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Global Payments, Inc. (GPN)

Goldman Sachs Technology and Internet Conference

CORPORATE PARTICIPANTS

Jeffrey Steven Sloan
Chief Executive Officer & Director

OTHER PARTICIPANTS

Jim Schneider
Goldman Sachs

MANAGEMENT DISCUSSION SECTION

Jim Schneider
Goldman Sachs

Okay. Hello, everybody. Welcome to the Global Payments Presentation at the Goldman Sachs Technology and Internet Conference. My name is Jim Schneider, I'm the payments analyst here at Goldman Sachs. And we're really thrilled to have Chief Executive Officer Jeff Sloan with us today. Welcome, Jeff.

Jeffrey Steven Sloan
Chief Executive Officer & Director

Thanks for having me, Jim.

QUESTION AND ANSWER SECTION

Jim Schneider
Goldman Sachs

Q

I guess everybody is concerned about consumer spending trends, and what's actually happening in terms of consumer spend, and I think that payments companies are some of the best positioned to kind of address that on almost a real-time basis. So 2015, very strong year for you in terms of payment volume growth across regions, aside from the company-specific factors, I think it's fair to say that the overall industry has benefited from relatively healthy consumer spend, and you have a broad international portfolio, U.S., Canada, Western Europe and parts of Asia. Can you maybe kind of walk us through what you're seeing from – in terms of consumer spending, consumer transactions right now on a global basis and we step through the regions if you would?

Jeffrey Steven Sloan
Chief Executive Officer & Director

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Sure. I'm happy to do that. And thanks again for having me here. Good to be back at GS. So I would say broadly around the world with a few exceptions that consumer is relatively healthy in our experience. Just starting here in North America, we see, at least at Global Payments, mainly the same things that you see in the employment reports, in particular the one in New Year in January with the 292,000 new jobs being created, obviously it's a little bit lower this month. But we see a fairly healthy consumer around the United States, and it's really been quite a period of time since we've seen any kind of retrenchment in our U business – in our U.S. business in terms of the consumer.

I would say, transactionally in the United States, we're probably at the mid to high single-digit rate of transactional growth which generally tracks what we're seeing from Visa and MasterCard in the markets we're in, in the United States. I'd also say completing North America, we see a very similar trend in Canada, it's been some time since we've seen any kind of deceleration in our Canadian business. It's worth saying that our business in Canada, Jim, is a little bit different than some of the networks. Our business in Canada is less based on cross-border assessments and Canadians coming into the U.S. based on Canadians staying within Canada and spending within Canada and tourists from outside Canada coming into Canada. And on that basis, we've seen very stable trends in Canada, in the low single-digits trend actually.

Europe remains on a local currency basis a very strong start for us with the exception of Russia. We include Russia in our European reporting; you can argue whether Russia should be included in that or not is probably a debate worth having. But as it relates to Europe itself, we're probably coming off with one of the best periods that we've had in the United Kingdom and that's through buying and transaction-wise before you get into the EU reductions, coming in from SEPA, which, as you know, started on December 9. So that continues a long trend of good growth in the United Kingdom.

Spain, we went through an extended period in Spain with accelerating GDP growth, I actually think the most recent forecasts in Spain are for better GDP growth than we would expect in the United States, for example. And I think we just reported our fifth or sixth consecutive quarter in Spain of low double-digit volume and transaction growth, again before the impact of the SEPA rules.

Clearly, Russia is in a very different place, and that's been true for some period of time. I think our business is performing fine in Russia, given the macroeconomic environment. But certainly, I think it wouldn't be a surprise to anybody that Russia which is about 2% of our net revenue globally continues to show signs of economic headwind, but that's nothing new, that's been true for a period of time.

As with Asia, I'm just back from our businesses in Asia. Australia and the Philippines remain very strong for our businesses. As you know, we just completed a joint venture with the second-largest bank in the Philippines last summer. The Philippines continues to grow at a very good rate. Same thing is true in Australia, where we've been present in Australia for the last 18 months with one of our businesses, Ezidebit, which just reported in our second quarter, 20% organic revenue growth in that business.

