Corrected Transcript

30-Nov-2016

Global Payments, Inc. (GPN)

Credit Suisse Technology, Media, and Telecom Conference

CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

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

MANAGEMENT DISCUSSION SECTION

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

Okay. Great. Thanks, everybody. My name is Paul Condra, I cover fintech, payments at Credit Suisse. I'm very pleased to have Jeff Sloan, who is the CEO of Global Payments, here with us.

Jeff, you joined GPN in 2010, CEO in 2013. And I was just kind of looking at the stock price, I think it's gone from $30 to $70 in that timeframe. And it's really been a story of organic growth, steady reliable secular trends, and I think smart acquisitions. And the latest big one, Heartland Payments, is completed in April, $4 billion.

QUESTION AND ANSWER SECTION

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

Q

And so, I think, in this setting, maybe there are some people that aren't quite as deep in the weeds on Global Payments and what you do. So, I thought maybe if you could kind of frame up GPN for us and talk a little bit about what's the opportunity now, why should investors be looking at your stock now?

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

A

Sure. Well, first off all, Paul, thank you very much for having us. We're pleased to be here in Phoenix with Credit Suisse. We appreciate the support. I think the best way to think about our business is that we provide worldwide technology solutions for payments in any form. And I think in short, that's really what we do.

So, we enable our customers, merchants, enterprise customers to sell in any form they'd like to sell, whether it's online or offline. I think where we're different is we're physically present in 30 countries today. We properly provide services cross border in about 80. There's very few companies in our industry, we might be one of two or three that actually have the breadth of the scope of services that we do. And I think that we probably have also the broadest suite of technology solutions within those countries that I just described, and that's how I think that – how we're different.

I would tell you, as we think about how the business goes to market today, our business really breaks down into two pieces, technology and distribution or sales. Over the last number of years, we've probably invested, Paul, over $100 million of capital in developing state-of-the-art related data environments and technology solutions. And as you've rightly said, we've invested a lot of money most recently in Heartland in the form of very good sales execution and very good distribution.

So, we're really selling a technology suite of services. Today, at Global Payments, post Heartland, about 30% of our revenue today is coming from technology-enabled sales. And by that, I mean, our core sale is either a technology solution or a technology referral; it's not coming from a traditional relationship led like a bank or an ISO distribution partner. That's 30% of our revenue is driving the vast majority of our growth, it's coming from those channels.

So, if you look at our rates of growth in the most recent quarter, in our guidance for this fiscal year, ended May, over the last several years in our cycle guidance, we generally have been targeting a 7% or 8% or 9%, and most recently, we posted 8.5% organic constant currency revenue growth.

Most of our markets – the target rate of growth for most of our markets is mid-single digits, call it 5%. So, to answer your question, most of our investments have gone into those businesses and markets that we think are growing more quickly than the market rate of growth. Some of our businesses, like OpenEdge or Integrated business, are growing at roughly tripled the rate of market growth. Some of our other businesses are growing in the high-single digits; but on average, the entire business is growing about 8% or 9% today in terms of revenue.

And I think about in terms of why it's a good choice for investors, if you look at the last two years, Paul, and our guidance for this year, we grew earnings in our fiscal 2015, 18%; we grew earnings in fiscal 2016, 18%; these are reported numbers. And our target guidance this year is 16% to 19%, you might as well pick 18%, right, because we did kind of 18%, 18%; and now, 16% and 19%. On a constant currency basis, those numbers were 26% growth, 29% growth; and the jury is still out for May of 2017, but I'd say probably 23% or 24% if you include some of the currency that we've been absorbing.

Today, we're trading at a discount relative to our growth rate at certainly both constant currency as well as reported. So, from that point of view on a sustained basis, I certainly think it's an attractive opportunity. And I think it's especially attractive because the markets that we're in are growing.

One of the questions I'm sure we'll get to is Trump and the administration, everything else. But at the end of day, we chase GDP and we chase GDP globally. The U.S. just posted 2.9% GDP growth, and then it was revised upwards to 3.2%, a 10% bump a couple of days ago, and that's before the current administration – the new administration comes in and replaces the current administration.

For us and those of our peers in the U.S. market, and the U.S. is 70% of our business, that is nothing but good news for our business because [ph] we – really our (05:04) GDP derivative on the rates of economic growth.

So, very optimistic about where the business sits today and going forward, and then, I think it's a very good – therefore, I think it's a very good opportunity for investors to be looking at the company.

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

How important are those distribution channels? Because you have the more technology enabled, and then kind of a historical, I guess, feet on the street kind of sales force. So – and the technology piece is getting bigger. Should we think of that becoming the main distribution channel over time? Or is it still really important to have these more historical kind of legacy relationships as well?

