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Global Payments, Inc. (GPN)

Q4 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to Global Payments 2017 Fourth Quarter and Year-End Earnings Conference Call. At this time, all participants are in a listen-only mode. Later we will open the lines for questions and answers. [Operator Instructions]

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' fourth quarter and fiscal year 2017 conference call. Our call today is scheduled for one hour.

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

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

Joining me on the call are Jeff Sloan, CEO; David Mangum, President and COO; and Cameron Bready, Senior Executive Vice President and CFO. Now I'll turn the call over to Jeff.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Isabel, and thanks everyone for joining us this morning. We are pleased with our performance in the fourth quarter and our exceptional results for the year. 2017 was one of our best years ever as a company by nearly any measure. We sustained strong business momentum in the fourth quarter, delivering double-digit normalized organic revenue growth, 170 basis points of margin expansion, and adjusted earnings per share growth of 23%.

Each of these results exceeded our expectations, as well as the cycle guidance we set forth at our last Investor Day in October 2015. These results were again fueled by continued share gains across our technology-enabled businesses. Our integrated and vertical markets and ecom and omni solutions businesses maintained their track record of double-digit revenue growth, highlighting consistent, solid execution.

We also secured significant wins and achieved substantial milestones across these businesses in the quarter. We are delighted to announce that we have reached an agreement with Gather, a leading hospitality, event management SaaS business owned by Vista Equity Partners, to be its new payments technology partner. This is the second Vista portfolio company to select Global Payments as its partner in as many quarters. And we're also very pleased to report that our ecom and omni solutions business grew well into the double digits for the holiday season.

For calendar 2017, we delivered the fastest rates of organic revenue growth, margin expansion, and adjusted earnings per share growth in our history. These outstanding results demonstrate the underlying power of our differentiated business model, which we have continued to evolve further into software-driven, vertically fluent solutions globally. With the investments we have made to expand our capabilities in these areas over the past several years, we expect our technology-enabled channels to represent an increasingly larger proportion of our business going forward.

We are delighted to announce today an agreement with our long-standing partner, HSBC, to establish a new joint venture in Mexico. This joint venture will provide payment technology services to the fast-growing Mexican market, where HSBC has a leading presence and significant merchant base. As we have successfully done with our other partnerships around the world, we intend to leverage our best-in-class technology, products, and sales capabilities to drive accelerated growth. This transaction demonstrates our ongoing commitment to expanding our direct distribution into new faster growth payments markets globally, with attractive fundamentals further distinguishing us from our peers.

We also continue to make substantial strategic investments in our ongoing businesses to provide for future growth and invest in our people, while also giving back to our communities. Our capital investment plans reflect increased investment in our next generation worldwide omnichannel platform; the rollout of our U.S. direct sales model to

Canada, the United Kingdom, and selected markets in Asia-Pacific; further investment in cloud-based delivery models for our core products; and the accelerated rollout of software products like Xenial outside the United States.

We also recognize how fortunate we are to be in the position we are in. To that end, as a result of the newly-enacted tax reforms here in the United States, we plan to make incremental investments in our people, our technologies, and our communities this year. For example, we plan to accelerate our investments in extending our U.S. direct sales model around the world.

We also intend to invest in new career development programs and additional diversity and inclusion efforts for our people worldwide, and we plan to make incremental investments in artificial intelligence and data analytics, building on ACTIVE Network's successes in these areas.

Finally, we intend to double our charitable contributions to our local communities based on feedback from our employees to benefit those most in need. In the aggregate, these significant initiatives represent a low eight-figure amount of potential investment globally. We look forward to seeing everyone in two weeks at our next Investor Conference here in Atlanta.

We are very excited to share our vision for the company over the next three years, building on the substantial progress since our last event in 2015. In particular, we will discuss why we believe our model of technology enablement is unique within our industry, demonstrated by the sustained rate of revenue and earnings growth we have delivered since 2015 and expect to continue to produce in the future.

Before I turn it over to Cameron, I wanted to reiterate how delighted I am with the performance of our team worldwide that led us to delivering the best results on record in 2017. And we did this while making the necessary strategic investments in the business that will not only position us well in 2018, but will also allow us to accelerate growth for years to come. Cameron?

Cameron M. Bready

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

Thanks, Jeff, and good morning, everyone. 2017 was a fantastic year for Global Payments, with a number of significant accomplishments to highlight. First, we largely completed integrating Heartland, exceeded our original expense savings expectations, and built a solid foundation for future revenue synergies. We also again successfully refinanced our credit facilities to optimize our capital structure and reduce expense, while executing on the deleveraging plan we committed to in connection with the Heartland transaction.

And we continue to meaningfully invest in expanding our software-driven vertically fluent solutions globally, including the acquisition of the communities and sports divisions of ACTIVE Network in the third quarter. Importantly, we accomplished all of this while producing exceptionally strong financial performance throughout the year.

Total company net revenue for 2017 was \$3.52 billion, reflecting growth of 24% versus 2016. Normalized organic net revenue growth for the full-year was low double digits, a significant achievement for our business. Operating margin in 2017 expanded 120 basis points to 29.9% and adjusted earnings per share increased 26% to \$4.01 per share.

For the fourth quarter, total company net revenue was \$939 million, a 15% increase over the fourth quarter of 2016. Operating margin expanded 170 basis points to 30.3% and adjusted earnings per share grew 23% to

\$1.07. North America net revenue was \$688 million, reflecting growth of 14%. In the U.S., our direct distribution business delivered 9% normalized organic growth, led by our integrated and vertical markets business, while our wholesale business saw mid-single-digit declines.

Canada performed in line with expectations in local currency, with slightly favorable Canadian foreign currency trends adding modestly to results. Operating margin in North America expanded 90 basis points to 30%. Margin expansion was driven by strong net revenue performance across our U.S. direct channels, in particular our higher margin technology-enabled businesses, and the realization of expense synergies from Heartland. As expected, ACTIVE Network slightly diminished margin expansion in North America in the fourth quarter due to the seasonality of the business.

