize Heartland for part of Q4, so naturally, the growth rate in Q4 is not going to be at that 47% to 52% range. But I think it's fair to say as you look at Q2 and Q3, you need to factor in currency, so I'll remind you of that but the comps are a little easier relative to Q1. But I think your overall thesis is correct as it relates to slight acceleration of revenue growth in those two quarters relative to what we saw in Q1.

George Mihalos
Analyst, Cowen & Co. LLC

Q

Okay, great. And just a point of clarification, Cameron, I think you would say that at least on a pro forma basis, the direct North America business or direct U.S. business was up high-singles again, which is what you got it to for the year. Did you break that out for what the legacy GPN business was before Heartland? And maybe you could size the Heartland contribution in revenue for us for the quarter. Thank you.

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

A

Yeah. Sure, George. First of all, you're correct. We did note that the U.S. direct businesses grew high-single digits this quarter in line with our expectations, including Heartland, of course, on a normalized basis. Breaking out the component, I would say, is a little more difficult, not really feasible by virtue of the fact that we are combining these businesses. And as more time progresses, the more difficult it's going to be to look at the business in the U.S. in particular, and say what was legacy Heartland and what was legacy Global Payments.

As we talked about on the call, we've already combined our direct sales forces in the U.S. market, so where do I attribute that growth that's being driven by the combination of our direct sales forces, we combined our traditional direct book with Heartland's direct book. So it's a little difficult to say specifically what Heartland drove in the quarter versus what Global Payments drove.

We did, however, achieve the overall expectation we had for the business, which is growing our U.S. direct sales channels in that high-single digit range, which we were obviously very pleased with, while also continuing to make progress on and progressing some of the revenue enhancements and revenue synergies we expect to achieve over time.

George Mihalos
Analyst, Cowen & Co. LLC

Q

Okay, great. Thanks for the color, guys.

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

A

Thanks, George.

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

A

Thanks, George.

Operator: Thank you. And our next question comes from Jim Schneider of Goldman Sachs. Your line is now open.

Jim Schneider
Analyst, Goldman Sachs

Q

Good morning. Thanks for taking my question. Maybe following up on some of the metrics you gave regarding Heartland. Can you be – I understand it's hard to break out from the organic Global business, but can you maybe give us some color around how the Heartland working base growth was in the last three quarters, and how that's kind of tracked in terms of growth rate just on a directional basis, versus what they were reporting at the end of last year?

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

A

Hey, Jim, it's Jeff. I'll give some overall color, and I think Cameron and David can provide some additional details. So as we said in our prepared commentary, Heartland has one of its best sales months ever in August in terms of sales momentum. And that's a continuation of the trend that I think we've talked about in our July call as we talked about our outlook for fiscal 2017. So I'd say sitting here, since we announced the deal in December of 2015 and closed in April of 2016, the opportunities we've had to talk with you guys – some of you guys twice about it, Heartland has only accelerated that growth as it relates to new sales over that period.

I'd also say in terms of the health of the merchant base at Heartland that their attrition is running low relative to their own expectations and our expectations going into the deal as well. So as Cameron mentioned in his remarks, our ability to accelerate their growth, minimize any merchant or sales rep disruption, while taking the expense actions that we've taken in an inclined basis is something that we're particularly pleased about by way of background.

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

A

The only thing I would add, Jim, it's Cameron, is if you look at Heartland's other business outside of the pure payments business, you will get Campus Solutions, School Solutions, Heartland Commerce, each of those continue to perform very well also. We see good momentum in those businesses. We like those businesses, a great deal. The vertical-specific approach that they have through those channels aligns well with our integrated strategy, we believe, and we remain very excited about the performance of those business.

And lastly, payroll also performed very well in the quarter. We continue to see good momentum utilizing the Heartland sales force to be able to cross-sell payroll solutions across the customer base and into new customers going forward. So I think we're very pleased overall with how Heartland performed in the quarter relative to our expectations.

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

A

And maybe I'll – this is David. I'll have a few more pieces to what's already been a thorough answer. When we think about running the business, we're running one business in the United States right now. So the answer Cameron gave earlier is exactly right to where we're managing the business. We have one U.S. sales force for general payments, and it's off to a fantastic start. Post the acquisition, as Cameron correctly said, payroll is accelerating. The payments are accelerating. The additional products are accelerating.

