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Global Payments, Inc. (GPN)

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CORPORATE PARTICIPANTS

Cameron M. Bready

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

OTHER PARTICIPANTS

Ashwin Shirvaikar

Analyst, Citi

MANAGEMENT DISCUSSION

Ashwin Shirvaikar: So, let's get started with the first of the afternoon company sessions. I'm Ashwin Shirwaikar. I'm Citi's analyst that covers payments. And it's my pleasure to host Cameron Bready from Global Payments. Cameron, thank you for doing this.

Cameron Bready: Thank you so much for having us. And thanks for joining us today. Thanks for your interest in Global Payments.

Ashwin Shirvaikar: Absolutely. Let's kick off with sort of talking maybe at a little bit a higher level about sort of market evolution. What are sort of the two or three of the most important ways in which the acquiring industry is evolving today?

Cameron Bready: Yes, it's a good macro question to kick off our conversation. So, I think one obvious trend that's been happening for a while now is just the [prolification] of technology geared towards payments, whether it's trying to change consumer behavior and how consumers interact with merchants and certainly technology that companies like us are looking to deliver to our merchants to simplify the payment process for them, add more value-added services, and obviously, try to improve the overall economics of the business away from the more commoditized processing side of the business. And I think that trend is likely to continue, obviously, as we go forward in time.

I think the second big trend I would point out, and this is a very US-centric comment, not necessarily a global comment, but the market in the US is becoming more verticalized. And I think that trend is likely to continue over time as well.

Our strategy to attacking that opportunity has really been through heretofore primarily OpenEdge, which is a partnership model whereby we integrate our payments technology into ISV partner software platforms that are really geared toward small- to medium-sized enterprises. It's been a fantastic way to exploit that opportunity in now roughly 60, 70 different verticals through OpenEdge.

With the Heartland transaction, we now have, obviously, more vertical exposure, primarily in higher education, lower education, and restaurant and hospitality, where we are in fact the ISV. And we're obviously embedding our payment technology into software that's geared towards businesses in those verticals. And I think that trend will continue certainly in the US market over time. And as you know, trends in this industry tend to move east. So, eventually, those trends will start making their way to other more mature markets around the globe in Europe and Asia, etc.

Ashwin Shirvaikar: Okay. Okay. And that's a great way to start because we can now sort of drill down into each of those areas. But, let's start with the US verticalized piece or the integrated solution, if you will. Maybe step back, provide us with the update of how many verticals you're in today. What are the particular strengths maybe? And I still get questions on sort of the nuances of what actually changes maybe from vertical to vertical, if you can kind of comment on that.

Cameron Bready: Sure. So, maybe just some data points on OpenEdge to talk about, and then we'll dig into the second part of the question. So, OpenEdge today has over 2,000 software partners. We're in 60 to 70 different vertical markets with our partners.

And typically, the strategy has been we want to partner with one of the market leaders in the vertical that we're trying to serve. It doesn't make a lot of sense to partner with the number 15 software provider in the dental space. We'd rather partner with Patterson, with whom we're partnered with, who's a market leader clearly in that vertical.

That business continues to grow mid-teens. And I think, from our vantage point sitting here today, we still see a lot of runway to continue to grow that business at that pace, largely because we still have opportunities to further penetrate verticals that we're already in today.

And then two, we still think that partnership model is very suitable for a number of different verticals going forward. There may be verticals where we see a great opportunity to drive faster rates of payment growth and payment throughput by virtue of us being the ISV and owning the software ourselves. I think there's a lot of verticals where we say the partnership model is perfectly well suited as a mode of distribution into a particular vertical. And we'll continue to look to grow and expand OpenEdge that way.

I think what changes vertical to vertical is the software solutions themselves are really geared towards helping merchants to run their businesses more effectively, more efficiently, given the particulars of that vertical.

So, the solutions geared towards the bet industry are very different than the solutions geared towards the dental practice, which are very different than the solutions geared towards unattended verticals or storage or whatever particular vertical you may be operating in.