We again saw strong performance in Europe, with adjusted net revenues growing 17% in the fourth quarter, benefited by several hundred basis points of foreign currency tailwind. Spain again grew double digits in local currency, despite some disruption in the quarter from political unrest in the Catalonia region. We also saw double-digit growth in our Erste JV, as we are beginning to bring differentiated solutions to customers across our Central European markets. Our ecommerce and omni solutions business grew well into the double digits in the quarter as we continue to penetrate the pan-European market. Operating margin in Europe expanded 190 basis points to 47.9%.

Our Asia-Pacific business continued its strong performance this quarter, reporting net revenue growth of 11%. We saw solid trends across our key markets in Asia, including the Philippines, Singapore, Taiwan, and China. And Ezidebit and eWAY continued to surpass our expectations, once again contributing approximately 20% organic growth in the quarter. Operating margins in Asia expanded 410 basis points to 34.1%, primarily as a result of strong net revenue performance and the benefits of increased scale across the region.

Excluding integration costs, we generated free cash flow of approximately \$261 million this quarter, bringing our total for the year to \$777 million. 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 \$45 million for the quarter.

In terms of leverage, we ended 2017 with gross leverage of approximately 3.9 times, including the incremental debt added to fund the ACTIVE Network acquisition. Excluding this debt, our gross leverage would have been approximately 3.4 times at December 31, 2017, below the target we established when we announced the Heartland acquisition.

In addition, as a result of tax reform legislation passed in December, which I will address more fulsomely in a moment, we repatriated in excess of \$300 million of cash subsequent to year-end to further reduce debt. Consequently, as of today, our leverage is approximately 3.6 times.

As Jeff discussed, today we announced a definitive agreement to form a 50/50 joint venture with HSBC in Mexico. We are delighted to further build on our long history of partnership with HSBC, this time in Mexico, an attractive growth market with strong secular fundamentals. As a result of the structure for this venture, we will not consolidate its financial results for financial reporting purposes. We expect to finalize formation of the joint venture late in 2018, subject to the receipt of regulatory approvals and satisfaction of customary closing conditions.

Before turning to our outlook for 2018, I want to provide an update on two topical items, tax reform and the adoption of ASC 606, the new revenue accounting standard. Starting with tax reform, in Q4 2017, we recorded a net tax benefit of approximately \$158 million to reflect the impact of the U.S. Tax Cuts and Jobs Act of 2017

passed on December 22. This amount included a \$222 million benefit related to the revaluation of our net deferred tax liabilities based on the new U.S. statutory tax rate of 21%.

This benefit was partially offset by an incremental estimated provision of \$64 million associated with the mandatory transition tax imposed by the new tax law on our foreign earnings not previously subjected to U.S. tax. This transition tax will be paid over the next eight years on an interest-free basis and results from the conversion of the U.S. federal system to a territorial regime. The significant net benefit associated with the implementation of the new tax law was excluded from our adjusted earnings results for the fourth quarter.

In addition to these impacts in Q4, tax reform will also serve to lower our effective tax rate going forward as a result of the decrease in the U.S. statutory tax rate. The transition to a territorial tax regime in the U.S. should also allow us to manage our global cash resources more efficiently and repatriate foreign source earnings in the future without incurring additional U.S. taxes. As a reminder, Jeff noted earlier we do plan to reinvest a substantial portion of the benefit of lower statutory taxes in the U.S. back into the business in 2018, and our guidance for the year reflects that expectation. More to come on that in a moment.

In terms of the adoption of ASC 606 in 2018, there are three noteworthy impacts to our reporting to highlight. First, under ASC 606, we're required to report GAAP revenues net of fees paid to payment networks rather than gross, with these amounts being reflected as a cost of service, as they have been historically. Secondly, for our gaming business, revenues associated with our cash advance solutions are now required to be reported net of associated commissions paid to casinos. It is worth noting that neither of these changes have any impact on operating income, net income, or earnings per share.

Lastly, in addition to these changes in GAAP revenue presentation, under ASC 606, we expect to capitalize slightly more customer acquisition costs than we have historically and will amortize these costs over a longer period of time, which will have a modestly favorable impact on operating income in 2018.

For external reporting purposes going forward, we will naturally report GAAP results reflecting ASC 606, as noted above. For non-GAAP reporting, we will now report an adjusted net revenue plus network fees metric, which we believe better reflects how we manage our business and is largely consistent with our historical non-GAAP adjusted net revenue reporting convention, except with respect to the netting of gaming cash advance commissions. In addition, we'll report adjusted operating margin based on the adjusted net revenue plus network fees metric, which again is largely consistent with our historical reporting convention.

With that as a backdrop, I would ask you to reference the slide we have provided to bridge to our outlook for 2018. We're delighted to provide our outlook for the year, which reflects a step-up in expected growth for our business. We're also providing additional transparency with respect to our North American wholesale business. We expect adjusted net revenue plus network fees to range from \$3.88 billion to \$3.97 billion, reflecting growth of 12% to 15% over a comparable 2017 amount of \$3.45 billion. For the sake of clarity, the netting of casino commissions reduces 2017 reported amounts by approximately \$68 million and impacts 2018 by an estimated \$73 million.

Excluding our North American wholesale business, we expect adjusted net revenue plus network fees to grow 15% to 17% over 2017 results on a comparable basis. We expect adjusted operating margin, calculated based on our adjusted net revenue plus network fees metric, to expand by up to 110 basis points from our 2017 adjusted operating margin of 30.4% on a comparable basis. Adjusted operating margin expansion includes a net benefit of approximately 20 basis points, resulting from the implementation of ASC 606, net of the impact of reinvestment of tax reform benefits that Jeff highlighted earlier.

As a result of tax reform, we are forecasting our effective tax rate to be in a range of 22% to 23% for the year, down from approximately 26.5% in 2017. Due to the timing of enactment of this new legislation and the lack of specific U.S. Treasury guidance to-date, there remain a number of uncertainties with respect to the implementation of this new law. Our guidance reflects our best estimate of the impacts on our business, but we will continue to refine this over the coming months.

It is worth noting that, based on our outlook for 2018, we do not currently expect any limitation to our ability to deduct interest expense from the new tax law. Our total weighted average shares outstanding for the full year is expected to be approximately 160 million. Finally, we expect adjusted earnings per share to range from \$4.95 to \$5.15, reflecting growth of 23% to 28% over 2017.