But the other products, the other business units are having record sales as well, whether it's Campus Solutions, School Solutions where we just had the fastest growing back-to-school season in Heartland history. All of those things are operating well and executing well despite as you might imagine what can be a tumultuous time around synergy integration overall. The businesses are focused. The leadership's focused. We're really feeling very good about the momentum we have right now.

Jim Schneider
Analyst, Goldman Sachs

Q

That's helpful. And then maybe as a follow-on on your comment there, David. If you look at the overall ability to drive sales in the U.S. through increased investment and sales and marketing and you weigh that against the cost synergies you're obviously getting out of plan with Heartland, how do you think about weighing those two things? If you think you can put dollar of extra investment into the sales force and marketing activity to grow the U.S. business faster, how do you offset that against – would you basically think that you could take any additional excess synergies from the Heartland deal and re-pile those back into those activities?

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

A

Yeah. It's a great question, one we talk about all the time here. The sort of a balance of sales productivity, product investment synergies. We're really fortunate in a couple of ways. One is Heartland fits beautifully into our overall strategy of running an operating company, right? Creating leverage, getting on common platforms and taking that capital, that result in benefit and pouring it into product and distribution. That's exactly the calculus we're really running every day when we think about where to go from here.

So I'll give you a couple of examples. While the teams are working hard on how we combine platforms and how we put call centers together and what we do to better serve customers more efficiently, our sales teams and our marketing teams are working on actually driving the top line growth. You can do both at once.

For example, we boarded the first Heartland merchant to a Global Payments platform. That took a fair amount of technology investment. That can put us well ahead of having new platform migrations. It makes the platform migration not an emergency as we get to that over the next year or so, but allows our Heartland sales force to be that much more productive. They can now sell the entire sphere of products that Global Payments and Heartland have together, and the products perfectly overlap. There's a VAR integration that Heartland doesn't have. Heartland couldn't sell off CyberSource gateway integration, for example. Heartland did not have a cash advance product like Global Payments has. All these things can now be sold by that 1,500-person sales force.

We can now sell in Canada and Puerto Rico out of that by enabling the platform, by having our teams work on that while separate teams are working on expense synergies and driving more and more efficiencies out of the infrastructure. So we're spending an awful lot of time on these parallel tracks, finding a lot of seats, sitting a lot of singles on the way to – what we expect was just really going to be accelerating growth well above what we think it can be over the next couple of years with these enhanced sales capabilities.

Beyond even that, we're making little investments like accelerating sales hard. Sales reps are up a little bit over where they were when we closed the deal. That's conscious. We're filling in white spaces that weren't covered. That's the choice we made at Global Payments with the Heartland sales leadership team, an opportunity to invest a little early in what can become nice calendar 2017 sales in areas really underserved by our combined sales forces to-date.

We're sharing leads, as Jeff said in his prepared comments, with Hong Kong, UK, Canada, that doesn't take anything away from our ability to perform our synergy work and get to our expense synergies at all. In fact, it's just a wonderful volume to put at the top of this very efficient engine we run. In fact, we've automated the sales lead sharing process with Canada. And as you might imagine, that's a likely place for a lot of volume to come over time.

So we really feel good about the way we're putting selective targeted investment back into the sales model while being able, in parallel, to keep driving our synergies and not in any way degrade customer service. So the pieces are working well together right now.

Jim Schneider
Analyst, Goldman Sachs

Q

Thank you.

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

A

Thanks, Jim.

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

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

Q

Hi. Thanks for taking my questions. I was wondering around the revenue synergies that you've previously talked about where you can get additional 1 percentage point to 2 percentage points over time. Where are we with that? All the initiatives that you have in place, is that what the ultimate goal is or can it do better than that 1 percentage point to 2 percentage points? Thanks.

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

A

Hey, Steven, it's Cameron. I'll maybe jump in there. I think David gave a very fulsome answer as it relates to qualitatively what we've been doing to drive revenue enhancements across our U.S. businesses. The thing that I would add is, sitting here today, it's important to note that the revenue enhancements we've achieved thus far, they're helpful on the margin, but they're not as significant enough to really move the needle as of yet.