And much like the Internet sort of democratized commerce, from a selling point of view, I think Cloud-based SaaS solutions are really doing the same for small business. Now, every small business and every vertical really has an opportunity to leverage software solutions to help run their business more efficiently and effectively, which is part of why I think the verticalization trend in the US in particular is going to continue for a long period of time.

Ashwin Shirvaikar: Yes, okay. And the metrics that you gave to start with on integrated payments, did that include what Heartland brought to you or what -- ?

Cameron Bready: No, that's OpenEdge standalone. So, what Heartland really brought to us was a fantastic business centered around campuses, universities, and colleges, so higher education, which is also a business that we see very interesting opportunities to expand globally over the course of time. The underlying technology that really supports that business is a company called Touchnet, which Heartland acquired. We actually looked at that at Global Payments.

We're very interested in that asset, chose to invest in our Ezidebit Australian business instead, but always liked that business. And importantly, Heartland's been able to prove out the thesis which is, by owning the software, you can drive more payments throughput in that vertical.

They also brought us a lower education school business, school solutions, that's really geared towards K through 12, again, same concept, although I think the global opportunities there are probably not as prolific as the campus solutions business.

And they brought us Heartland Commerce, which is really a point-of-sale software solution business where you can integrate payments with point-of-sale software technologies for restaurant and hospitality verticals, again, another great opportunity we see to bring that business to our global regions.

We have a lot of restaurant businesses in the UK, a lot of pubs, same thing in Spain. That technology, the underlying technology in Heartland Commerce can easily be tropicalized to those markets and create an opportunity for us, again, to sell that integrated solution in restaurant and hospitality verticals that we serve today without software in most of the 30 different markets outside -- or 29 markets outside of the US that we operate in.

Ashwin Shirvaikar: Okay. Okay. Now, the software opportunity, can you delve a little bit deeper? Where would you want to be the software developer, so to speak, as opposed to in some sense a value-add reseller of it?

Cameron Bready: Yes, I think it's going to be -- I don't necessarily want to dig into all the different verticals that we may think of as being --

Ashwin Shirvaikar: Right. But, how do you think of it from a planning perspective or even some criteria maybe?

Cameron Bready: I think the criteria we generally look at is going to be the underlying vertical itself. We don't want to invest in software just for the sake of being a software investor. If a business is 99% software and 1% payment, probably not going to be attractive to us.

So, it needs to be a vertical that has -- that certainly has a large addressable spend market, where payments is a large part of the underlying base of the business and where we see an opportunity by owning the ISV ourselves, by being the software developer to, again, drive faster rates of payment revenue growth and more throughput in the vertical, if we ourselves are the ISV.

Heartland did that with campus and school solutions. And we think the same opportunity exists in restaurant and hospitality with commerce. There's a lot of other verticals out there where, again, we think that, over time, us being the ISV ourselves, us being the developer will do a couple things.

One is enable us to exploit a payment opportunity in that vertical more aggressively, but two, obviously, work to transform our business over time to be more software driven, higher margin, product driven, while also accelerating the rate of payments growth, which we think long term continues the trajectory we're on of creating a true payments technology business, a global payments technology driven that's very much software driven as opposed to payment processing driven, which is historically what this business has been.

Ashwin Shirvaikar: Yes, okay. Very consistent with the margin trajectory and stuff that you talked about and adding value.

Cameron Bready: Yes, and very consistent with the way we think about distribution. We've been working to pivot our distribution platforms over time to be more technology enabled. And this is a continuation of that trend.

Ashwin Shirvaikar: Got it. I was a little bit surprised that you qualified the verticalized comment by saying US because you guys have rolled out into Canada. You have, of course, in Australia and so on. Is further penetration in the US a bigger opportunity than going into more countries, or should I not even think of it that way?

Cameron Bready: I don't know that I would say it's bigger. It might be more near term in terms of sizable. Over time, I think there's good opportunities to bring the integrated solutions business to other markets around the world. But, the reality is the US is the largest payments market globally by far.