With respect to the more detailed assumptions that underlie this outlook, we expect North America adjusted net revenue plus network fees to grow low-teens in 2018. This reflects normalized growth in our U.S. direct channels of high-single to low-double digits, partially offset by our wholesale business, which we expect to decline from approximately \$175 million in 2017 to a range of approximately \$140 million to \$145 million in 2018, due to certain wholesale customers converting from direct ISO relationships to indirect and expected attrition during the year.

We expect Canada to grow low-single digits in local currency. We expect North America adjusted operating margin to expand for the year, as we continue to grow our higher-margin technology-enabled business and realize the final remaining synergies associated with Heartland.

In Europe, we expect adjusted net revenue plus network fees on a local currency basis to grow high-single-digit. We expect favorable foreign currency tailwinds to impact reported growth by a few hundred basis points. Adjusted operating margin in Europe is expected to be flat to slightly up for the year.

Asia-Pacific is expected to deliver adjusted net revenue plus network fees growth in the low-double digits. Adjusted operating margin is expected to expand in 2018. But now that we have achieved margins in Asia approaching the mid-30% level, we are reinvesting more back into the business to sustain growth going forward. We anticipate that we'll invest \$210 million in capital expenditures in 2018.

For purposes of modeling, our outlook for the year assumes we'll utilize the majority of our forecasted free cash flow to pay down debt, which would result in leverage of well below 3 times at the end of the year, which is lower than our targeted leverage ratio. Consequently, we expect to have meaningful capacity to continue to pursue our capital allocation priorities during 2018, including additional acquisitions and partnerships to advance our strategy and capital returns to shareholders.

To that end, our board recently increased our share repurchase authorization to \$600 million from approximately \$250 million, providing us a great deal of flexibility to return capital to shareholders as appropriate. That said, our outlook for 2018 does not include any future share repurchases.

We could not be more pleased with our performance for 2017 and we remain excited about the momentum we have entering 2018. As our guidance for 2018 suggests, excluding our North American wholesale business, we expect to be able to deliver faster rates of top line organic growth going forward. In addition, as a result of the substantial progress we have made in evolving our business mix, we believe we can now sustain higher rates of adjusted earnings per share growth in the future as well.

Naturally, we will discuss our long-term outlook more extensively at our Investor Conference here in Atlanta on March 1. We look forward to seeing you all there. Jeff?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thank, Cameron. As we look forward to our Investor Conference next month, it is worth reflecting on just how much our business has evolved over the past several years. At our core, we no longer just deliver simple payments. We are a payments technology company that offers distinctive, defensible, and comprehensive vertical-specific software solutions that help merchants run their businesses more efficiently. And we seek to wrap value-added services around every transaction, further deepening our relationships with our customers. We offer these technologies around the globe in more markets than our peers in conjunction with a market-leading unified and compelling omni solution. And it is these solutions that underlie our ability to continue to accelerate growth over the next several years. The best is yet to come.

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 to accommodate everyone in the queue. Thank you. Operator, we will now go to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of George Mihalos with Cowen and Company.

George Mihalos

Analyst, Cowen and Company

Q

Great. Good morning, guys. Just wanted to ask, as it relates to the fourth quarter, the 9% growth in the U.S. direct, I think that decelerated just a touch from 3Q. Just wondering if there's anything to call out there that may have impacted that number.

Cameron M. Bready

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

A

Hey, George, it's Cameron. Good morning. I would say nothing specific that I would call out on that front. I think largely it's rounding on the margin. I think we kind of rounded up to 10% in Q3 and rounded down to 9% in Q4. We did have one less processing day in Q4 of 2017 versus Q4 of 2016, so that has a little bit of an impact on the result. But I'd remind you, we guide our business to kind of high-single-digit, 7%, 8%, 9%, we produce 9% for our direct business, overall North America, including the wholesale business, was 8%, so right in the range of our expectation, so we're pleased with that result. If you look forward then to the guide for 2018, I think you would clearly see that we're forecasting a step-up in acceleration of growth.

Our guide contemplates 12% to 15% growth on an apples-to-apples basis for 2018 versus 2017 and I would note that, that reflects normalized organic growth of about 9% to 11%. And for our – excluding the wholesale business, it reflects normalized organic growth of somewhere in the 10% to 13% range. So I think as we're heading into

2018, we have a lot of momentum in the business from organic growth standpoint. I think the Q4 results were solid and very much in line with our expectations, but we're, obviously, very excited about what we think we can produce in 2018 as well.

David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

A

George, this is David. Maybe a little more color a level below that. Sales rep productivity remains high, the momentum is terrific, leadership is executing well, ecommerce growth way into double digits in the U.S., so all the pieces as an execution matter are going well and setup for the acceleration that Cameron is describing.

George Mihalos

Analyst, Cowen and Company

Q

Okay. That's great color. Really appreciate that. And then just as a quick follow-up, I know you guys have been talking of sort of maintaining high single-digit organic growth in Europe. That's been the target for a while, that's in the guide for 2018. But should we be thinking that sort of first half growth in Europe will be stronger than back half, just given the comparisons, or maybe just any sort of cadence you can walk us through there?

Cameron M. Bready

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

A

Yeah, George, it's Cameron again. The way to think about it is we guide Europe on a local currency basis to high single-digit rates organic growth. Now, obviously, currency tailwinds are going to impact those results, as it did in Q4. I think you're right, as it relates to 2018, I think our current outlook would suggest that European growth on a reported basis would be better in the first half of the year, because we do expect more currency tailwinds. Obviously, given the volatility we've seen around currency rate, it's hard for me to predict with great precision what the back half of the year is going to look like. So I think your overall thesis is generally right, but overall, we manage that business to local currency growth and we are forecasting for 2018 high single-digit rates of local currency organic growth in Europe.

George Mihalos

Analyst, Cowen and Company

Q

Thanks, guys. Nice job.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, George.

Cameron M. Bready

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

A

Thanks, George.

Operator: Thank you. And our next question comes from the line of David Togut with Evercore ISI.