David talked about continuing to invest in these opportunities such that over time, we expect to be able to realize the 1% to 2% incremental revenue growth target that we provided when we announced the deal generated from revenue enhancements, so $30 million to $60 million or so. It's going to take some time to scale these. As you talk about combining distribution platforms, combining technology environments to efficiently create opportunities to cross-sell products and enhance the revenue growth of the combined business, it's going to take time to scale that to a point where you're seeing a more meaningful impact from the revenue enhancements actually on our performance. But we expect, over the next couple of years, to get to that point and we do continue to believe that the overall revenue synergy target that we provided, again, is a realizable target and we think we have great momentum early towards achieving that ultimate goal.

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

A

And maybe I'll add a little more color. I think that's exactly the summary that drives our strategy and integration when we think, Steven, about how to go after the synergies. Certainly, my expectation as you get out for the timeframe that Cameron's talking about we'll be at the high end of those, and we're certainly shooting to beat that rate.

In addition to the direct sales synergies, the real strategy when we think about Heartland combined with Global Payments is going all the way across all of the Heartland and Global assets, figuring out how to combine the best of both, and then globalize everything. So very much as Cameron said, we're very much in the mode of planting seeds, doing some spade work now that'll bear the fruit to 2017, 2018 and beyond, in addition to the direct sales synergies I described earlier, doing the same thing with Campus Solutions.

Our TouchNet software platform, the one that powers Campus Solutions is now integrated with Global Payments, our technology platforms in Canada. That means we can sell net new customers, we can go back into TouchNet's existing customer base and sell merchants on payments from Global Payments. We're beginning to build that pipeline. That same platform is now certified for Puerto Rico. We're ready to go in Puerto Rico as well. You can see again planting a few more seeds. The same with what's been historically called as Heartland Commerce, the point-of-sale cloud software solutions.

We just certified our retail point-of-sale solution for Canada, again, for payments in Canada. We have 40 dealers in Canada now with portfolios. We can look to migrate those to our payments. We can obviously sell net new. We're working with target market spend in Europe and Asia to continue expanding that.

Lots of really good exciting activity that at this moment is very much at the margins. Cameron quite directly said, deals here and there, it's pipeline-building, all with the focus on that 1% to 2%, and again being at the high end of that range or beating that range over time.

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

All right. Thanks for taking my questions and congrats on a good quarter.

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

Thanks, Steven.

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

Thanks, Steven.

Operator: Thank you. And our next question comes from Andrew Jeffrey of SunTrust. Your line is now open.

Andrew Jeffrey Q
Analyst, SunTrust Robinson Humphrey, Inc.

Hi. Thanks. Good morning, guys. I wonder, just expanding a little bit on some of the nice sales commentary and Heartland integration commentary. Cameron, you've talked about sort of through the cycle organic revenue growth rate, given everything you're seeing in Heartland, and also it sounds like continued momentum in OpenEdge. Is it reasonable to start thinking about North America perhaps being a structurally faster geography for Global?

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

I think it is. If you think about the cycle guidance that we provided historically, Andrew, the high single-digit rate of organic growth, that's obviously what we believe this business can produce over time. With North America now being 75% of the business, if it's not growing near that level, it's going to be very difficult for the overall company to grow at that level.

So I think it's fair to say that is our goal as we think about our North American business more broadly. That doesn't mean Canada is going to be anything different than what we expect it to be, which is a low single-digit grower in local currency, hopefully Canadian dollar headwind will abate here at some point. But we do believe, as we continue to obviously progress the combination of Heartland and Global Payments in the U.S., that North America should accelerate towards that level, allowing the overall company to achieve the high-single digit rate of organic net revenue growth that we expect to achieve over the cycle.

Andrew Jeffrey
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. And with regard to OpenEdge and Heartland Commerce, again, maybe qualitatively at least. Can you talk about how those two initiatives are working together versus maybe just coexisting given that they're going after some of the similar distribution partners that have had slightly different strategies, one being vertically integrated in Heartland Commerce and maybe more a little bit on the channel strategy for OpenEdge? How do those two things kind of coexist versus seeing potential synergies?

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

A

Yeah. Andrew, it's David. I'll take the first pass at this. They're actually coexisting beautifully right now. In fact, they're working directly together on our go-to-market strategies, particularly as we think about some of our large competitors in the integrated space that we can chase with these new assets.