The only other area of macroeconomic headwind for us is what I'll call Greater China, which in my definition is really Mainland China, Hong Kong and Taiwan and I'll lump Macau in with that group too, and of course the Macau statistics are reported separately. The somewhat good news is that the rate of decline in Macau is declining itself, so the rate of decline in January was actually a little bit better than it was in December year-over-year. But I think there's no doubt as we've said on our last two earnings calls that Greater China, as I define it, has a fair amount of macroeconomic headwind.

That's particularly true for us because we really operate at the higher end nature of the business in Hong Kong with primarily Visa, MasterCard, American Express, cross-border traffic from people within and outside Hong Kong spending at high street like our retailers. So it certainly has been true and it's not really new. So if you step back in summary, Jim, you look at our businesses, with relatively few exceptions, Greater China and Russia, and those really aren't new, we see continued strength of the consumer and that really has not changed in the last period of time. I think the question for all of us is whether the market is foretelling something else in the future, but sitting here today on – we're fairly confident in our operating cadence and in the performance of the markets in which we operate.

Jim Schneider
Goldman Sachs

Q

That's helpful. One quick follow-up maybe on the U.S. or just the broader consumer business in general, because I think there's been speculation for well over a year now that falling gas prices will lead to increased discretionary spend, and I think a lot of it suggests that there hasn't been a huge pick-up, so is there anything you can see in your data that kind of suggests that happening or not happening or might happen?

Jeffrey Steven Sloan
Chief Executive Officer & Director

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Yeah. I think what that does is just provide more confidence around the rate of sustainable same-store sales growth. So, you've seen on – in a number of markets that we're in – I'll call it 2% to 3% same-store sales growth in the United States, particularly in the retail and hospitality and restaurant area. I think, some of that is undoubtedly due to the cost of fuel, as you're referring to it. And I would say in those markets that 2% to 3% is in-line or a little bit north of where GDP growth is in the United States. That gives us a fair amount of confidence, heading into the rest of the year, rest of our fiscal year, which ends in May, about the health of the U.S. consumer.

So, I would say, we saw higher rates, Jim, going back to the fall. So before we got into the new calendar year, in the third calendar quarter of 2015, we actually have seen an acceleration of those same-store sales numbers. We saw a bit of moderation heading into December and January in those numbers, but still very healthy relative to the rate of GDP growth – 2%, 2.5% same-store sales growth in a quarter where U.S. GDP was 0.7% – I think, is a pretty nice multiplier around the health of the consumer.

Jim Schneider
Goldman Sachs

Q

That's super helpful color. I'd like to maybe ask about e-commerce for a second, because I think a lot of this audience is very focused on growth in e-commerce in all of its different forms. So, I think you made some organic investments, some acquisitions to kind of reposition Global for e-commerce. And can you maybe talk us through some of those investments that you've made, but I guess more to the point, what shifts are you seeing in terms of your merchant base and their presence online, are you seeing most of that being done, just at the level of large international retailers kind of expanding to online or are you seeing that from smaller retailers now as well?

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

So, it's a great question, very timely of course, given where we are in the year. The business for us, which we call our omni-channel business at Global Payments is about $215 million in net revenue, growing well into the mid-teens top-line organically, that's a business and you are right in what you said that we've grown organically as well through acquisition, we made an acquisition just about a year ago now, Jim, of a company called Realex, which is in the Silicon Docks, in Dublin, Ireland, which is a market-leading e-commerce gateway specific to Europe. I think that, Jim, combined with the EU and SEPA changes, and the one common payments area that the EU is trying to incent – has really resulted in a fair amount of growth for our business. So, we think it's a key point of competitive differentiation for us.

In terms of the customer base, we have a slightly different strategy than some of our peers. We have some very large customers, but in general we target worldwide the SME customer. For us in that business, Jim, it really is the SME, e-commerce customer, where we make most of our profit. We think we're only about 10% penetrated as an industry into the opportunity from an acquiring revenue point of view. We're marrying that gateway of Realex with our acquiring presence primarily through our UK business into the UK, ultimately that will be into Continent of Europe and through Ireland. I think what's important about what you asked, which is the mode of competition is that increasingly consumers and merchants don't really worry about ordering something online and fulfilling it in the physical world. The important thing for everybody else is to make sure that it's as easy to do, to buy something on your phone and buy something online and pick it up in a physical store, as it is to do it online.