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

So, that's a great question. Those things are really converting today. So, Heartland was key, I think, to this strategy. So, Heartland has 1,500 salespeople today, just in the United States. Heartland Commerce, which is the point-of-sale software-as-a-service business, primary selling into restaurants, Paul, and hospitality today; 25% of the new merchants, that the Heartland Payments business is closing every single month, are coming from referrals from Heartland Commerce. So, their point-of-sale SaaS and cloud-based customers that are being referred by the commerce business into the traditional merchant business. That number was 8% or 9% a few years ago. And as I've told Isabel, who is here with us and runs our IR, I hope by our next Investor Day that that number will be closer to 50%. Up from 8% to 25%, and hopefully up to 50%. And I already said that 30%, as you rightly pointed out, 30% of the revenue of the company today is coming from tech in the first place, both with and without Heartland.

So, I certainly think it's very important to our business to converge those 1,500 sales folks from Heartland into our technology-led businesses, 25% of that is happening today. I'd like that number to be 50%.

The other thing I'd say, as we think about our business, is that we're relatively underpenetrated in e-commerce in the United States today. I think we're very well represented in e-commerce, which we call omni-channel, in our European businesses which I'm sure we'll talk more about. But here in the U.S., only about 10% of our business today at Heartland and Global is coming from purely e-commerce. That compares to about 25% of retail industry here in the United States.

That's another number I'd like to double, right, as we look at the next two or three years. Heartland only has 125 salespeople selling e-commerce today in the U.S. out of 1,500. So, if we can take that number to 200 or 300 from 125, it can grow more quickly and capture share, and that's in a business, Paul, that's already growing at 7%, 8%, 9% today, stand-alone.

So, I think there's plenty of opportunities to add more technology and accelerate growth in the business here in the U.S.

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

Q

Your comments about kind of the GDP growth and your exposure to that. Historically, it seems like payment volume is 2 times, 2.5 times at least in the recent five or six years GDP growth. If we were to kind of go around the regions that you're in, what inning would you say – I mean is that the similar trend in these different areas of the world? Is there other places where that trend of cash to plastic is maybe slowing, so that GDP spread is lower? There's kind of the – in the regions that you're in, how would you say maybe what inning we're in, in terms of that really strong secular kind of tailwind?

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

A

Sure. Well, you're right to point out by region, it really does vary by market. I would say, overall we're probably in the second or third inning really globally, obviously in some places, we're...

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

Q

Yeah.

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

A

...more advanced [indiscernible] (08:31) let me start, for example, in the United States. So, in the U.S. I think you're exactly right, that 200 basis points to 300 basis points relative to GDP has really been our target rate. GDP in the U.S., as I just said, was about 3%, a little bit higher. So, 5% to 6% kind of is in the bogey in terms of what we'd like to grow, as we just reported last quarter and our guidance for fiscal 2017 is 7%, 8%, 9%, right.

So, it's – clearly, overall we're targeting 1.5 times to 2 times the rate of market growth, our OpenEdge business that was now on for 4.5 years, just grew 15% again, that's almost triple the rate of market growth. But I think that's a pretty good multiplier, Paul, for the U.S. I think in some markets, like Spain, 200 basis points to 300 basis points is actually too low a multiplier. And the reason for that is not just GDP, it's also the demographics of the country.

To extent that you have a rapidly rising middle class, you can actually see those rates of GDP growth. So, for the six years roughly that we've been partners with Caixa, the largest domestic bank in Spain, we've grown the revenue of that business in local currency, low double digits the entire time. And most recently, as we've been describing in the last few calls, I know we've annualized [ph] the separate (09:47) benefits in Spain, that business is back to growing mid-teens.

GDP in Spain, for example, is growing [ph] 3% (09:53), yet we're growing that business across the whole country, not just tech, but the entirety of business at 15%. The rate of the entirety of the card industry growth based on the data we've seen in Spain is about 7% or 8%. So, we're growing roughly double the size of the rate of the card growth, but we're growing 5 times the rate of growth of GDP. So, in some countries, because of the demographics, you can actually grow much quicker than the baseline.

Conversely, when you look at Canada, which is one of our mature markets, we've been able to grow that business 1% to 3% in local currency for probably the last 4.5 years since I've been at the company. Since I've been at the company, GDP growth in Canada, same-store sales growth, retail sales growth has been between zero [indiscernible] (10:36). So, as it was closer to zero, we're probably at 3%, right. So, clearly we're growing at a much higher rate than the market rate of growth, and I think that's because of our management there, very good sales force and what we've been selling.

So, I would say, in general, 2 points to 3 points is kind of a floor in more mature markets, like Canada, that's kind of what you see, the 2 points to 3 points on top of a low number. In the U.S., it's a little bit better than that, that we've been describing in the markets like Spain with good demographics, its multiple is higher of the 2 points to 3 points.