I'd remind you that when we look at volume, we look at verticals. Less than 5% – it's really actually less than 3% overlap between OpenEdge and its verticals that it serves and what we get in Heartland Commerce. That's because Heartland Commerce is primarily restaurant and hospitality. There's very little restaurant and very little hospitality in the OpenEdge portfolio.

That allows us to think about a channel strategy for hospitality that really has us as the ISV working with dealers and working with direct sales, the sale that combine software and payment solution of the go-forward Global Payments. It allows OpenEdge to continue focusing on what it does best, which is managing that ecosystem between ISVs and end merchants working on the targeted marketing, the sales adding new partners while still working to actually add new merchants to existing partners.

I'd also say OpenEdge still is in the same position it was a year or after several years of mid-teens growth, really successful growth. We've got lots of opportunity inside the existing partner base. So we've got a nice little sort of wall, for a lack of a better metaphor right now, Andrew, between the markets serve really by Commerce and the Commerce asset, and the markets served by OpenEdge. As we bring more and more cloud technology to market, we can be more and more thoughtful and surgical with our channel strategies and again chase some of the big players in hospitality which we think is a real opportunity for sales growth over time as well.

Andrew Jeffrey
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Great. Thank you very much.

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

A

Thanks, Andrew.

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

A

Thanks, Andrew

Operator: Thank you. And our next question comes from Paul Condra of Credit Suisse. Your line is now open.

Paul Condra
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Great, thanks. Good morning, everybody. Just on the EPS guidance, I think Cameron you'd said for calendar 2017 you were thinking $3.75 to $4 that's FX neutral. Can you just give us a little update on that just in light of your guidance revision today?

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

A

Yeah. Good morning, Paul. It's Cameron. We're not updating that early preview that we gave for calendar 2017 back in July. The $3.75 to $4 on a constant currency basis relative to fiscal 2016 was really designed to help you guys and the market in general with the transition to a new calendar year, but we're not specifically updating that today. We are naturally updating our fiscal 2017 guide, as you correctly stated, raising that from $3.40 to $3.50 to our current $3.45 to $3.55.

So I think that obviously suggests very good momentum as we're going into calendar 2017. You can draw your own conclusion from that. I think the one, obviously, item that we continue to rappel with is FX headwind. And as I suggested on the call today, we believe even in that raised guide on adjusted earnings per share that we were going to be absorbing more FX headwind in those results.

So as we get to early calendar 2017, we'll provide a guide for calendar 2017 that obviously reflects our expectation for the business as well as what we think the, obviously, FX impacts will be for the calendar period.

Paul Condra
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Okay, thanks. And then on the OpenEdge business, I think you had talked about it today being kind of a mid-teens grower. And in the past, you've mentioned mid- to high-teens. So I just – can you clarify, is there any change in trajectory there? Anything you're seeing?

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

A

I would say no. There's no real change in trajectory. Depending on the quarter, it kind of bounces around between mid and high. As we think about the business, our expectation is that business continues to grow in the mid-teens level. We feel very good about the momentum and the trajectory to be able to do that. But from one quarter to the next, it may be high-teens, it may be mid-teens. But generally in that ballpark is what our expectation is for the business. So I would tell you for Q1, it performed exactly in line with our expectations and then accelerated relative to Q4, which I think are both very good points of emphasis.

Paul Condra
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Okay, great. Thanks, guys. Good quarter. I'll leave it there.

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

Thanks, Paul.

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

Thanks, Paul.

Operator: Thank you. And our next question comes from David Togut of Evercore ISI. Your line is now open.

David Mark Togut
Analyst, Evercore Group LLC
Q

Thank you. Good morning. I'm wondering if you could comment more broadly on the impact of interchange cap that went into effect in Europe on December 9 of last year. In particular, is there the potential for an increase in merchant acceptance of electronic payment as cost of payments have come down?

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

Yeah, David. It's Jeff. So as we said in our remarks this morning, our European businesses, and in particular, our UK business has performed exceptionally well during the quarter. So certainly, we think one of the important trends in the marketplace is a lower cost of acceptance as well as a good macroeconomic backdrop for those markets.

As I think we've said over time, reductions in cost to our merchants are really nothing but good news for our business, but those ultimately get competed away over a period of time. So I think it's good news as their bills go down. The market tends to be efficient over a period of time, so our benefit as time goes on and to get competed away, get the merchants continue to benefit with lower cost of acceptance than they had had previously.