So, even if we develop a large integrated business in Canada, there's nowhere near the number of software developers in Canada that there are in the US. We can obviously grow cross-border with our software partners here who are selling into Canada. But, the reality is the verticalization I described is a more near-term US-centric trend, as I talked about.

I do think that's going to obviously evolve and move east over the course of time. And our plans are continuing to develop integrated solutions globally over the course of time as well. And we've done that in Canada. We've introduced the OpenEdge model to the UK already. We obviously have a great integrated business in Australia, which is very much a -- Australia's kind of like California as I think about it, very technology driven already. But, a lot of these markets will continue to evolve that way over longer periods of time.

Ashwin Shirvaikar: Okay. And do you see country-specific differences, or can you deploy at an underlying level of similar architecture and similar product base?

Cameron Bready: Yes, I think, in most countries, the verticals are going to be similar to the ones that operate here. So, a restaurant in the US is going to be similar to a restaurant in the UK, similar to a restaurant in Spain, similar to a restaurant in Hong Kong. So, I think there's a lot of underlying consistency among verticals around the globe.

There's obviously -- we refer to it as tropicalization -- that needs to be done on the technology to make it suitable for that market. For example, we sell heavily in Spain and Catalan. And it needs to, obviously, be language appropriate in that market.

But, beyond that, which isn't that difficult, a lot of the underlying software solutions are very suitable for many different markets around the globe because a restaurant owner in those markets is dealing with all the same things, inventory management, time in attendance, obviously, ordering, seating, all -- and naturally, I would be remiss to not mention payments. They're dealing with all those same issues around the globe.

Ashwin Shirvaikar: Okay. Understood. Maybe we could switch gears to talk about Heartland in a little bit deeper fashion. If you can provide some of the details underlying the Heartland integration, my understanding, obviously, it's ahead of schedule it seems like. What steps have you taken? Where do you stand? Still seems like early days. It's six, seven months. What remains to be accomplished and sort of a roadmap if you --

Cameron Bready: Yes, be happy to. So, I'll start by saying we're delighted with the progress we're making. And before I dig in on the expense side, which is really a lot of what's driving the integration activities, I'll just comment on the revenue momentum in the business and the sales momentum in the business.

Our entire post-integration has all been with an eye towards not disrupting the momentum on a -- from a sales point of view as we work to put these two companies together. And I'd say, thus far, the sales metrics we're looking at would suggest we're -- actually, momentum's very good and even better in some cases than what it was prior to closing on the merger. So, we're very pleased about that.

As it relates to integration activities, they really fall into three primary buckets. And I'll talk to them in sort of order of what's been accomplished and what is remaining in front of us. The first is in the area of corporate overhead, corporate support functions, public company expenses, etc. That's roughly a third of the total opportunity we see for expense synergies in the business. A lot of that's already behind us.

Some of that's low-hanging fruit, for lack of a better term, eliminated duplicative public company expenses. Obviously, the companies don't need two CEOs, two CFOs, and other leadership positions. A lot of that work is already behind us. We're consolidating legal, HR, finance, accounting, all of the support functions that we utilize that provide business support around the globe.

The second area of integration, which represents another roughly third of the overall pool of opportunity we see, is in the area of operations. So, when we merged with Heartland, we had a service center for our US business based in Maryland. They have one based in Jeffersonville, Indiana. So, think of that as Louisville, Kentucky. It's on the other side of the river.

We made the strategic decision. We wanted to leverage Heartland's Jeffersonville facility going forward. We have demised by and large our Owings Mills operating center. We have migrated that work to either our captive offshore service center in the Philippines or to the Jeffersonville service center. So, for example, now, all US deployment is being done out of Jeffersonville. So, a lot of that work is behind us.

And when we talked about accelerating realized revenue synergies -- or excuse me, expense synergies into fiscal 2017, we were largely able to accomplish that because we were able to consolidate operating centers more quickly than we anticipated we could. So, that's very good progress on that front.