So when we think about omni-channels, much more along the lines of order however you like and pick it up however you like. And both merchants and consumers are looking for a seamless integration. It's one thing you do that in one market. For example, here in the United States, it's another thing to do it, however, in a number of different countries across Europe where we need both the physical presence as well as an e-commerce presence, and we do this through some large retailers in Europe like Burberry's. For example, like Zara, like Meliá, hotel chains. It was increasingly important that we would be physically in many of those markets as well as virtually and that seamless integration is what drives our competitive differentiation in that business and it's really one of the ideas that we think will accelerate on our weighted growth at Global Payments beyond what the rate of growth of the market is.

Jim Schneider
Goldman Sachs

Q

That's helpful. And then, kind of following up on that competitive landscape you mentioned, I think it's easy to look at this market and say, wow, online payment is super competitive and I think, outsider looking in that's generally, as you can say, okay we've got these big guys in the market like Chase Paymentech, U.S. PayPal, which always been a presence and then you've got within a lot of scale and then on the other hand, you got Stripe, Adyen and others that are clearly growing very, very quickly. So, I guess it's easy to be confused by the plan scape and kind of – figure out what, how it's going to shake out and maybe give us your two cents' on what the pressure points are going to drive some to really succeed, where another is going to fall by the wayside and how you plan to participate there?

Jeffrey Steven Sloan
Chief Executive Officer & Director
A

Sure. So everyone of course is not surprised we have a slightly different model.

Jim Schneider
Goldman Sachs
Q

Yeah.

Jeffrey Steven Sloan
Chief Executive Officer & Director
A

So, I think that will dictate who's successful and who's not, as I said before, we are really in the SME space. So our target customer is the small, the mid-sized guy, cross-border in a number of markets. Clearly some of the folks that you mentioned like in Adyen has a subtly different model where they're doing very – many of the same things, but they are generally after higher volume, self-service, low-margin customers. We're generally after SME customers, which are moderate volume, but where we think pricing is perhaps a bit more rational and maybe a bit more service. Time will tell who is successful going after this market, but certainly we see Stripe, Braintree, Adyen all the time in and around. And of course, Global Payments did it, in and around our businesses.

I guess what I would say is that as we think about the mode of competition, our ability to marry our physical acquiring in the markets that I described with our virtual online presence is somewhat unique to Global Payments. I think many of the folks that you mentioned start from an online point of view and migrate into the physical world. We really started from the physical point of view and migrated to the online world, perhaps we'll all meet in the middle, I don't really know where it will shake out, but what I would say is the regulatory environment, the physical deployment and distribution business, the customer service where we operated in eight primary languages at Global Payments and physically in 30 countries and do business cross-border in about another 50 for a total of 80. It is very difficult at scale, I think to replicate. So we think that gives us some advantage in what we do, but I think it's – it makes you feel good when you realize that you're starting from one end going into the middle, other people are starting from the other end going into the middle, it makes you feel like the strategy makes a little bit of sense, which is nice to say.

Jim Schneider
Goldman Sachs
Q

Yeah. It's good to see. Maybe just kind of switching gears a little bit to Europe, I think, that's been a big area of investor focus given the regulatory changes there, interchange being cut way down from – the mid-150 kind of basis points to 20 basis points to 30 basis points and then you got de-bundling of the fee structures. I think it's easy to kind of get a little bit wonky from a payments perspective in terms of the impact there, but can you maybe kind of lay out for us what are the high level impacts of this kind of regulatory change in Europe? How is it going to really stimulate the European electronic payments or not?

Jeffrey Steven Sloan
Chief Executive Officer & Director
A

Sure. So the first thing I'd say, Jim, is it's really nothing new. As you know the U.S. went through a version of this with Durban as a right to a part of the U.S. business in October of 2011. Canada obviously has gone through various elements, for that matter Australia did the same thing, but that was before my time in Australia with

Ezidebit. As it relates to the EU, there is a little bit of been there and done that already too – and the reason I say that is, our Spanish business, where we have a fantastic partnership with Kaiser, actually anniversaried the early adoption of those changes on September 1 of 2015, so those went into to effect in September of 2014. So we have very good real-time data in terms of what the reaction has been, and of course we're knee-deep in this and conscious of Europe and United Kingdom today, which we'll come back to in a second.