It's hard to back that out of the underlying economic growth in the markets that we're in, but if you look at our experience, for example, in Spain which early adopted the interchange reduction. Here we are now two years beyond the first adoption of the interchange reductions and our business has grown, as we've said in our prepared remarks, probably at 1.5 times to 2 times the rate of market growth for each of the last six quarters.

How much of that is attributable to the lower cost of acceptance? The fantastic partner we have in Caixa in the Spanish markets kind of hard to disaggregate. But I think there's no doubt, David, that around the world, the lower cost of acceptance for our customers is really nothing but a good thing.

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

I think too, David, this is David, I'd add in the more developing markets in Central and Eastern Europe, we're beginning to penetrate with our Erste joint venture. You'll find that cost and acceptance being enhancements certainly the organic and secular growth in those markets.

David Mark Togut
Analyst, Evercore Group LLC
Q

Thank you. And just as a quick follow-up. Jeff, I'm wondering what your thoughts are longer term about Europe. As the banks see pressure from the reduction in interchange, do you see opportunities perhaps over time to acquire some merchant portfolios in Europe as a result?

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

A

Yeah, David, absolutely. So as we've said in our remarks this morning, we're very pleased with the initial progress in our Erste joint venture which encompasses a number of countries in Continental Europe. I do believe that part of the rationale on behalf of Erste Bank for considering a joint venture was the change in competitive and technology dynamics in the markets in which they're in, in Continental Europe. So we certainly continue to pursue other venture partners in Europe.

I think that the number of technological and market-based changes that you're seeing going around Europe today do nothing but help our ability to create value for our partners. I think we've been able to show for a very long period of time in many markets how we've been able to create very good returns for our shareholders and our partners. And I think the changes in Europe provides another opportunity to do the same and we expect that our partners at Erste will be similarly happy. So, from that point of view, David, we continue to pursue those ventures and we hope to do more in the future.

David Mark Togut
Analyst, Evercore Group LLC

Q

Thanks very much. Congrats on the strong result.

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

A

Yeah. Thanks, David.

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

A

Thanks, David.

Operator: Thank you. And our next question comes from Bob Napoli, William Blair. Your line is now open.

Robert Paul Napoli
Analyst, William Blair & Co. LLC

Q

Thank you. Good morning. Jeff, you highlighted right up front and you talked about accelerating growth in all of your markets, and we've had very mixed retail data out of the U.S., Asia, I think, getting mixed reports on the economic trends there. What is – and you talked about some of your products, and I understand some of the acceleration. But do you feel this acceleration is driven? Do you think some of it is economic improvement? I mean, your acceleration in growth, it seems out of place with what generally seems to be reported out of retail sales and economic growth in the markets you serve?

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

A

Yeah, Bob. It's a great question. So what I would say is I really think it's a combination of attacking the right markets with the right people and the right model. So in most of the markets which we compete, United States is a good example, as David alluded to, we're very specific about the markets that we go after and how we do it. So to David's response about, for example, in OpenEdge, in the integrated vertical markets, we're selling technology solutions into markets themselves, like dental, veterinary, et cetera, that are higher growth and the overall rate of GDP growth in the U.S. economy, plus the adoption of electronic commerce. And we're doing it with better technology, better people, better services, and ultimately, therefore better markets.

So I think, Bob, it's perhaps a reflection of the way we go about the markets that we go about, how we attack them and our point of value differentiation relative to our peers that really is driving the incremental rate of growth. I'd also say that there's an element of very good sales focus and execution. If you look at our results in Asia, for example, we've yet to really lap some of the macroeconomic headwinds that you saw starting in the second quarter of our fiscal last year in Asia, yet business as usual. Asian markets for us accelerated their growth, as Cameron and I each noted. In Canada, I just think there's very good sales execution in markets like Singapore and Malaysia and the Philippines with and without our partners at BPI.

So the conscious investments we've made, Bob, as a company into markets that are large, diverse and growing with higher rates of vertical market growth and the average of better margin opportunities are really paying dividend. That's what I think you're seeing in our results.

Conversely, we're really not in the large merchant category. For example, in the United States as some of our peers are. And I think a lot of the data, Bob, that you're referring to reflects the larger retailer, for example, market, which in general is not a market we're particularly focused at either at legacy Global or at Heartland.