Ashwin Shirvaikar: Would that be pull forward, or would that sort of increase the size?

Cameron Bready: No, we pulled it forward. So, we always planned to do that. But, we were able to do it more quickly than we assumed. And I'll get to the overall opportunity in a moment.

And then the last area is in the area of technology. We obviously have a technology environment applications and platforms that support our operations today, as did Heartland. What we've done thus far is to really look at our applications, our platforms, their applications, their platforms, and make decisions about what the target architecture model should be from a technology standpoint going forward.

And have developed migration plans to move from the current state to the targeted architecture model. I would say a lot of the foundational elements of that model are coming from Global Payments. We think our platforms are highly scalable, have a lot of capacity to be able to absorb Heartland's volume without really any incremental investment.

There are elements of Heartland's technology environment that we think are very attractive and will be part of that target architecture model for the pro forma business. So, a lot of the technology work is still to come. And a lot of the technology benefit from an integration point of view, which represent the remaining roughly third of the expected expense synergies is still forthcoming because technology's always the long tail from an integration point of view.

We've made good progress in designing the architecture and developing migration plans. Now, we have to execute on those as we roll into calendar 2017 and early 2018.

Ashwin Shirvaikar: Okay. Got it. Actually, when you said Jeffersonville, trying to explain where it's located, I've actually been there.

Cameron Bready: It is a fantastic facility. And that's part of the reason we chose it.

Ashwin Shirvaikar: -- place, yes, with a talent pool underrated in Louisville, but it's actually pretty good. I spent six years in Cincinnati.

Cameron Bready: Okay. You probably know better than I do.

Ashwin Shirvaikar: So, the upside, downside, if we try to think about it with regards to your cost synergy estimate, how does one think of the overall opportunity? It seems as though the actual number should be -- the actual eventual number should be a lot bigger than what you guys have published so far. So, is that just a matter of caution as you try to figure out specific plans? How are you characterizing that?

Cameron Bready: Yes, well, I think some of it depends on your perspective. I'm not sure what the basis for drawing the conclusion that it should be a lot bigger for one than $125 million is. You're adding roughly 50% to the EBITDA of Heartland on a standalone basis. That feels like a pretty healthy amount. And I think we're taking out something in the neighborhood of 20-plus percent of what we do as addressable spend. So, it's a pretty big number.

But, putting that aside, I would say, look, we put a high premium on meeting or exceeding whatever target we establish as a management team. And I think we're confident in our ability to achieve the $125 million. And obviously, our objective is to exceed the $125 million.

But, I would say that has to be viewed through a very balanced lens because we've already made decisions not to take certain expense out of the business because we're cautious about not wanting to disrupt the sales momentum in the business. And we've chosen not to do things that we thought could potential have a negative impact on the sales momentum in the business.

So, and we're always going to make that decision because, again, it's far more important to us to continue the rate of organic revenue growth than to take another $1 of expense out of the business.

So, over time, we hope to exceed the $125 million. And we'll continue to update as we make progress. We're only six months in. So, I think it's a little early to suggest that we're going to be above that number.

But, it's clear our intent and our hope is to exceed it, while still balancing, obviously, making sure the business is well positioned to grow organically and sustainably over a long period of time.

Ashwin Shirvaikar: Got it. And then as when things sort of with a cadence of how that improves over time, is it fair to characterize the current quarters as a balance of reinvesting or making initial investments to get those synergies? And then it then becomes more of a pure benefit number as we go up?

Cameron Bready: That's right. Yes, I think that's a fair way to characterize it. Yes, there are investments that had to be made to do all of this work. And we are, obviously, incurring those as we work through the integration process. And the long-term benefits of taking those costs out of the business are more permanent.

Ashwin Shirvaikar: Okay. Got it. It's pretty close to the halfway mark here. I just want to open it up. If you have questions, just raise your hand.