As relates to Spain, sitting here today, spreads in Spain, 15 months or 16 months ago, where September to February is, 15 months or 16 months later, are still higher than they were before the adoption in the first place, as relates to Global Payments and that's very consistent with our experience around the world, whether it's Durban or other markets that where spreads go, when these changes happened, ultimately our perspective, Jim, is it's a very competitive marketplace, and ultimately spread gets competed away over a period of time. It's like every other pricing action that you would see; in some cases, it's fully pass-through based on the type of customer; in other cases it's pass-through in part, there's usually an initial bump, some of it that gets pretty quickly competed away to lay and then it trades over a period of time as all pricing actions do, because the market is highly competitive. Nonetheless, 16 months or 17 months later, we're still at a higher spread today in Spain than where we started. We usually assume it's a modeling and forecasting matter, these things are 12-month phenomenons, experience tells us that they tend to be 18 months to 24 months before you get back to where you started, and that seems to be today true, as it relates to our business in Spain.

Notwithstanding that, we've had very good growth in our Spanish business, to your point, Jim, I described the UK a few minutes ago. Our Spanish business has experienced low double-digit volume and transactional growth having nothing to do with rate changes other than perhaps incremental demand. The very good low double-digit volume and transactional growth every quarter for the last five quarters – you may know it better than I, Jim, and [indiscernible] reported in a row, but probably five quarters now as we continue to capture share in that market, and as the Spanish economy tends to recover from the low GDP growth that it had a number of years ago and its unemployment drops.

As it relates to the UK business, we started more directly experiencing the benefits of the reduction on December 9. It's been – we talked about this in our December call, and our most recent filings have been consistent with our expectations, as to how it would play out and very similar to our experience in Spain. It's really nothing but good news for our customers that prices have come down, and I expect that too to be competed away over time as the market is pretty efficient, but it is a very nice tailwind for our merchant customers as well as for Global Payments.

Jim Schneider Q
Goldman Sachs

And then, how do you think about the long-term impact on transaction growth, eventually more retailers maybe start to accept branded credit and debit products. How do you think about where retailers' heads react in terms of how those lower costs of acceptance basically will drive their acceptance?

Jeffrey Steven Sloan A
Chief Executive Officer & Director

So, I think that the one trend that is pretty much something you can count on a little bit like the death and taxes stuff is that interchange is going to decline, right? And you're seeing this, you saw this in the U.S. in the form of Durbin, you're of course seeing this now, you've seen this in Canada, by regulatory acts, and you've seen this in Australia, now you're seeing it in the European Union. So, I think from that point of view, Jim, it's really a permanent shift of the demand curve as costs come down and will only increasingly come down for merchants I think over a period of time.

So, I do think that will accelerate over the cycle adoption of card-based payments and it's something that certainly now that we're six months past the annualization of Spain, we continue to see accelerated growth post the reductions in the first instance, and hopefully that will continue.

Jim Schneider
Goldman Sachs

Q

One last question on Europe before we leave that topic which is the kind of competitive changes on the network side...

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Right.

Jim Schneider
Goldman Sachs

Q

...So we've got the announcement of Visa will acquire Visa Europe. And, I guess, how do you think the competitive landscape between Visa and MasterCard plays out and kind of maybe talk about your role and – if any, in terms of what you see on the ground there?

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

So, I think it's really nothing but good news for merchants and consumers across Europe to have Visa Europe become a part of Visa just as MasterCard Europe has been a part of MasterCard for some time. What's important to understand is that Visa Europe prior to the transaction being closed is run a little bit more as a utility. So a little bit more around reduced pricing rather than innovation and growth.