Robert Paul Napoli
Analyst, William Blair & Co. LLC

Q

Great. Thank you. And my follow-up question is, I mean, Global and the industry as a whole, a few or some of your competitors have had a great run since 2013 in particular. What are you most worried about as far as disrupting the strong trends that you've had? How sustainable are the trends that we've seen? Or what are you most worried about that could derail the very strong trends we've seen? Is it competition, is it regulation?

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

A

Yeah, Bob, it's Jeff. So I'll start and ask David and Cameron to join in as well. But I think, and we touched a lot on this in the last question that you asked, I think what you're seeing is a result of a period of investment that we've made in our business over a period of time that's really bearing fruit. I think David very nicely described the investments we've made in sales, into Heartland and in legacy Global Payments that are really resulting in dividends, not just United States but around the world. The investments we made in our technology environment for fiscal 2012 and fiscal 2013 are really bearing fruit.

So from that point of view, I think we're differentiated a bit in terms of where we place chips on the table. In terms of what we're worried about, I think it all stars with for us and our peers in the industry what does macroeconomic environment look like. Most of us are GDP-plus derivative-type business, and therefore, it's important that we operate in healthy economic environments.

For example, we talked about much of fiscal 2016 in Asia where, for a number of quarters, the latter three quarters of fiscal 2016, we had a headwind in Greater China. I think we've been able to show throughout fiscal 2016 and our results now in 2017 and our guidance show that we're able to take whatever actions we need to take quickly to preserve margin and reposition our business quickly. But there's no doubt at the end of the day that a healthy economy is an important driver globally of our results.

So, I think, it's important in terms of what we worry about, about a healthy economic environment for us globally as we continue to grow those businesses. We also need to make the right decisions around technology investments, which is where I started. Many things that we invested now, we will see returns in 12 months, 18 months, 24 months from now. It's important to get those things right.

So in terms of what we worry about, we worry about are we playing the wrong chips in the wrong place on the table such that we've made investments that hasn't improved. Happily, that's not been the case. So we worry a lot if the strategy [ph] matter of ours (48:34), whether it's the right investment to make today for returns in the future.

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

A

I think that's right. I think, I'd add to that technology investment. Are we really helping our customers do what they need to do with their consumers? Are those investments the right investment as we go deeper into software? We believe they absolutely are referring to today, but we're thinking about those as the right way to think about servicing customers, allowing them to take care and delight their consumers at the point of interaction at the point of sale.

And obviously in our industry, you're always worried about security. We do believe that the combination of EMV encryption tokenization is great for overall health of the industry, overall consumer confidence. When you go back to the secular question that we're talking about earlier, I think Paul's question, maybe it was David's around adoption and things like that. Obviously, security is a big piece of that. I mean, that's steadily there. We're trying to find the right balance as well for returns. So we think about those couple of things in addition to what Jeff discussed.

Robert Paul Napoli
Analyst, William Blair & Co. LLC

Q

Thank you very much.

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

A

Yeah. I'll just wrap it up. It's Cameron with one final comment on the same topic. So a little bit different take, I do think we've had a great run over the last three years, of course, and that's been borne out by obviously how the share price has performed. But I think it's very – it's fair to say sitting here today we remain just as enthusiastic, if not, more so about the future over the next several years with this business. Obviously, the combination of Heartland is the transformational opportunity for us, but we think our ability to drive high rates of organic revenue growth in the business, expand margins, and compound double-digit mid-teens growth and earnings per share obviously creates a very nice trajectory for the business and gives us a lot of optimism about where we're heading as a company financially.

Robert Paul Napoli
Analyst, William Blair & Co. LLC

Q

Great. Thank you. Appreciate it.

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

A

Thanks, Bob.

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

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Thanks. Good morning. I wanted to maybe dovetail a little bit on that last comment you guys have just been making. When you look ahead and you look at the results you've had thus far, how much of this is a function in your opinion of your positioning in share gains in the market given those chips that you've been placing and you can pick U.S. or Europe or Asia for that matter? Relative to real market expansion, I mean, so it goes back to kind of like secular growth versus your share gains in either mature markets or emerging markets. I would just be interested to know how you guys think about parsing that data out for your growth.