And then lastly, in Asia-Pacific, most of the economy there, the fastest-growing economy we're exposed to is the Philippines, we'll be up 28% of the acquiring market in the Philippines in our joint venture with Bank of the Philippine Islands. We're growing that business double digits, today top line organic, and that's probably 1.5 times the rate of GDP growth. That's another example where we're growing meaningfully in excess of where GDP is.

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

So that – the overall secular tailwind, if people just using cards more, I mean, that's still very strong, it's evident...

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

I think for your useful career or my useful career, that's not going to change...

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

Yes.

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

I'm sure there's some point where you reach saturation. But if you look at the Visa, MasterCard stats, Paul...

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

Yeah.

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

...and you look at kind of...

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

Yeah.

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

A

...our businesses, our cycle guidance over the next three or five years, we view that 200 basis points to 300 basis points as being the absolute floor target of what the market is growing. And we intend to grow 1.5 times to 2 times the rate of that. And that's what you've seen in our numbers over the last few years.

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

Q

Why does it seem like – correct me if I'm wrong, but – in a lot of the European regions, you kind of have one or two big players that sort of own the market, but then in the U.S., it's much more fragmented, there's a lot of more competition. Maybe you can explain that dynamic a little bit...

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

A

Sure.

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

Q

...and how do you – how is that an opportunity for you in Europe?

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

A

So, our business is very different for that region, inside the United States than it is outside the United States. In the United States, by law, there is a deposit cap in the United States. The largest banks in the United States cannot go above roughly 10% of the deposit base across the United States by law. As a result, since [indiscernible] (12:42) more than 10%, including the largest retail banks in the United States, you have thousands of financial institutions, right, in the United States because of an effort to get away from concentration as a depository matter.

The exact opposite is true in every other country in which we operate. Meaning that in Canada, there is four or five banks that control 90% of deposit base. Same thing is true in the UK, same thing is true in Spain, same thing is true in most of the markets around the world. As a result, in those markets, our strategy in the United States, because banking has been diffuse and banking is highly competitive here, is to pursue areas of greater growth than the overall market because certainly there are so many banks in the United States, and the market is so large, and there's so much proliferation of technology in our business, banks have had a hard time growing because they're more focused on regulation and compliance and because there's more competition, et cetera.

Outside the United States, you can largely pick one or two banks, to your point, because four or five banks generally control 90% of deposit base, you could pick one or two and you can have kind of instant scale, right, in those businesses. So, we built our business by competing on technology globally, but especially here in the United States, which is the method of competition to get growth; and outside the U.S., we pick a partner like CIBC in Canada, HSBC in the United Kingdom and in Asia, Caixa in Spain, Erste Bank in Austria and Continental Europe, where when you pick that partner, not quite true, but almost overnight, you have a large share of the market. So, we have 28% of the market in Spain because our partner is Caixa. We have 27% of the market in the Philippines because our partner is the second largest bank in the Philippines.

So, you can very easily get scale in those businesses outside the United States by picking one partner that by law is not allowed within the United States. And I'd also say, the U.S. is the largest payments market in the world with the highest penetration of technology that also plays to our strengths to focus on the small to midsize merchant, the SMB, and penetrate those markets that I was just describing with Heartland with technology and get better rates of growth. And that's the reason why those markets are divergent.

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

Q

But I would assume that those partnerships aren't always available...

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

A

Yeah.

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

Q

...because you don't have that many to choose from. So, how do you – I guess, how do you win those deals, like the Erste one that you announced pretty recently?

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

A

Yeah.

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

Q

And then, with Caixa, for example, how do you maintain it? What's the risk that there's some other partner that they choose to go with?

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

A

Well, so I think that we like to position ourselves internally and externally as a partner of choice. So, at the end of the day when we partner with a financial institution, invariably, the going in structure is 51-49, it's really a partnership, right. It's not us buying the whole thing and saying, you're my partner. It's us actually putting our money where our mouth is.

And the answer to your question is, it's only proven over time that you can make money if you're partners, right. So, when we bought the 51% from Caixa, for example, in Spain, this is directionally correct. My recollection is that revenue in that business, six years ago, was probably €75 million, whatever the math was at that time at the whole venture, the revenue in that business today is probably €125 million, six years later on economy that was shrinking up until a year ago.

So, at the end of the day, I was expanding margins. If you don't make money for your partners, then you're not likely to stay partners and you're not likely to find the next partnership. So, we'd like to tell our bank partners is, your 49% of the joint venture company will be worth more few years from now than 100% it's worth today.