Otherwise, you're stuck with me. I'm sorry about that.

Cameron Bready: That's fine with me.

Ashwin Shirvaikar: Can we talk about international just from a geography perspective, because you guys are Global Payments. You're very global. But, let's talk about Asia to start and the steps you're taking in Asia-Pac with regards to China, the economic situation in China. Let's think about that. And then we can kind of do sort of a geography roll through Australia, New Zealand, Philippines.

Cameron Bready: Sure. Okay. So, some overall macro comments on China, I would say we're really pleased with performance we've seen in that business. It's fair to say fiscal 2016 had some challenges, largely driven by weakness in what we call the Greater China markets, which for us is going to be China, Taiwan, Hong Kong, and Macau.

We took a good amount of cost out of that business. We obviously continue to produce strong earnings out of that business, notwithstanding kind of the macro revenue headwinds we absorbed in the Greater China markets.

I think what you also saw last year very clearly is the benefit of some of the strategic investments we've made in Asia over the course of the last few years to diversify the business away from the Greater China markets and not be so susceptible to the macro environment in China through the BPI joint venture in the Philippines, which has doubled our -- the size of our business in the Philippines, which is an attractive growth market, and of course, the investments we've made in Australia with Ezidebit and now eWAY, which are - have been terrific growth vehicles for us in that region.

So, Q1 of fiscal 2017 was a terrific quarter for Asia. We saw some stabilization in the Greater China markets in the growth that we're seeing in Malaysia, Singapore, the Philippines, Australia really was able to shine through, produce double-digit organic revenue growth in that market, and more hopeful that that trend can continue as we work through the balance of fiscal 2017, of course, pivoting the calendar of 2017 next year.

Ashwin Shirvaikar: Okay. And the acquisitions that you made in that region, is there sort of an update to give, anything that adds to the story? That must've been a while back, but --

Cameron Bready: Yes, eWAY has yet to annualize. And that'll annualize in March. But, if you look at BPI, that's been a great transaction for us. We have a very good partner with terrific distribution, 600-ish bank branches in the Philippines islands, which is still the predominant go-to-market strategy in the Philippines is through bank branches.

And we've doubled the scale of our business effectively in the Philippines and in a market that has good secular trends. And obviously, we're growing above the rate of market growth in that market. So, BPI's been a terrific transaction thus far.

I can't say enough good things about Ezidebit. We're, what, two years I think now into that ownership of that business. And it grew 20-plus percent last quarter. It's fair to say they are far exceeding even our own M&A expectations and have a lot of confidence in the team. And that's part of the reason we were willing to put another $50 million to work in Australia back in March when we did the eWAY transaction.

The only bad thing about Australia is it's not five times bigger than it is. I wish that market were a lot bigger because it's a terrific team, a terrific asset, and obviously growing very nicely.

Ashwin Shirvaikar: Okay. So, just moving to a different geography, take EU and broadly and then Brexit comes up, obviously.

Cameron Bready: They're still together for the time being.

Ashwin Shirvaikar: Still together. We don't know about hard exit, soft exit, whatever it is.

Cameron Bready: That saga will play out.

Ashwin Shirvaikar: But, have you seen any impact from Brexit? As corporations, as banks think of the planning process for next year, is that when it's going to play out?

Cameron Bready: Yes, I think you'll start -- I think it's going to take a long time to play out is probably my -- the -- my opening comment. And I think you'll start to see in 2017, assuming things move forward, some view as to what it's all going to mean over the course of time.

I think what we've seen thus far is there's really been no impact. And quite frankly, we've seen better fundamental trends in the UK than we expected to see I think somewhat driven by, ironically, the weakness in the pound. And it's not dissimilar to what we saw in Canada a while ago, which was with a devalued currency, more people were staying home, spending in country, particularly during the summer months, which is a lot of what was reflected in our Q1.