David Mark Togut

Analyst, Evercore ISI

Q

Thanks. Good morning and congrats on the strong results.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks.

Cameron M. Bready

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

A

Thanks, Dave.

David Mark Togut

Analyst, Evercore ISI

Q

You saw some very strong operating margin expansion in the December quarter, 190 basis points year-over-year. You've been largely in an investment mode in Europe as you kind of work on the Erste JV. How should we think about operating leverage going forward in Europe, especially given the strong organic growth profile that you have?

Cameron M. Bready

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

A

Yeah, Dave, it's Cameron. Let me just talk about the mathematics, and maybe I'll let Jeff comment a little bit just the investments we're making in Europe and how we think about our business. I'd remind you that business today, its margins are in the high 40% range. So when margins are at that level, I would say we're not really anticipating a great deal of margin expansion in Europe going forward. We like to be able to maintain stable to slightly up margins in Europe. That is our expectation for that segment.

A little bit of what you saw in Q4 was, obviously, lapping some of the investments that we made in the back half of 2016, as we worked to integrate Erste, as we talked about previously, so that integration is largely behind us. And, obviously, as a result of that, we produced strong margin expansion in Q4 really on the backs of strong net revenue growth in Europe and, again, just lapping those integration benefits in 2017. As it relates to the investments we're making, I'll let Jeff comment a little bit more about how we're thinking about that business.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, thanks, Dave, for the question. So I would say, as we addressed in our prepared comments, that we continue to rollout our technology-enabled businesses globally. I think Cameron in his remarks commented on the Erste joint venture, and the fact that that's now into double digits. And I think that's a good template for other businesses, including, when we close it, the HSBC new partnership, which, of course, will be in Mexico.

But I would say it's a few things. We continue to take our technology and bring it overseas; make investments, Dave, in terms of new products; additional salespeople into markets that we think are faster growth. Erste clearly in Continental Europe is a good template for that, so we hope will be Mexico when we look to close that deal later in 2018. So if you think about our integrated and vertical markets business that we've been bringing overseas, if you think about our ecom and omni business, which historically had its genesis overseas, those are really resident and accelerating in Europe.

The other thing we mentioned, Dave, on our phone call was we're going to accelerate our investment in additional direct sales, not just here in the United States but really around the world. We're very pleased with our existing

sales folks globally, but we think there's an ability to take our direct sales model which, as you know, in the case of some of our businesses is mostly or largely commission-based and to take that model into newer markets.

So as is called out in our commentary, in 2018 we'll make incremental investments by way of bringing some of those models to markets like the United Kingdom, which is one of the ones that we highlighted as part of our remarks. You put all that stuff together, Dave, we feel pretty good about our ability to continue to grow those markets at very attractive rates. And those are some of the investments we're making.

David Mark Togut

Analyst, Evercore ISI

Q

Thanks for that. Just as a quick follow-up, Jeff. I'd be curious for your thoughts about how the merchant acceptance footprint in Europe is expanding for electronic payments, especially post interchange caps, both Visa and Mastercard have called out some expansion recently, especially in Germany.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, Dave, I think you're exactly right, and I think you've been on this point for quite some time and really rightly so. I think the start of this was SEPA, as you just alluded to. As we've talked about before, PSD2 and now GDPR are really kind of upon us. As we've said, we think that PSD2 was really directed at financial institutions and really opening up via API the ability to get broader access into financial institutions' DDA accounts.

As you know, we are not a bank in Europe. The way we go-to market to our businesses like ecommerce and Realex in Ireland is largely through developers and APIs. So, Dave, I think if you've combined the cross-border incentives that you've seen by lowering of costs through SEPA with the openness that you've seen through PSD2, which is now here in 2018, that should be really nothing but good news for our business over the next number of years.

David Mark Togut

Analyst, Evercore ISI

Q

Understood. Thank you very much.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, Dave.

Operator: Thank you. Our next question comes from the line of Tien-Tsin Huang with JPMorgan Securities.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Great. Thank you. I'll add to the Europe question. Europe came in a little better than we had. So I'm curious, how healthy is the end market, especially in the UK? I don't think, Cameron, I heard any UK comments. I'm curious competitively, macro economy-wise, how the UK is performing.

Cameron M. Bready

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

A

Yeah, Tien-Tsin, it's Cameron. Good morning. I'll comment maybe on the results, and let Jeff talk a little bit about the environment as well. I would say the UK in Q4 performed very much in line with our expectations. It had been for the last couple quarters, I think, low-double-digit on a local currency basis, as we've talked about previously. That's not our expectation for growth in the UK. It was closer to high-single digits in this particular quarter, with, obviously, about 800 basis points of currency tailwind benefiting the overall Europe results, and that's largely driven by the pound and our performance in the UK. So, high-single-digit performance.

I would say, retail sales in Q4 in UK were fairly poor, overall, and certainly down, I think, relative to what we've seen over the course of the year. That's not an uncommon phenomenon in the UK, frankly, heading into the winter season after a strong tourism season this past summer, but I think we would view the overall market as fairly stable. I think we remain very pleased with how our business is performing there. We believe we continue to gain share in a market that's otherwise growing probably in the low-single-digit rate. We're growing at least high-single digits in that market, and that's our expectation going into 2018 as well.

So I think our franchise is well-positioned. To the comments Jeff made earlier, I think we're bringing new technology, more differentiated solutions to that market that are helping us to gain share, and I think we remain very well-poised to continue to grow that business at that targeted high-single-digit rates going into 2018 and beyond.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, Tien-Tsin, it's Jeff. I would say what we saw in the fourth quarter in the UK in terms of retail sales was very similar to what we saw in the fourth quarter of 2016. I think it's very similar to what Visa said about their experience with retail sales in the UK in the December time period. Nonetheless, we think we're growing at least 4 times the rate of market growth currently in the UK. I would chalk that up to a few things.

First, I think, like most of the rest of the world, we really targeted the SMB customer. So while we have a national business across all of United Kingdom, we make most of our money and certainly most of our revenue and our pre-tax from SMB. And, obviously, we're very selective by way of vertical market in terms of which SMB areas that we're in. I think you can see that reflected in the sustained market share gains that we're seeing around the world but, in particular, in light of your question, in the United Kingdom.