So, you're far better off with us as a partner than you will be on your own or selling your asset today. And as far as I know, Erste, we just closed a few months ago as you said, but as far as I've done the calculation, I've done them all with the exception of Erste which we just closed. Every single one of those things is correct. When we bought the HSBC Asia-Pacific partnership in 2006, the business wasn't making money. We bought 54% of it. When we bought the remaining 40-odd-percent, I think that was in 2012 or 2013 after the Great Recession, we paid $215 million, plus or minus the remaining 45% [indiscernible] (16:51) wasn't making money when we bought it six years previous right after the Great Recession. That's all you need to know in terms of making money for your partners.

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

And are there a lot more of these partnerships that could come available across Europe? I know – obviously in the Spain and UK, you kind of already got your...

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

Yeah.

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

...market share, what we think about other countries, what's the -how do you get comfortable with the timeline for that, when these things arise, when you can make a deal or when you can start to grow or something like that?

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

So, our pipeline is full today. I think we probably have as many opportunities around the world, but especially in Europe, in terms of partnerships and acquisitions than I think we've ever had in the seven years really that I've been at the company. I think at the end of the day, success with your partners just breeds more success.

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

Yeah.

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

As I just mentioned a minute ago, banks like to talk to other banks, which soon they've had relationships when it comes to partnering. I would tell you that what we look for, going back to where we started, is where is the GDP growth in those economies. What are the demographics that are driving those markets, what's the rate of growth? That's why we like the Erste deal. In Continental Europe, if you think about the markets we picked up as part of that transaction on the direct basis, the Czech Republics, Slovakia, Romania, Serbia, and soon to come, Austria which is where Erste is based. Those markets are organically growing volumes and transactions in the low double digits. One of the more attractive rates of growth of our businesses in Europe, and that's really where we start.

As we look at the world, we are not physically present today. We do some more cross-border in France, Germany, Italy, Switzerland. And it's not for lack of [ph] locating (18:28) at the end of the day. So, it's important for us to find the right partners, for us to pick very much like a GE strategy, Paul. The number one, two or three partner in those markets while they're generally not de jure exclusive.

As a practical matter, once you picked a partnership, it's kind of de facto exclusive, right. So, important for us to find one, two or three in terms of share and really grow the business with that partners. So, we're looking all those markets. And in particular, we look at the largest financial institutions in those markets, as banks need to raise capital per the Basel requirements in Continental Europe. Looking at these assets that have low inherent basis on their balance sheets is something that can generate a lot of capital, and that's been the source of much of the deal flow that we've been saying.

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

Q

Is there a reason that would accelerate then with the new banking regulations in Europe, or I mean, should we continue kind of in the same pace?

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

A

No, we don't accelerate these. The bar keeps going up.

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

Q

Yeah.

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

A

So, the first thing is the new regulations, Basel II that you've been describing. But the second thing is we sell technology solutions. Many of those banks in some of those markets are using old technologies. They may or may not be PCI-compliant, for example. We can bring our Realex e-commerce cross-border omni-channel solutions into those countries where they don't exist today, so we can sell e-commerce cross-border into those markets. We can sell a DCC or dynamic currency conversion, which we're introducing into those markets, as we can expand and we can do that all on some of the most technologically advanced software and services that anyone in the world has on a common platform, which is really unique to Global Payments as a technology and operating matter around the world.

So, the ability to become compliant in very short order [ph] the billing, the book of gain (20:09) as it relates to the capital requirements, the ability to continue to share on earnings, where 49% is worth more than 100% that you started [indiscernible] (20:17) more products and services, and capture more share as a retail matters what drives all those banking partnerships, and of course, all those trends that I just described are really in our favor.

I'd also say, as a company that has 70% of its business in the United States and it's dollar denominated, it's a good time for us to be looking outside the United States, and dollar is at a 13-year high.

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

Q

Right.

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

A

Paying those prices in euro or pound or Canadian dollar, currencies in Asia, generally has been a good idea for us.

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

Great. Maybe a little, just kind of shift – shifting gears back to e-commerce again.

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

Yeah.

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

And you made some commentary about leveraging the Heartland assets to sell more e-commerce solutions, what do those products look like in the U.S.? Because it seems like you hear a lot about kind of Braintree and Stripe, Stripe obviously...

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

Yeah.

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

...the new round and the big valuation. How do you compete in the U.S.? What's the product look like? And then, maybe contrast that against where you're getting – where you have existing e-commerce assets, it seems to be growing faster like in Europe and in APAC.

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

Sure. So, this is one of those examples, in Heartland, we're actually going to take the best of those companies and use Heartland e-commerce assets, called Portico, is the name of their product in the United States, and that's what the 125 people are selling at Heartland today. And Paul, predominantly that's for small to midsize merchants. So, [ph] you go and sign up the chain pizza parlors (21:38), and I'll say it's not like I want to take orders online or I want to link my mobile phone. So, Paul can order on his phone and go pick up at my pizza shop...