And I think what we've seen with Visa and MasterCard as public entities is a relatively rapid rate of payments technology evolution over the last five years or six years. I'm sure it's hard to argue cause and effect in all these things. But it's also hard to ignore the fact that we're in an environment today worldwide, but especially here in the United States, which is where Visa and MasterCard are based, it's hard to argue that we're not in the midst of a renaissance and really an explosion of financial technology, engineering, especially in and around the payment space. You've mentioned a number of folks, Stripe, Braintree, et cetera, here in the U.S. and globally.

So I think it provides a ton of opportunities for all of us in the payments ecosystem to grow more rapidly than GDP plus, which is a usual metric that everybody uses. So I think from that point of view converting Visa Europe over to Visa Inc. and turning it from a not-for-profit utility into a for-profit growth company would only help accelerate product, accelerate technology investment as all things do when they run for enhanced profitability and growth over the long term. That's a great tailwind for Global Payments.

I've had that conversation with Visa. I think it provides a lot of opportunities for us to innovate around those products too, reminds me of American Express moving their business in a subtly analogous fashion to OptBlue which as you know has been good tailwind for the industry in the last couple of years, reminds me when Discover did the same thing. Maybe one day, Canada, we'll do that with Interac, which as you know is utility-based pricing in Canada for debit, which is about 60% of volume in the country of Canada. So I think that presents a great opportunity for us at Global Payments, a great opportunity for the industry, I told Visa that. And I think they'll be very successful in transforming that business into something that's more like Visa Inc., which is what they have done with Visa over the last 10 years in the first place.

Jim Schneider
Goldman Sachs
Q

Super helpful. One thing that I want to kind of come to is, one thing that has been talked about for like – seems like the last seven years which is mobile payments and the kind of the...

Jeffrey Steven Sloan
Chief Executive Officer & Director
A

Yeah.

Jim Schneider
Goldman Sachs
Q

...kind of the technology trends you're seeing there clearly over the last 18 months. We've seen Apple Pay, Samsung Pay, Chase Pay, Walmart Pay, et cetera, all get launched. I guess there is a lot of anecdotal evidence that suggests that none of them have really taken off like a rocket ship. I think some of the industry sources kind of say that Apple Pay has got 5 million users or something along those lines on it. Maybe give us your perspective on first of all, what are you hearing from your merchants in terms of their willingness or interest to really enable their operations to use Apple Pay or accept Apple Pay? And then, secondly, why hasn't the adoption in your view been faster and kind of what do you think is needed to kick-start it?

Jeffrey Steven Sloan
Chief Executive Officer & Director
A

So it's a – it's obviously a great, timely question. I think that the – if you think about the history of consumer payments on innovation, particularly here in the United States, I don't think it's about much further than ATMs or debit to understand what really drives innovation in the U.S. market. Other markets are different, I'll come back to that in a second, but the U.S. market is fairly large and diverse, meaning, by law in the United States, financial institutions are capped to about 10% of their deposit base, retailer for whatever competitive reason is fairly diffused, very different than certain other markets. As a result, the ability of financial institutions or retailers running one group to really force and move consumers along at a faster pace than consumers want to move along themselves is very limited here in the United States. By way of comparison, Australia is very different.

In Australia, for example, which is roughly the size of Canada as it relates to the population, you can get the top five banks together in Australia, top five retailers and you can encourage mobile adoption and in fact, that's what you've seen in Australia, that's why we're in Australia, there is a very high rate of adoption, probably one of the highest rates in the world as it relates to mobile payments and technologies.

But here in the United States, if you look at the history of ATM innovation or the history of debit in the United States, those really has to be driven by consumer-forced adoption and those have generally been 10-year to 15-year adoption curves, if you look at when ATMs kind of really started until they started to reach saturation and the same thing has been true in debit.

So the exciting thing is, we finally have the first use cases coming out of – in the tokenization, which is Apple Pay and as you are describing which is fantastic to see. But I would say that, even the context of EMV adoption, which you would think it will actually would accelerate the use of mobile technology, which is just faster at the check-out and just as secure because of the EMV code token, it really hasn't moved along. And in fact, I think we're only in the second inning really, second or third inning of EMV deployment at the point-of-sale today in the United States.