The second thing, as I mentioned in a few minutes ago in light of David Togut's comments, we continue to make investments in Europe, but for these purposes in the United Kingdom. So more sales, we talked about expanding our direct sales footprint in Europe, including in the United Kingdom. The UK was one of the early markets next to Canada that we brought our integrated and vertical markets from the U.S. into over the last number of years. And to be candid, Europe and in particular UK, is where our ecom and omni business also targeted at SMB and cross-border multinationals really is also domiciled in addition to Ireland and Spain.

So I think, Tien-Tsin, you're seeing a continued share gain in Europe and in the UK on our side, really driven by the way we go to market, the investments we made. And, of course, I've given away a little bit of the story in a couple weeks, but more to come in the Investor Day. But I think it's a continuation of the trend that you've seen over the last number of years.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Got it. No, that's great to see. Just as my quick follow-up, just on the U.S. direct, I know we all split hairs over high-single versus low-double-digit growth. But what is the swing factor that's maybe under your control to get you

to that low-double? Because I know you are running above market, so to get to low-double, what needs to happen under your control?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, Tien-Tsin, so I think we're on that trajectory already. I think, as Cameron mentioned, heading into 2018 in terms of our guidance and, obviously, we're now sitting here in February, our expectations for our U.S. direct business, as Cameron mentioned a minute ago, is high-single digits, low-double digits, which, to be honest, is probably the highest rate of guidance growth for that business that we've ever given since I've been at the company for the last eight years.

So to answer your – I think the macro extent of your question, I really think that we're already there. Now, why are we already there and why are we accelerating that rate of growth versus history? I think it's the investments we've made in our distribution, in our technology footprint over the last number of years, probably over the last five years we've invested \$7 billion by way of principally M&A, but also technology investments. And, of course, the U.S. at nearly three-quarters of the company is a primary – necessarily the primary beneficiary of those investments.

So you'll hear more in a couple weeks about the mixes and everything else, but as I said in our prepared remarks, we continue to expect our mix shift to favor our technology-enabled businesses as a bigger percentage of the company going forward. I think that's reflected in what is, certainly since we've been here, the fastest rate of organic revenue guidance in 2018 that we've ever given.

David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

A

And, Tien-Tsin, this is David. Maybe to add a little more color to that. I like your phrasing sort of splitting hairs over this. What we see in the business is really building momentum. We have a sales force. We will expect to add on the order of 200-plus net new sales folks this coming year, all increasingly selling technology-enabled, software-driven solutions. So we're not selling bricks on countertops. And again, I don't want to get too far ahead of two weeks from now, but we're selling solutions to customers that drives uniquely-low merchant attrition rates, drives higher growth, obviously, stickier solutions, all that's building to the kind of growth numbers that Cameron and Jeff are describing. The execution level is very high. So rather than split hairs over sequential this and sequential that, we're growing faster than anybody in the market, period, the end.

Tien-Tsin Huang

Analyst, JPMorgan Securities LLC

Q

Yeah. I appreciate the insight. See you guys on March 1.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, Tien-Tsin.

Cameron M. Bready

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

A

All right. Thanks.

Operator: Our next question comes from the line of Dan Perlin with RBC Capital Markets.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Thanks, guys. Good morning. I might have missed it, but can you just give us a number for the ACTIVE Network contribution? I know last quarter you gave it to us, I think it was \$14 million and 2 points. So just want to have that as a comparative reference.

Cameron M. Bready

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

A

Yeah. It was around the midpoint of the range that we had provided to you previously going into the quarter, Dan, which was \$40 million to \$45 million.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Q

Okay. And then for the sake of kind of helping us with this positive mix shift, are you – and maybe we're jumping ahead on the Analyst Day, but would you break down a little bit in terms of the contribution within North America the percentage mix? So you gave us wholesale, which is dropping 20%, and so I'm also interested to know kind of little more dynamics of what's driving that conversion from direct to indirect, but more specifically, just helping us so we can guide our models to do this positive mix shift. So I think we got one component of it with wholesale. I think we need the other two a little bit. Thanks.

Cameron M. Bready

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

A

Yeah. We've given you the wholesale number for North America. Canada, I think you have a pretty good sense as to what Canada contributes annually in terms of U.S. dollar revenue just north of \$300 million. The rest is our U.S. direct business. It's really not a lot more complicated than that. And if you think about the U.S. direct business, it's, obviously, a combination of our integrated and vertical markets business, which we target low-double-digit growth for that channel.

And if you think about the remainder, it's going to be more of our traditional direct sales force, but, to David's point, more and more selling technology-enabled, software-driven solutions as well. That business, we target high single to low-double, and that's our expectation kind of going into 2018. So you roll all that together, and you're going to get a North America business, ex-wholesale, that we think is poised to grow at the high – very high single-digit level or the low-double-digit level going into 2018, which again, is above the rate of expectation that we've had for that business historically.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

I'd also say, Dan, that on your question about the ISOs, I'd say it's a few things. First, for a number of years, as you've heard from us, you've had ISOs convert on us from ISO-related contracts in the way they sell our technologies into what we call indirect customers, where they really buy our technologies wholesale. So part of the assumption, the decline is just a continued mix shift among the ISOs that our existing customers at ISOs will just convert over to our existing customers as indirect, and that's been a continuation of the trend.

The second thing I'd say is, while I think we'll always have an element of the ISO business within Global Payments, what I'll say is that increasingly we are not signing new ISOs to the customer. When contracts come up with existing ISOs, we choose not to renew a number of those. So I would say, Dan, it's really a combination of

conversion from one type of customer to another, which impacts our revenue, and that's been happening for a period of time, combined with us focusing on the direct distribution that we've spent \$7 billion on investing in terms of where we're signing up new accounts.

Daniel Perlin

Analyst, RBC Capital Markets LLC

That's great. Thank you so much.

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Dan.

A

Cameron M. Bready

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

Thanks, Dan.

A

Operator: And our next question comes from the line of Glenn Greene with Oppenheimer.

Glenn Greene

Analyst, Oppenheimer & Co., Inc.