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

So, they're already kind of brick-and-mortar merchants...

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

They're brick-and-mortar and they're looking to expand small to midsize guys looking to expand online. So, it's really omni-channel here in the United States, of course, it's very different overseas because overseas it's cross-border; and in some cases, cross-currency, virtually just cross-date lines.

But at the end of the day, it's a seamless integration, obliterating something from your phone or online and going to pick it up, and that kind of thing. So, that's why we're offering the small to midsize merchant through Portico, through Heartland here in the United States.

So, what we've been doing is we're going to bring our Realex Irish cross-border e-commerce capabilities next month, which is almost now here in December, and integrate that into Portico. So, you'll be able now to sell, not just small to midsize merchants that are domestic only, but you'll be able to do that cross-border. So, if you're the merchant who wants to sell something into the United Kingdom, wants to sell something into Canada, not only can you use Portico, but you can actually use Realex which is already doing the stuff cross-border as another means of facilitating that transaction.

We're also, of course, bringing best-in-breed management as well as products because Realex is both management as well as product into the Heartland environment, and we're taking those 125 salespeople, as I mentioned a few minutes ago, and trying to double it to 200 or 250. So, that should really aid in the growth of our e-commerce business here in the United States. I just viewed it as good cross-sell and then good execution, but Realex relative to Stripe, which you asked about, and Braintree is a direct competitor of those businesses.

So, our ability to compete with Braintree and Stripe and Adyen, and to a certain extent, Worldpay through their e-commerce business, is only augmented by the fact that we have both physical distribution globally in 30 countries as well as online distribution. If you think about where Stripe is coming from, and it's obviously a very good company given the valuation that they've been getting most recently, they're starting from a position of online acceptance and trying to work backwards to get it to work in the physical world. My opinion is that's very hard to do. So, if you ask Worldpay and if you ask Adyen, if you ask Braintree, the secret sauce to those businesses is not selling online, as important as that is, but it's how do you integrate that online with physical world acquiring, which is already a very competitive business.

We're coming at this with a position of strength that we're already very good in the physical world, and we're moving at online with a market-leading property in Realex, and that's very expensive to do. And I think that really very much plays into our competitive advantage. We're a direct member of Visa and MasterCard in pretty much every country we're in, with the exception of the United States where you have to be a bank to do it. We actually are a bank in Canada. We're direct in most of our countries in Asia. We're direct in almost all of our countries in Europe. That is not something that private startups had been able to do with any degree of expansive success.

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

Q

Right.

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

A

Those are the kind of the things that we're able to bring to the table that our peers may not be able to do.

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

Q

Yeah, and I guess – I mean, Square, I don't really – they're not necessarily e-commerce business, but kind of a tech enabled, more of a startup type. How do you think about where you intersect with them, they're much more small, micro merchant focused...

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

A

Yeah.

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

Q

But the volume growth there is pretty small, granted it's not very much volume. But how do you think of that type of model too that that's fully kind of integrated, sort of direct-to-consumer sales with less feet on the street type of sales? How do you think of that, comparing to what you're doing in those markets and where you guys overlap or compete the most?

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

A

Well, we don't really overlap that much at all.

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

Q

Yeah.

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

A

They are, as you said rightly, very much direct-to-consumers, you see they're advertising on TV. We and most of our peers don't really advertise on TV. You don't see Vantiv and First Data and Global Payments on the Super Bowl or something, right. No.

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

Q

Right. [indiscernible] (25:32) that branded payment, right, it's...

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

A

Right. So, our customers are the merchants. And in general, they are small to midsize merchants, and they are enterprise merchants, and they are developers and everything else.

In general, Square's customers are so much smaller margin. So, our typical merchant in the United States does call it $150,000 a year of card-based volume, and they go from there all the way to very large-size merchants. I mentioned at the beginning of our discussion that 30% of our revenue and probably 80% of our growth at Global Payments in the United States, it's coming from technology-enabled distribution. It's coming from software partners of our partners. It's coming from Heartland Commerce, point-of-sale SaaS. That's a very different business than putting an ad on TV and [indiscernible] (26:09). And there's nothing wrong with that. That's a very good business. But that's a very different mode of distribution than relying on software sales, and relying on partnerships with integrated companies and attacking it by vertical market.

So, I would say in general, we're attacking a slightly different size base than Square. We're attacking a different need by way of vertical market and category, and we're going about it a slightly a different way. Now, clearly they have done a great job and I think they're doing very well at what they're doing, but that's not something that we run into everyday, I would tell you, including at Heartland.

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

Q

Right. And then, maybe I'd just ask about mobile – in-store kind of mobile payments…

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

A

Yeah.