So again it comes back to what's the use case for merchants and what's the use case for consumers. Those curves take quite a long time for consumers. From a merchant point of view, merchants haven't seen the tail-off. To date, it's heavy investments and additional point-of-sale software and hardware. And until you do, given the diffuse nature of the U.S. market, it's going to be hard to see a real acceleration of adoption of mobile technology. The example I use all the time Jim is, my oldest son is 19 and a sophomore in college in Philadelphia, and he uses his phone for everything and he uses MO all the time, really MO is free, he uses MO all the time and he has my American Express and my Wells Fargo Bank card on his phone, because he has – he shares my account, but never once has he said to me, I want to pay with my phone, even though he pays with MO all the time as it relates to cards. And I think until you get people like that saying, I want to use the same methodology I use on Instagram and other things, to pay using my phone, it's going to hard to see widespread adoption.

Jim Schneider
Goldman Sachs

Q

But to that point, I mean, what do you think is needed to kind of drive that because in some ways the classic – most successful use case is Starbucks, which – where there is loyalty and rewards and everybody thinks they give you free stuff.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Maybe not for probably 10 years.

Jim Schneider
Goldman Sachs

Q

Exactly. But they are at 20% plus and I think the...

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

So I think as to the question, what it's going to take is a use case for merchants, because it may hard to push on the consumer side, given what we were just describing about the history of U.S. payments innovation. So, I think there is a need to be either by the way of lower assessment coming out of the networks to encourage adoption for merchants. There is the need to be some incentive for the merchants to change hardware and software at the point of sale and by the way in actual environments where merchants are already stressed because of the EMV migration, because of the fraud and other stuff you've seen with merchant breaches. So, moving that up the prioritization scheme of what the merchants are trying to deal with on a daily basis, without slowing throughput is going to be a very tricky thing to do for merchants in the near term

Jim Schneider
Goldman Sachs

Q

Fair enough. Maybe I'm going to ask one more question, before I open to the audience, so maybe just see if there is any takers. But I did want to ask about a trend that's been kind of widely talked about and you've been participating in the merchant acquiring industry which is integrated payments or iPOS.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Yeah.

Jim Schneider
Goldman Sachs
Q

Can you maybe just explain for the generalists in the room here, what that really is in terms of the distribution channel and kind of how you've used acquisition to kind of jumpstart your presence in iPOS?

Jeffrey Steven Sloan
Chief Executive Officer & Director
A

Sure. So I think the best way to think about it, Jim, is it's really the next generation of referral and lead generation, so if you think back to the history of the payments business as we all know it, in the merchant acquiring field, you would tend to get a warm lead from the financial institution or other referral source. And then we as a payments technology company, we then go close in that merchant. This is very much the same thing except our payments functionality is included in the software of somebody else. And these are what we call these value-added resellers or ISVs, independent software vendors and everything else, meaning, in the case of dental, which is one of our bigger markets, we embed our payments and software functionality in the VAR or ISV that has a very specific software application for dentists.

So a dentist is making a decision about what enterprise software that dentist wants to use in his or her office to run the practice. Our payments functionality is embedded in there. When they are getting a referral from the software company, go close a dentist, and then we're closing the dentist. As a result, it's a very sticky referral and application. Our retention rates in that environment are probably along the lines of 92% retention, that compares to 85% retention in more general bank-based channels, and probably 70%, 75% retention in ISO, in other third-party channels. And really, the only way you would lose that dentist is if the dentist went out of business or merged with another practice that have a different type of software than the dentist was using.

So, for us and our peers, it's been a very successful way of growing our business. Our technology advantage is actually not calling so much on the merchant as it is identifying the vertical market by dental that we think are very attractive and then calling on the software company, and embedding ourselves in that functionality and learning this software, so when the dentist has a question about how the software is working, the phone call goes to us, so we actually answer the phone as if we were the software provider and provide the first line of support back to the dentist.

And as the versions get upgraded and everything else, we insert ourselves in the middle and that really is the secret sauce and we're not the only ones doing this, so generally there's a mode of competition by vertical market. We're in [17] vertical markets, some of our peers are in other vertical markets and that's how we go about it. We are one of the few folks who are doing this globally, so we brought that business into like Canada and we brought that business now into the United Kingdom.