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

A

Yeah, Dan. It's Jeff. So I'll start with that. So our bogey in most of the markets that we're in is where are Visa and Mastercard growing transactionally? So that's one way of getting at rate of market growth. But those are markets that we're in, not in every sub-vertical market that Visa and Mastercard are in, but where it's relevant for us what's the rate of transaction growth, number one. And number two, what is GDP growing in those markets plus 200 basis points to 300 basis points of increment reflecting the transition from paper to electronic means.

So if you just fill that, and there's obviously a lot of markets that we're in. We're in 30 countries physically today around the world. What you would see in general across all of our markets, the bogey is around 5% market rate of growth. Some are higher, some are lower, but in general it's around 5% rate of growth. If you look at our cycle guidance, which we talked about again this morning, we target high-single digit organic rate of revenue growth plus margin expansion, et cetera.

So the way we think about it, Dan, is if we're targeting high-single digits, if the rate of market growth is 5% and we talked about this last year and last October in our Investor Day, we certainly think that we're capturing share in the aggregate. Now some of that is because we're in better markets. Some of that is because we think we have a differentiated sales force. Some of that is because we think we have steady operating environment, et cetera.

But nonetheless, the math is the math, and I would say that in most of the markets around the world, we do think that we're capturing share. If you look at the United States, for example, in our OpenEdge business, which Cameron and David just described today, mid-teens growth is probably 3 times the rate of mid-single digit market rate growth, more broadly speaking transactionally in the United States.

Now we're not the only people growing at that rate at the end of the day, so I don't think it's just us. But certainly I think traditional channels that we refer to as more relationship-driven are not growing at mid-teens. So I only think it's fair to say that there's market share gain in a technology-enabled distribution area, whether it's Heartland Commerce or whether it's OpenEdge, relative to the more traditional, for example, financial institution channel where you see rates of growth that tends to be less than the market, call it, around low-single digit.

So I think it's been a conscious effort if you think about what the market is in each market that we're in, what the bogeys are, how we're going to invest and grow at rates that are north of the market. It's for a lot of reasons, but I think again, today, it comes down to smart investments that take share.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Yeah. Okay. And then in the Asian market in particular, low-double-digit organic growth, that's been fantastic. I think you said Ezidebit is growing 20%-plus. Can you just remind us how we should be thinking about that trajectory throughout the year? I mean, are we going to dovetail it off in the back half at some point or are there other dynamics that work that we can kind of stay on this trajectory which is – and it's been a market I guess that we've been waiting for this double-digit for a long time, and you guys are clearly putting it up now. So I'd just be interested to know that. Thanks.

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

A

Dan, it's Cameron. I'll jump in there. I think we feel very good about the momentum we have in Asia sitting here today. So I don't expect a lot different in the back three quarters of the year. I would say our overall target for Asia is kind of high-single to low-double. Obviously, we're able to get the low double this quarter. I don't know that I would expect that every single quarter, but certainly we think we're in a place and have started to lap, certainly as we get into Q2 and Q3, some of the macro headwinds in the Greater China markets that Jeff described earlier. I think we feel very good about the overall prospects to be able to achieve low-double digit growth in Asia overall for the year, including high-single to low-double organic growth.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

That's great. Thank you, guys.

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

A

Thanks, Dan.

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

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Great, thanks. Good quarter here. Just wanted to dig more into the strong Heartland sales in August and the quarter. Just maybe focusing more on core merchant sales. I know you said sales energy is good and there's lower attrition, but anything secular or cyclical to call out again in the quarter? As beneficial things like EMV transition, I know there's been a lot of bottlenecks there. Is that having an influence, for example?

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

A

Yeah, Tien-Tsin. It's David. There really isn't anything specific to call out. We've got terrific productivity. As I said earlier, reps are up a little bit, but it's really only at the margin. And the productivity coming with the additional reps is where we want it to be. So it's not just a volume thing or something along those lines in terms of just more reps to create more sales. The quality of sales is good. The retention is very good right now. I think that on a pure payment basis, EMV is not driving these sales, I realize that's a popular topic of conversation that has more to do with other participants in this industry overall rather than us directly as a payment technology provider.

So I think we're very happy with the pieces. I wouldn't tell you that the combination of being able to sell other products in addition to payments does make for better stronger sales and more sales. So selling payroll, selling some of the other products, selling our ACH-based product to our online customers obviously enhances the payment sales as well.