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

Q

…you guys have obviously kind of announced the enabling the pays of the various merchants, Android Pay, Samsung Pay. I'm just kind of curious what you're seeing regionally in terms of customers actually using mobile phones to pay? It seems like in the U.S., there's pockets where it's taken off, but not really [indiscernible] (27:13)…

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

A

So, it's interesting as this is actually an area that outside the United State, especially in Europe, is very far ahead of the U.S. And that's because I think that in the UK, in particular, contactless, which is not so much the phone, but instead is those credit cards that have been issued for years, Paul, in the UK, that have like the Wi-Fi-looking thing on them…

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

Q

Yeah.

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

A

…and which you can use in the tube, one of our customers at the post office, one of our customers on the train from Heathrow, one of our customers in the UK. At the end of the day, the ability to take your card out of your wallet and waive it, which MasterCard try to do at QuickPass in a bunch of areas, in the United States a number of years ago. Those investments that the card issuers in a much more concentrated marketplace, as we've talked about a number of years ago, have really resulted in broad adoption in the UK and in Europe of wireless-related technology.

So, interestingly in Europe, we're seeing good growth of Apple Pay, Android Pay and Samsung Pay…

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

Q

Right.

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

A

... and as you rightly said, I don't think there's any one of our competitors who has enabled Apple in more places, you've enabled Apple in every single place that you can enable them for purposes of Apple Pay. But the interesting thing is, we have more Apple Pay acceptance in the UK than we have in the United States, and that's because of the history in that market of wireless adoption, it's still mostly card based. And I would say, it's probably double digits of our revenue today, wireless card in the UK, on debit-based usage, at the point of sale, and it's a much bigger number growing at a very high rate than Apple Pay or Android Pay or Samsung Pay is in that market because it's been out for some time.

So, consumer choice and preference, which is how these things actually get it done, is really geared around taking your card every while and waiving it over the churn style, et cetera. And as a result, we're seeing numbers like 30% year-over-year growth in our wireless base in the United Kingdom and double-digit percentage of our business, whereas Apple Pay is probably a very small percentage of our business in the United Kingdom. All that [ph] dwarfs (29:10) the amount of usage here in the United States because of the complexity of the point of sale, the fact that [ph] they're going to use it in (29:16) consumer history...

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

Q

Yeah.

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

A

... doing this in the U.S. ATMs and debits took 20 years for adoption, as a consumer matter in the United States, so really does vary fairly dramatically by geography and the UK is probably the furthest along, as it relates to mobile of any technology.

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

Q

So, then it sounds like maybe in the U.S., before we're using our phones, we might have NFC cards...

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

A

Well, I think the U.S...

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

Q

...wireless cards.

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

A

...it's a little bit of going from landline to wireless. I think the U.S. has kind of leapfrogged, right, the issuance of physical cards with wireless devices on them. I think people would use their phones. In the U.S., it's more of the omni-channel discussion we have for the small merchant...

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

Q

Right.

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

...of using Apple Pay, which we do on your phone, right. We – I was telling someone else before, and Isabel knows this story, about one of our customers, Whataburger, right, where we provide both the app from the Apple Store as well as paying online, ordering online, you could pick it up in a restaurant, you could pay with your thumb in Apple Pay. In-app purchasing is a relatively small amount of what's going on in the United States.

So, I don't think [indiscernible] (30:17) the card way. And so, I think we'll jump over that and go into using your phone [indiscernible] (30:22) a very small part. It's growing rapidly but a very small part of acceptance for everybody, I think, in the United States. The U.S. is the largest, but the most complicated, as we all know from EMV, the most complicated terminal market, acceptance market, the NRF, the National Retail Federation is still arguing with the card networks about using pin codes for credit and everything else. So, it's a variety of barriers to adoption here in the United States that make it difficult to pay with your phone.

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

And when do you guys get out of that? I mean it's a sticky solution and maybe it makes your product more valuable to the merchant. Is there any kind of seeing around the omni-channel products that you provide...

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

Well, it's another revenue stream as you're saying.

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

Yeah.

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

So, first of all, our retention rates, our technology-related businesses, generally like OpenEdge and Integrated, our retention rates are about 92%. So, attrition rate in that business...

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

Right.

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

...is about 80% because it's very sticky. That's kind of half the attrition rate, call it mid-teens that you see in some of our other generic, non-technology-enabled businesses. So, the first thing I'd say is, retention is extremely high for obvious reasons in those businesses.

The second thing I would say is there are elements of the Heartland business like Heartland Campus, Heartland School, Heartland Commerce where meaningful percentage of the revenue generation is non-transactional instead of software base. So, half of the revenue coming into TouchNet or Heartland Campus is coming from software sales, and not from payments. The other half is coming from...

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

Q

Yeah.