And you see more people traveling to the UK to spend money because it's obviously cheaper with the pound having devalued the way it has. So, our UK business in our fiscal first quarter grew double digits organically, which is above the rate of growth that I would expect for that business, somewhat benefited from the interchange reductions that came into effect last year, but really benefited by strong fundamentals, even on the heels of the Brexit vote.

So, I think there's more for this story to play out. And I think we continue to monitor the situation very closely. We have a variety of contingency plans that we're prepared to enact. We took action immediately on the heels of Brexit. And we have another list of contingency plans, should things soften in the market over the course of time.

But, sitting here today, we really haven't seen signs of that and remain cautiously optimistic that they can work through the process without a lot of negative implications on the domestic economy.

Ashwin Shirvaikar: Where do you process in -- did you have an imbalance in terms of processing in the UK? And clients, obviously, can be anywhere. Can you kind of go through the operating -- ?

Cameron Bready: So, in the UK, we really leverage our common technology environment. So, the same technology environment that supports operations in most of our key markets around the globe is the same technology environment that supports our business in the UK.

So, as it relates to where do we have licenses, we obviously have licenses in the EU. We also have licenses in the UK. So, even with that separation, there's no disruption in our ability to continue to serve our customers in both the EU and other European markets that are outside the EU and the UK as well.

Ashwin Shirvaikar: Okay. And not to complicate sort of the picture in EU, but maybe a good time to bring up PSD2 and sort of the evolution of PSD2, the PSD2 session going on upstairs right before this. So, how are you preparing for PSD2?

Cameron Bready: Yes, I think it's fair to say we're still assessing what we think the longer-term implications of PSD2 are going to be. And I think, probably, that's by and large true for most people. What's not entirely clear is how that's going to impact the settlement flow process that we're so critical to and integral to as it relates to being that conduit between the networks, the banks, and obviously merchant customers in terms of settlement.

A little early to say what implications we think it's going to have for the business. I don't think we see really downside risk there. I don't think we see that as a trend that's going to be negative to us long term, but clearly still working through what it's all going to mean.

Ashwin Shirvaikar: Right. What about possible upside risks in terms of opening up markets, using, for example, the Realex asset and e-commerce?

Cameron Bready: I think it's very consistent with the strategy we've been looking to deploy in Europe for the last couple years on the heels of the Realex acquisition. Realex is a fantastic e-com gateway that we're now able to combine with our merchant acquiring capabilities to sell a variety of different bundled solutions, whether it's e-com and merchant acquiring alone or e-com mobile, brick and mortar merchant acquiring, and obviously gateway services to small- to medium-sized or even enterprise-level customers who want to sell more on a pan-European basis.

So, I think the regulatory trends in Europe I would generally characterize as nothing but good news. They're all serving to make commerce more free flowing across the EU market. I think that's only good for our business.

Ashwin Shirvaikar: Okay. Just another opportunity I guess -- there's a question there. Thank you. There's potentially I think a mike coming your way.

Unidentified Audience Member: Hi, just going back to Heartland quickly, in terms of how you thought about or maybe how the Board Compensation Committee thought about incentivizing preserving the revenue function there, I think, from the proxy, most of the incentive targets are around expenses. So, maybe you could talk about how that was sort of thought about.

Cameron Bready: Yes, it's a good question. So, our Board in working with a compensation consultant did put in an incentive plan around the synergy realization for the transaction. I would just note, whatever revenue synergies we're able to sort of generate in the measurement period are obviously counted towards the overall synergy targets as well as expense synergies. But, obviously, the lion's share of that's going to be driven by expense synergies.

I think the way the Board thought about it, and not speaking for the Board, but I wasn't in the room when they deliberated it. But, I think the way they thought about it was they set the minimum target by -- for which incentives would be paid at roughly 10% above the target that we've established, the $125 million, with an expectation that some of that could be bridged by obviously revenue synergies actually materializing in that timeframe, and then secondly, us doing better than the $125 million we targeted.

And I think they capped it at $150 million because I don't think they wanted to create an artificial incentive for us to take cost out of the business at the risk of not making sure the business was positioned for long-term success.