Jim Schneider
Goldman Sachs
Q

Fair enough. Let's – that's helpful. Let's see if there's any questions from the audience if we could for a second. Oh, there is one right here. Let's give him a second.

Jeffrey Steven Sloan
Chief Executive Officer & Director
A

[indiscernible].

Q

[indiscernible]

Q

Hey Jeff. Could you talk a little bit about how you think about Square and what they're doing in the small business space? In particular, they're leveraging data and they're using their balance sheet to take credit risk. Obviously you sit in the flow of a lot of information, you sit on a lot of interesting proprietary data. Any thoughts about adopting some of their playbook?

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Sure. It's a great question. I give Square a lot of credit for being very creative marketing and branding. Of course they were among the first if not the first to come out with dongle and other related devices and I think that a lot has been very creative has really accelerated the adoption in the space.

Having said that, most of the things that you refer to in various forms, we've all been doing for quite a period of time. So, for example, on the data analytics side, we offer both a free as well as a value-add data analytics package to our merchants worldwide. Today, I know we're not the only ones doing that at Global Payments. In fact, for very large customers, all they really care about is the data and we just pipe the data into those guys directly and they don't actually want us to touch it. For the small to mid-size guys, we actually repackage, kind of the same kind of data analytics that you are describing with Square.

As relates to merchant cash advance, we do that too. We don't take the balance sheet risk, obviously some people do. Square is an example of somebody who does. PayPal is doing this as well. We prefer to have a third-party take that balance sheet risk and for that we're paid a revenue share, a referral fee, that by itself is not relatively – is not relatively new.

I think the issue for Square, just an outsider looking in at that business, is what is the mode of competition that that business scales and as that business goes into other markets, whether you could provide a value-added service to the customer base of Square that's not otherwise provided by one of us. Most of us is already fairly expansive in terms of the geographies, in terms of the technology, in terms of integration. I think the question for Square is, as you look at bringing that business more thoroughly overseas, how did you get that, that distribution base, in a way that's sustainable and differentiated from what we do?

Clearly, there's an ability to do that as they're currently doing it, but we've really placed our bets in the last $6 billion or $7 billion that we've agreed to spend or spend in M&A as there is a distinctive distribution, but we think other people are generally not focused, other than one or two. And I think that's the question for Square, where you want to go from here, but I give him a lot of credit for all the stuff that they have really done to-date.

Jim Schneider
Goldman Sachs

Q

And time for one last one. There's one? Right, middle in.

Q

Thank you. So just maybe just more advice than a specific case. For somebody off running or for some – a company running a marketplace-type site, where you have multiple vendors and you're facilitating referrals between users and potential businesses. Would that predicate the marketplace site to become an acquirer or is there a way to facilitate tracking those transactions or getting commissions from those transactions if they're on different payment providers.

Jeffrey Steven Sloan
Chief Executive Officer & Director

A

Well, first I'd say, it's already very competitive, so please don't start another acquire, I think we will follow up on – follow up on competition today, but in all seriousness what I would say is, you have to think about what your competitive advantage is. I would say, in the example that you just relayed through a competitive advantage there is in knowing who the participants, the market are matching buyers and sellers, aggregating it at scale.

There's plenty of examples of payment facilitator models out there where – and we do this around the world today, at Global, we have the Uber of Asia, which is called GrabTaxi. We do this for an auto leasing company, airports in Europe, where the real value-add that you're bringing is linking those buyers and sellers and less about acquiring the transaction and more about what this gentleman just asked, managing the information flow.

And from that point of view, it's very similar to payment facilitator models that we see among many of our customers today. So, sitting here today, I would say that's what a value-add is rather than being more on the scalable technology side, but every model is different. You have to think about how it's differentiated, but matching those buyers and sellers have tend to be – tend to be a very economics-driven equation.

Jim Schneider
Goldman Sachs

Q

I think with that we're out of time. But, Jeff, thank you so much for being here. We appreciate it.

Jeffrey Steven Sloan
Chief Executive Officer & Director

Thanks for having us, Jeff.

Jim Schneider
Goldman Sachs

Thanks.