Thank you. Good morning. Just wanted to ask a question. In the press release, you talked about raising growth targets, given your business mix and more of your technology solutions and investments, and Cameron referenced it as well. Clearly you're going to talk about it more at the analyst event, but could you just give a little bit more color what you're thinking and why you're sort of confident in that? And what you sort of mean by raising growth targets?

Q

Cameron M. Bready

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

Sure, Glenn. It's Cameron. I'll kind of kick it off, and again, I think to your point, we're cautious about getting ahead of ourselves with respect to the March 1 Investor Day. We don't want to give you guys a reason not to attend; kidding. But I think as we tried to setup in the script and in some of the commentary today, and all of this I think is reflected in our guidance for 2018, given the success we've had in shifting our business mix over the last several years, continuing to drive more technology-enabled, software-driven solutions in our business, our ecom and omnichannel successes around the globe, and how, again, we're utilizing our sales force more and more to sell these differentiated product suites, as well as the fact that we continue to move away and our wholesale business continues to decline as a portion of the overall company.

A

We feel like we are in a position to be able to raise our expectations for organic growth on a top line basis for the company going forward. Historically, as you'll recall, that's been high-single-digit since the merger with Heartland back in 2015, so call that 7%, 8%, 9%. Clearly, that number is not going to 15%, but we certainly think it's going to go to a number above 7%, 8%, 9%, and we'll give little more color around that when we get to the Investor Conference in a couple weeks.

I would also note that we think about our business kind of ex our wholesale business. We're going to wind that down over a period of time. As Jeff highlighted, we don't sign new ISOs. We're not renewing ISOs typically as they come up for renewal, and obviously, we have a handful of ISOs which is becoming more and more of a trend

that are moving from direct relationships with us to indirect relationships with us. So that business is going to continue to shrink.

So we think about the business we're managing as really, it's ex that ISO wholesale channel in North America, and we think the investments we've made are going to position us to drive higher rates of organic growth above that 7%, 8%, 9% that we've been able to deliver historically. Even including the ISO business, as you flow that through then to earnings, we think we are in a position to drive sustained rates of adjusted earnings per share growth above what we've been targeting historically, which is mid-teens.

Again, I don't think we're trying to compound 25% earnings growth annually. We'd love to be in a position to do that, but certainly we think that we can deliver on a sustained basis adjusted earnings per share growth above that mid-teen level going forward, and we think that's a very attractive, obviously, opportunity for investors. Our ability to sustain and compound adjusted earnings per share growth, say, in that high teens level, I think is a very – it creates a very attractive opportunity for this business as we look to 2018 and beyond. So, to your point earlier, a lot more to come at the Investor Conference. We think our guide for 2018 directionally gives a good sense as to where we see this business going over the course of time, and we look forward to sharing a lot more detail in a couple weeks.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, Glenn, it's Jeff. I would just add on to that, I know there's a bunch of moving pieces with the ASC implementation and everything else. I think there's a very good schedule that Cameron's team posted on our website about apples-to-apples comparison. I think Cameron hit it head on. This is the fastest rate of organic revenue growth for 2018 that we've guided to collectively since this group has been here, by way of revenue and the like. That is not an accident and well-above the 7% to 9% and for those purposes, I'm actually including the ISOs within it, and well above the 7% to 9% number that we've talked back in the last cycle guide historically.

I think Cameron said in his prepared remarks, including the ISO business, it's like 9% to 11% on an organic basis, the rest being ACTIVE to get you to 12% to 14%. So I think you put that together, Glenn, you look at 9% to 11% revenue guide organically for 2018 on a model historically that we told you was 7% to 9% having just finished a year where it was low-double digits, as I said in the introductory my comments and the press release, it makes us feel pretty good about where we're heading.

Glenn Greene

Analyst, Oppenheimer & Co., Inc.

Q

That's very helpful. So my follow-up question maybe for Jeff would be the JV with HSBC. Just a little bit more color around that. What do they bring to the table? How much did you pay to buy into the JV? Any other help you could give us in terms of sizing it.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

So, Glenn, I'll start and ask David to comment a little bit more of the detail, the market in Mexico. So first, we're delighted to announce the entry of Mexico. For a long time, of course, we viewed ourselves by the name of Global as a global company, yet sitting here in the United States we were not in all of North America. So Mexico, going back to Paul's days, was always a target for us and we couldn't be more pleased to have HSBC as our long-term partner. I think they've been a partner of ours in various forms for half a century, which is how old our company is

through 2017. So, yet another partnership following on the heels with HSBC in the United Kingdom, in Asia Pacific, and now in Mexico.

The other thing I'll say is that, it's a true partnership, in that it's 50/50. We're both extremely excited about the growth opportunities of the market in Mexico, where they have a significant presence and as a result, we're really going to share the upside and opportunities as equal partners together. David, you want to go through some of the details?

David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

A

Yeah, happy to. I think it starts, Glenn, with what Jeff said, which is we're just thrilled to partner with HSBC around the world. This puts us something on the order of 15 markets around the world where we partner with HSBC. And as you know from our Asia and our UK results, it's been nothing but wildly successful for the last – I won't say the 50 years, because I haven't been around for all those, but at least the last kind of 11 or so that you can count from the original Asia deal the company did back in the day in 2006.

So we think that partnership, that marriage of Global Payments and HSBC in a market like Mexico, where you've got 125 million some-odd folks in the population, nominal GDP is – what – 12th or 15th in the world, something along those lines, high growth GDP, and a partner where we know how to work and partner together. This is a great partner that got sort of the fifth largest branch presence on the order of 1,000 branches in major economic areas, your Guadalajaras, your Monterreys, as well as Mexico City itself, lots of ATMs, lots of retail presence, really good business banking and small business franchise, which, as you know, is core to what we do around the world, so we love the presence, like the pieces of it.

Nice SME merchant presence already, which we can grow, so all those pieces are there. But what we plan to do then is go apply our U.S. direct sales methodology and our U.S. direct sales methods and techniques to the Mexican market. There's nice electronic payments growth; granted not a ton of credit card penetration, but nice debit card penetration. So pretty good model for what we like to do with HSBC, go chase small to medium business, go do it with our U.S. sales model and marry it to the partnership with HSBC, we're pretty excited about it.