I think that's -- I think the plan they put in place tries to balance those two objectives. We don't get paid for just delivering on the $125 million target. We've got to do meaningfully better than that before there's any incentive. But, there's not an improper incentive to do too much that may put the business at risk and not investing in the business the right way to achieve kind of the long-term objectives we have from a growth point of view.

Ashwin Shirvaikar: Any other questions?

Unidentified Audience Member: As you guys have done a lot of acquisition over the last couple years, and currency has a big impact on your business also, you sort of speak to organic growth in a given quarter, but you don't really give very granular numbers. I think one of the analysts follows you has questioned some of the numbers that you guys have put out. So, is there any thought of maybe providing more granular numbers around organic growth rates, contribution from acquisition, etc.?

Cameron Bready: Yes, it's a good question. And obviously, a lot of our strategy around M&A is we're buying businesses that drive higher rates of organic growth in our Company. So, we always give a normalized rate of growth number that is effectively a pro forma number that reflects what growth in the business would be had we owned that business last year and if we owned the business this year as well.

We tend to describe growth trends in ranges of high single digits, mid-single digit, low single digit, low double digit. I think those are pretty intuitive as to what high single digit means, seven to nine, mid being four to six, and low being one to three.

Part of the reason the market I think to some degree has gotten fixated on sequential growth trends, notwithstanding the fact this is really not a sequential growth business quarter over quarter, and part of the reason I think we're a little sensitive to saying X business grew 8%, and maybe it's 7.5% the next quarter, then you're suddenly answering a bunch of questions of why did it decelerate 50 bps quarter over quarter sequentially, when that's not really how the business operates.

So, we step back and look at it more through the lens of, what's our overall expectation for our business? We think we have a business today that's poised to grow high single digits organically on a global basis. Some channels are going to be a little better than that. Some channels are going to be a little worse than that. We're in 30 different countries around the globe.

But, we think the business is well positioned to grow high single digits organically. And that's sort of the target that we're managing our business to over the course of time. We constantly think about, obviously, are we providing the right level of disclosure, the right information to help investors assess the opportunities for the business better. And certainly, we'll continue to do that going forward. And if we think there's a better way to present information, we'll work to do that.

Unidentified Audience Member: It seems like you paid some healthy multiples for some businesses. And if you look at – if you include all the goodwill from that, it looked like your returns on capital have actually declined a bit. Clearly, we should look at it over a longer-term period. I'm just wondering, when you think about your hurdle rates, or just over what period of time would you see your returns on capital kind of getting back to the levels that they were prior to the acquisition?

Cameron Bready: Yes, it's a fair question. Every asset that we've acquired kind of have its own story from a valuation point of view. As we think about hurdle rates for investment, they're going to be risk adjusted based on the asset that we're looking at.

But, typically, you should assume that it's hard for us to think about return levels below mid to high teens from an IRR point of view as being terribly attractive, particularly as we compare that to alternative uses of our capital, which we typically assess on a buyback analysis. What's the cash earnings accretion and IRR from purchasing our stock as opposed to putting this capital to work in an asset?

Typically, the way we think about any M&A opportunity is we think we need to be able to do more with that asset. We need to drive higher rates of revenue growth. We need to scale the business more effectively than the existing owners. Otherwise, we're just a financial buyer. And we're really not in the business of being a financial buyer.

So, I think every asset that we have purchased over the course of the three, almost three years I've been here, 2.5 years I've been there, the returns we're seeing today are at or above what we anticipated in the M&A model, which means they're at or above our hurdle rates.

But, we've done a lot of acquisitions, to your point. So, you are carrying the goodwill on that. It does take time to earn the return that you would expect on those assets. We invested in these assets for very long periods of time. We don't invest on them for one quarter or one year.

So, I think we -- and Heartland's a good example. The headline number for Heartland from a multiple point of view looked fairly rich. And I wouldn't want to suggest it was a cheap asset. But, on a synergy adjusted basis, we bought that business for low double-digit EBITDA multiples.