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

A

... from payments. So, I would certainly like to take the company over the next few years to a place where technology-enabled revenue is not 30%, but 50%. Referrals from Heartland Commerce, they're technology enabled into Heartland [ph] property (31:59) is not 25% but it is 50%, and I think we hopefully will be in a place where we'll sell software, sell transactions or sell processing [ph] , we're going to (32:08) be kind of agnostic.

So, it's a way to enhance the yield with our customers increased retention which was seen on other technology businesses and ultimately make us some more diverse and better company than we are today. And I think you're seeing some of the signs of that today in terms of our rates of growth.

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

Q

Great. I'll just ask if there's any questions in the audience or anybody. Got microphones, don't be shy.

Okay, well, yeah, I did want to get to the Trump impact. I think that what's most relevant would be repealing Durbin, well, maybe there are lot of things that are relevant and like to get your thoughts on it. But with regard to Durbin, I think what we're trying to figure out is, if it's a hypothetical Durbin's repeal, then let's say, debit rates go back to what they were, what – how should we think about that impacting GPN? Like, what are the puts and takes, short of you telling that's exactly what the impact would be? Just how should we think about what the impact – we've gone through years of interchange coming down, which is kind of like [indiscernible] (3311) positive...

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

Q

Right.

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

A

... positives for you guys, and now, foot went the other way, I mean, how would we think about that?

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

A

So, let me start up by just saying as it relates to the Trump administration, everything else...

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

Q

Yeah.

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

A

...as where we started [indiscernible] (33:21) GDP derivative. So, the fact that GDP went from 2.9% in the U.S. to 3.2% before the – really before the election, however, is announced just recently, if there is any pump priming in terms of infrastructure, investment, there's any inflation...

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

Yeah.

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

...to more spending and more indebtedness, that is nothing but good news for our business. So, at the end of the day because we're a derivative of how the economy grows, as you've mentioned before. So, I think where you would start by saying is before you get to anything else, if the U.S. economy accelerates it's rate of growth from 1% and 2% to, I heard this morning on CNBC, a 3% to 4% sustained, that is nothing but good news, not just for Global Payments, but for all the people...

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

Yeah.

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

...in our industry. Obviously, there are other things that come with that over longer periods of time. But in the immediate term, that's really nothing but good news, that's kind of point number one. Point number two on Durbin, we don't make revenue, we don't book revenue, we don't earn money on interchange. So, we are completely indifferent to what the level of interchange is.

Now, Visa and MasterCard touch price generally twice a year, usually in April and October. In general, interchange moves around, putting aside Durbin for a second, usually it's going up here in the United States. When those prices change up or down, that's nothing but good news for Global Payments. If we have to make a change and report that to our customers, if prices go up in particular if the Durbin cap comes off, number one, it's not revenue. Number two, if we have to go out with a pricing change, we have to make investments in our system to affect that change. We have to communicate with customers and we generally add something on top of it...

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

Right.

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

...realizing that our markets are competitive, and if those things get competed away over time, we generally don't do things for free, right. So, it's important for us to understand that we're used to dealing with pricing changing – changes in all of our markets and those builds have come down over time, pre-Durbin versus post- Durbin. Obviously, to your point, it's easier if interchange goes down because the bill is going down. So clearly, it's easier to pass savings on, but keep a bit more in an environment where the bill is lower versus higher, but we have plenty of experience in marketplaces like Canada where interchange [ph] directionally will (35:21) all pass through; and as a requirement from the government, numbers kept by us. And there are markets like the UK and Spain, and the United States with Durbin, where prices went down, we manage those things competitively over time. So, there's really nothing new in networks or governments changing prices up or down. And as you can see from our results and the consistency, we'll ultimately make more money in those environments because the world's more complicated, we could add more value as a service provider.

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

Yeah.

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

So, really, it's nothing but good news for us.

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

Yeah, the GDP point is really interesting because I've always thought, you've gone through this period of low GDP growth, but you're still managing upper single digits...

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

Yeah.

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

...kind of organic growth. So, you have 1% increase in GDP that could be, what, 200 bps or some...

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

I would hope there is a multiplier...

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

Yeah.

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

...coming out of it, and people were worried, if you went back six or nine months ago, people were very worried when's the next recession coming...

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

Yeah.

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

A

...and all those things, and we don't ever assume that the peak is ever going to continue. But certainly, it seems like we've a lot more of a tailwind, sitting here today, the rates of organic growth in all of our markets. Post the Brexit announcement in June, in the United Kingdom, we and everybody else thought that UK would go in recession. In most recent forecast from the government from last week is that the UK economy is going to continue along fine in growth mode...

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

Q

Yeah.

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

A

...there's a bit of pump priming, as they put more money and re-inflate the economy in the United Kingdom. So, that seems to have dissipated as well. So, sitting here today, I think we have a lot of tailwinds in the basic macroeconomic cycle that we did not have probably 6 and 12 months ago.