Cameron M. Bready

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

A

And, Glenn, just to your last comment, our investment in the joint venture is going to be less than \$50 million, so it's a relatively nominal investment for us to have the opportunity, again, to partner with HSBC. To David's point, we've been very successful with them over the course of a very long period of time in a market that we think has very attractive secular fundamentals going forward. So we couldn't be more pleased to be entering that market in the way that we're doing it.

Glenn Greene

Analyst, Oppenheimer & Co., Inc.

Q

Great. Thanks, guys.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, Glenn.

Operator: Thank you. Our next question comes from the line of Ashwin Shirvaikar with Citi.

Ashwin Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Q

Thanks. Hey, Jeff. Hi, Cameron. Hi, David. Good morning.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Good morning.

Cameron M. Bready

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

A

Good morning, Ashwin.

Ashwin Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Q

Appreciate the forward commentary. You guys are, obviously, feeling very good, which is great to hear. At your last Investor Day you rooted your growth rate to the economic cycle, kind of calling upper single as the mid-cycle. What I'm hearing now is not so much a reference to the economic cycle and more about company-specific positioning. So is that a correct conclusion? Am I reading that right? And if so, one of the big things you've done, obviously, is the integrated and vertical. Can you kind of root the conclusion that you're reaching to the relative opportunity penetration into new markets and things like that, I mean, for integrated?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Ashwin, it's Jeff. I'll start with that. It's a very good question. I would say, to step back for a second, at the highest level you can think of, we still chase GDP. So I think, as David alluded to when he talked about the opportunity in Mexico, we certainly look at the demographics and the economic statistics of a market before we decide to go enter it, and I think Mexico there is no different.

That's at probably the highest level, healthy growing economies are very important not just to our business but to Visa, Mastercard, PayPal, go down the list, obviously, that's an important thing. I would say, though, you asked a very insightful question on how do we think about the vertical markets now that we've been chasing, and I think you're right in what you said.

I think at the end of the day, most of our vertical market investments, and now I'm thinking about dental and veterinary and some of the areas that have really been core for us at Global Payments, including school, K-12 and university, I would say, in general, those are somewhat decoupled from the macro environment, certainly relative to the last Investor Day in 2015.

So you think about an integrated and vertical markets business today, that you'll hear in a couple weeks, is about \$1.2 billion in size. And you think about a lot of that now being in markets that you would say are somewhat less sensitive, because they're schools, universities, dental and veterinarian, healthcare, podiatry, et cetera, that hopefully are less correlated to the overall rate of accelerating economic growth around the world.

Having said that, though, much like Visa and Mastercard, it is incredibly important that we be in a healthy economy. And I'll tell you that probably for the first time, Cameron, in the last few years, probably for the last 6 to

9 to 12 months, every market we're in globally has been growing. That wasn't true for a period of time in parts of China. That wasn't true in Brazil and Russia and some other markets, but that has been true.

And I think, undoubtedly, Ashwin, we've been a beneficiary of some of that. But I would say today the movement toward a software model, movement toward a SaaS model, the movement toward vertical markets that are largely card-present, the lack of exposure to big box and grocery and specialty apparel is very important in thinking about the sustainability of our business.

That's why if you go back to what Cameron said in light of Glenn's question about the cycle, that you'll hear more in a couple weeks, yes, it's the investments in our businesses and mix shift that does give us confidence in giving the best forward look for 2018 by way of revenue growth that we've ever given, while we're seven or eight years into an expansionary economy here in the United States, which is three-quarters of our business.

David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

A

And, Ashwin, this is David. I think what you're also hearing is increasing confidence given our execution at being able to globalize the solutions Jeff described. Integrated payments, with which you're familiar over the years, but increasingly the software solutions. Our revenue synergy track record alone this year, where we did deliver the over 50 basis points of growth that we talked about and we're on track for the over 100 basis points of growth for 2018, all fuels this.

Increasingly, we're selling the software solutions we own in markets around the world, great track record there. We already know about the globalizing of integrated payments increasing, that's more and more enriched solutions with analytics and other services on top, again uniquely globalizing those types of things.

Ashwin Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Q

Got it. Thank you for that. So we'll, I guess, look to hearing more about that in Investor Day. Quick follow-up is, back on that synergy comment that you had. Does that take into account any pricing impact? How are you thinking about pricing in the Heartland client mix?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Yeah, Ashwin, it really does not, the way we traditionally use pricing. So, just to be clear, we have not done – as we said we would not – have not done broad-based re-pricing of Heartland, which, by the way, is consistent, if you go back to 2015. What we've talked about – and I think David has mentioned this many times – what we've talked about is charging fairly for value that we're creating. So that means when we're introducing new analytics and new data products, of course, those should be really coming in at market.

That means when existing customer relationships reach the end of the maturity of their initial contractual terms, understanding where the market is at that point of time. And, to be clear, we have not done those things yet at Heartland, whether it's the fourth quarter of 2017 or since we've been partners since April of 2016. So there's really been none of that in the results that you've seen to-date.

On a go-forward basis, of course, we certainly intend to manage it, as we've said all along, much closer to where we think the market will be going forward and the type of things that we would do is what I just suggested around contracts that come up for maturity, moving them closer to market. That has not, in fact, occurred to-date.

Ashwin Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Thanks.

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Ashwin.

A

Cameron M. Bready

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

Thanks, Ashwin.

A

Operator: Our next question comes from the line of Dave Koning with Baird.

David J. Koning

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

Yeah, hey, guys. Nice job.

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Dave.

A

Cameron M. Bready

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

Thanks, Dave.

A

David J. Koning

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

Yeah. So I have, I guess, just two numbers questions. The first one being, if we exclude tax reform, it seems like that's maybe a 5% to 6% EPS benefit, so core EPS 18% to 22%, in that ballpark. Is that kind of what you're thinking?

Q

Cameron M. Bready

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

I think you're pretty close there, Dave. I would put it right around 20% at the midpoint.

A

David J. Koning

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

Okay. So nicely above cycle guidance.

Q

Cameron M. Bready

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

That's right.

A

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

I would say nicely above current cycle guidance, Dave, yeah.