But really, I don't have a single thing at which to point engine that's different from where things were. I think the engine's working well, the leadership's in place and the machining and tooling that underlies managing this 1,500 person complex sales force is working well.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Okay. No, that's helpful to know. And just I know there's been a couple of questions on Asia, but just Ezidebit. Are you doing something different there in terms of distribution? I was just curious if the growth rate is sustainable even – could we see it accelerate here by itself, Ezidebit?

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

A

Yeah, Tien-Tsin. It's Jeff. We actually have been acceleration already in the last number of quarters at Ezidebit. We partnered with those guys a number of years ago. It's been just over two years now this month. We didn't model out high-20%s growth. That wasn't our expectation for organic revenue growth. It was right around 20%. As we said today, they have now exceeded it for a number of quarters.

So what I would tell you is we have a fantastic management team in place in Australia and New Zealand. They have essentially taken an integrated model, which is what Ezidebit is. Think of it as OpenEdge based in Australia and New Zealand, and certainly relative to one of the last questions are doing nothing but capturing share in that marketplace environment.

So if you were probably to go and look at the rate of organic transactional growth for Visa and Mastercard and their peers in Australia and New Zealand, they would not be anywhere near 20%. So clearly, Ezidebit has a very good model and a very good team, and they're doing all the right things.

We also did spend a lot of time talking about it because it's not organic, but their integration of eWay, which is something we announced in April, has also gone very well. And I think it shows the – which has 25% of the online market in Australia and New Zealand. I just think it shows the flexibility and capacity and our confidence level in our management team in Australia and New Zealand and Asia to accelerate growth, while they're busy growing their own business well into 20%s.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

All right. That's great. Thanks again, Jeff.

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

A

Thanks, Tien-Tsin.

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

A

Thanks, Tien-Tsin.

Operator: Thank you. And our final question comes from the line of Jason Kupferberg of Jefferies. Your line is now open.

Jason Alan Kupferberg
Analyst, Jefferies LLC

Q

Hey. Thanks, guys, for squeezing me in here at the end. Just a couple of quick ones. Is there any slight change in the tax rate guidance for the year? The only reason I ask is I know the EPS has gone up by $0.05, but revenues have changed. I think the margins are going up by 10 bps so I wasn't sure that that would quite get you to the $0.05 just with the slight margin change.

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

A

Yeah. Jason, it's Cameron. It's a good question. The margin change obviously helps, but as you all now, we're absorbing more FX in there as well. I think, overall, tax rate, I think the expectation remains pretty much the same as what we described back in July. We think it's going to approach 30%. It was 28.5%. So 28.5%, 29%, something in that ballpark, we're approaching kind of the high-20%s to 30% range remains our expectation for tax rate.

I would say the guide itself doesn't suggest a decrease in the effective tax rate, that's not what's driving the increase in the guide. It's really the Q1 performance coupled with our outlook for the remainder of the year. The increase in expense synergies that we're targeting now for fiscal 2017 relative to the Heartland transaction, obviously offset slightly by some incremental FX headwinds.

Jason Alan Kupferberg
Analyst, Jefferies LLC

Q

Can you quantify that the incremental FX headwind that we're talking – like a half a point here on the top line or is it closer to a full point?

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

A

Yeah. I think it could be close to a full point sitting here today. Unfortunately, the pound is off 2% to 3% relative to where it was in the last two weeks, quite frankly. We're now sitting here at around $1.27. It was $1.30. For most of September, it was one – obviously a little higher on average for Q1. So I think we remain cautious probably as it relates to the pound specifically, particularly in light of the size of that business relative to the overall size of Global Payments.

The unfortunate reality is a lot of other currencies tend to be trading in sympathy with the pound it appears as well. So we've seen weakness, albeit, maybe not as severe as we've seen in the pound. We've seen general weakness across the board in most of the major currencies to which we have exposure.

So I do think it could end up being almost an additional full point for the full year, particularly in light of my view and I think our view that when you get to December I think we expected that to raise. I think in a rising rate environment here in the U.S., it's going to continue to put pressure on foreign currencies relative to the U.S. dollar, which causes us again to bake in a little more FX headwind into our forecast for the remainder of the year.

Jason Alan Kupferberg
Analyst, Jefferies LLC

Q

Okay. That's all helpful. Thank you.

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

A

Thank you.

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

A

Thanks, Jason.

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

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

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