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

Q

Yeah. I guess, FX is one thing that's kind of an offset...

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

A

Yeah.

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

Q

... and I wanted to ask about, I think when you gave guidance in October, the pound is about 5% weaker. And that's, I think, your biggest currency exposure other than the dollar obviously. You had baked in some FX impacts to your guidance. Should we think that this is kind of the move you had anticipated, or how is that kind of tracking versus your expectations?

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

A

Well, it's hard with a crystal ball to figure out what's going on...

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

Q

Right, right.

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

A

...with these currencies. What I would say is that we certainly thought, when we had our call in October, that the pound will get to £1.20, we just thought it would take till December...

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

Q

Okay.

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

A

...when the Fed was raising rates, right, for the pound to get to £1.20, now it's back at £1.24, more or less, today. So, what I would tell you is, as it relates to where we're in October, we're talking about an impact to us incrementally since early October or probably a little bit less than 1%, as it relates to revenue. So, I'm not sure of your forecast, but the Street has us more or less at $800 million-ish for the second fiscal quarter that ends today, it's probably a little bit less than 1 point of impact...

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

Q

Yeah.

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

A

...given the increment in the last couple of months. I would say, in an earnings basis, the Street has it somewhere in the 80s, low to mid 80s. It's probably $0.01 or $0.02...

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

Q

Yeah.

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

A

... of incremental impact on the quarter. So, in the scheme of things, it's not really that big of a movement, $0.01 or $0.02 on $0.85 or whatever the consensus is, is $0.01 or $0.02, but it's not...

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

Q

Right.

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

A

...give us movement. And clearly, we've shown an ability, as I mentioned a few minutes ago, with the 18% growth kind of compounded which was 26%, 29%; and this year, probably 22% or 23% to manage through that anyway.

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

Q

Yeah.

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

A

So, obviously it's something we watch closely, as Cameron said in the call, we'd bake it to our guidance [indiscernible] (38:38) a couple pennies here in the quarter.

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

Q

Okay. Great. Yeah, there is lot of questions that I want to get to but probably won't. But just again, I'll check if anyone has any questions in the audience.

All right. So, on the Heartland acquisition, it sounds like you're making good progress there, I was kind of curious, when you're going through the progress of migrating Heartland customers to Global stack, or I don't know if it's the other way around in some cases. What is that experience like for your merchants? Do they notice any kind of disruption in service, some change in the data that they're getting from you? Is there any reason for them to have some friction in the migration process that might equate to like an opportunity for competitors or something like that? Just kind of curious how that works.

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

A

So, in general, Global Payments, with a few exceptions like Portico, which we talked about for e-commerce.

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

Q

Yeah.

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

A

Global Payments Technology, front and back, is going to be the continuing technology for Heartland.

Going forward in our base case, entering into the deal with the demise Heartland's technology and operating environments and we've already – as we said in our October call, we've already closed the Global Payments legacy, Owings Mills facility in Maryland, and moved that to the Jefferson facility at Heartland, which is on the Louisville, Kentucky-Indiana border. So, the operating environment has already happened. Some of these things have already happened, there has been no impact, right.

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

Q

Yeah.

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

A

That's kind of one way of looking at it. The second thing I'd say is, over a period of time in 2017 calendar towards the middle of the year, Paul, we'll be moving Heartland's front and then backend to the Global Payments Systems. The backend is completely transparent, meaning there is no impact, right. Merchants don't see anything on the backend. We do those migrations frequently [indiscernible] (40:22) something merchants would ever see.

On the frontend, it depends on what you're moving. If it's IP based, like in some of these e-commerce things, we just reappoint the IP address, that is also seamless. If it's a physical terminal on that dial and non-IP based, we have a lot of experience. We have 40 people at Global, who do nothing but conversions full time, based primarily in Canada and United Kingdom. And we have a lot of experience managing those conversions. And to give you an example, those are the same folks who can – converted Indiana – sorry, India, which was the Global Payments business from HSBC in India over to Atlanta. So – and we didn't really see any slowdown on what we were doing or a pickup in attrition.

So, converting something from India in a different language, in a different region, into Atlanta as you can imagine is far more complicated than moving something from Indiana to Atlanta.

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

Q

Right.

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

A

That's a technology matter.

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

Q

Right.

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

A

So, it's the same folks who did that. They also converted the UK. They've converted 9 or 11 countries in Asia to Atlanta. So, we've a lot of experience in doing it, and as I mentioned, most of it is seamless and transparent to the merchant.

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

Okay. Great, I guess we're out of time there. But great. Thank you very much for being here.

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

Thanks for having me.

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

It's kind of very educational. Thank you.

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

Yeah, thanks.