David J. Koning

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

Q

Got you. Okay, great. And, I guess, secondly, your free cash flow conversion, in a group of great free cash flow across FinTech, yours is like way above anybody else's, 125% of adjusted net income. Is that sustainable? Maybe not to that level, but above earnings, is that sustainable?

Cameron M. Bready

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

A

Yeah, I think it is. We feel very good about our ability to convert, obviously, EBITDA into free cash flow in the business, and I think 2017 is evidence of that. I think as we look at 2018 and beyond, I think we remain very confident in our ability to continue to convert at a fairly high pace. As our CapEx guidance suggests for 2018, we are reinvesting a fair amount back into the business. Our guide is \$210 million off of, I think, an actual of around \$185 million for 2017. So we continue to invest in the business, and I think that's a very important thing to highlight.

We're not producing these results by virtue of starving the business. We're investing in technology. We're investing in solutions. We're globalizing these solutions. We're globalizing unique distribution capabilities. We're doing all this at a time when we're still producing exceptionally strong financial results, investing in the business for future growth, and I think that's a big part of what underlies our confidence and the ability to grow the business at the level that we're forecasting going into 2018 and beyond.

If you take our 2018 guide, even at the midpoint, and you overlay that a little bit of the commentary you've heard today around cycle guidance for adjusted earnings per share growth going forward, it's not hard to see something close to or at maybe \$6 in 2019. As a reminder, we did \$3.19 for 2016, so almost 90% growth over a three-year period. That's pretty attractive compounded earnings growth for a business of this nature. I don't know anybody else with a similar characteristic business putting up that type of growth.

David J. Koning

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

Q

Yeah, it's all good. Congrats. Thanks for the time.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, Dave.

Cameron M. Bready

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

A

Thanks, Dave.

Operator: Thank you. And our last question for today comes from the line of Andrew Jeffrey with SunTrust.

Andrew Jeffrey

Analyst, SunTrust Robinson Humphrey, Inc.

Hey. Good morning, guys. Appreciate you squeezing me in here.

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Good morning.

A

Andrew Jeffrey

Analyst, SunTrust Robinson Humphrey, Inc.

Jeff, I'm pretty encouraged to see the kind of growth you're putting up, especially in Europe. I'm wondering if you could contrast where Europe is in terms of its evolution around ISV and omni compared to the U.S. In other words, to the extent the U.S. may be a little more mature than it's been, it's just ISVs have been around for a while longer. How is Europe – how does that compare and how much longer might the runway of this kind of really impressive growth last as you look out over the next few years?

Q

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Great question, Andrew. So what I would say is, I typically think of Europe as really just being in the first inning of ISV/VAR penetration. The size of those economies, the maturity of technology in Europe, as well as in Asia for that matter, really puts it at very beginning of the game. The way I used to think about it, Andrew, is if Global Payments were a public company on the FTSE, we'd probably be one of the two or three largest technology companies listed in the United Kingdom. I think we're doing great here, but we're somewhere in the S&P 500 and it's probably not a top 100, and that gives you a sense of size by way of market value as to how those two markets compare.

A

So I would say we're in the first inning. I think we've been in ISV/VAR land in Europe. I think we've been successful in taking our integrated and vertical markets businesses from the United States. We're a net exporter of those businesses into Canada, and then into the UK and into Europe. The ecom/omni businesses have already been domiciled there, historically, because of the common purchasing area that you see in the EU, even though they're different countries pre and post SEPA, but we're very early on there.

By way of comparison, I'd say the U.S. maybe we're in the fifth inning of ISV/VAR land, and I'd also say that our ability to continue generate growth in the United States, I said this in my prepared remarks, but another double-digit organic revenue performance in integrated and vertical markets, the vast majority of which is here in the United States in the fourth quarter, and as Cameron said for our guide, obviously, we expect that to continue to try to guide to that low to mid-teens organic numbers for 2018 when the U.S. is three-quarters of the company. Of course, that's where it's coming from.

But I would say here in the United States, what's a little different, Andrew, to your question is the own software model. So I think where we've been distinctive, and we'll talk about this on March 1, is we've made great market share gains, call it 2x the rate plus of market growth in that partner model, but now we own the whole vertical stack of opportunity in the United States and we'll look to export that, Andrew, not just to Europe, but also to Asia.

In fact, I think, as Dave just mentioned, bringing our campus solutions TouchNet into the United Kingdom, where we have a very large share of universities already, is something we've done. Bringing our Xenial restaurant hospitality business in the cloud from the United States into Europe is something that we've been doing and have

done. So I think we have the ability, by way of some of the owned assets, to really catalyze, Andrew, a bit of the growth in Europe. But I think there's no denying that we're probably in the first inning in Europe with where that technology stuff is, yet we're still growing at 4x the rate of market growth today.

Andrew Jeffrey

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. That's a great detailed answer. And just as a quick follow-up, can you comment a little bit on the cadence perhaps of Vista wins? One a quarter is how we should expect going forward?

Cameron M. Bready

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

A

Yeah, Andrew, it's Cameron. Good morning. I don't know that I would put a particular sort of targeted cadence around those opportunities. I think, as we indicated when we announced that arrangement back in our second quarter earnings call, we feel very good about the portfolio of companies that they have. We feel, obviously, encouraged about our ability to continue to provide differentiated technology-enabled payment solutions to those businesses, and we think we have a nice pipeline building with them. But again, we feel as if we have to earn every one of those opportunities.

Every arrangement is a unique arrangement with one of their portfolio companies. I think we have the right cadence around how we're approaching those conversations, but I don't want to put a particular target as to how we're going to continue to build on the successes we've seen over the last couple of quarters. Obviously, it'd be nice to do at least one a quarter, but our focus is really on making sure we can demonstrate a value proposition to those companies that works for them and making sure we're doing it on economic terms that work for us, and I think we'll continue to have a lot of success with that.

Andrew Jeffrey

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Sure. Thanks a lot.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

A

Thanks, Andrew.

Cameron M. Bready

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

A

Thanks, Andrew.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

So on behalf of Global Payments, thank you very much for your interest in joining our call this morning, and we look forward to seeing everyone in Atlanta at our next Investor Day on March 1.

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

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