From our point of view, the IRR on that asset, which is a purely US domestic asset, is high teens. It's a very attractive business. And we would do that deal every day. We think it's a very competitive use of our capital and very pleased with how the business has performed since we've owned it, although, again, it's -- we're five, six months in, still have a long way to go.

Ashwin Shirvaikar: I'm going to go back to Heartland and ask for the -- because we get this question a lot from investors with regards to Heartland pricing and what the opportunity is, or is there an opportunity Heartland pricing?

Cameron Bready: Yes, and I -- the pricing question, obviously, comes up quite a bit with respect to Heartland. I think the conventional wisdom, and I wouldn't disabuse people of this notion, is they are relatively low priced as compared to the market.

I think, fundamentally, we don't really think about pricing just in terms of pricing's sake or changing pricing for purposes of just simply changing price. We really think about it in terms of the value proposition. Typically, when you go to market in this business, you're either delivering a very low-cost product with very low service, levels of service, or driving a higher-priced product with higher levels of service quality.

And our model, from a Global Payments point of view, has always been we deliver a very high level of service, reliability, availability, and high-touch service for our merchants at what we think is a very fair cost. But, we're not low cost relative to the market.

Heartland unfortunately is kind of caught between two worlds. They deliver a very high service quality and a very high-touch service to their merchant customers, but they're doing it at a very low price. And we don't think that's a sustainable go-to-market strategy long term.

So, our objective is more geared around not pricing for pricing's sake, but making sure that we're getting paid fairly and are being valued appropriately for the level of service and the service quality we're delivering to our merchants.

So, I think it's fair to say, over time, we think we can improve the overall yield out of the portfolio by making sure that we're getting paid, and the services we're delivering are being valued appropriately by the market.

We certainly didn't buy Heartland with the idea that there was this massive pricing opportunity, and that's how we were going to finance and fund the acquisition. None of the economics for the deal are premised in any way on changing the pricing methodology that they've been utilizing historically.

But, we do think the model they've been going to market with is not a long-term sustainable model. And we want to work to evolve them to something more aligned with how we think about the service we're delivering to our merchant customers in terms of being paid fairly for the value and the service quality we provide.

There's always a market for low cost, low service. That's not the portion of the market we're trying to fill. And I think that portion of the market is going to continue to decline as the overall payment landscape becomes more and more complicated.

I think merchants less and less are -- not to say they're not price sensitive, but I think they're less price sensitive. They're more looking for solutions, in particular with more technology being delivered and more software being delivered in terms of solutions. They're making more of their decisions based on the technology and innovation we bring as opposed to the pure -- what's the basis point spread on a transaction?

Ashwin Shirvaikar: Okay. Understood. I want to talk about a couple other things from just a competitive standpoint. We've had this conversation in previous sessions, Chase Pay is -- from a competitive standpoint, what are your thoughts on Chase Pay, the impact it can have on acquire pricing in general? Obviously, the locations they've announced, it's not -- they're not GP clients. But, from a conceptual standpoint, how do you think of that as a competitor?

Cameron Bready: Yes, I think, to your point, it's more of an issue at the large national retail level. I think Chase -- and you know this better than I do -- maybe has 25% of the card issuing volume in the US, something in that -- ?

Ashwin Shirvaikar: 18%.

Cameron Bready: 18%, 20%? Okay. 18%, 20%. So, obviously, at a large national retailer, I think there's some implication for that to be an issue to whoever is serving that large retail customer. I don't think it's likely to be an issue at the small- to medium-sized merchant level as it relates to the economics of our underlying business.

I think that's likely long term to be something that has a lot more impact on our peers, who are looking to serve the Walmarts of the world, the Targets of the world. That's not really a channel that we're focused on from a business point of view.

Ashwin Shirvaikar: Okay. I just looked, and I was a little bit surprised with zero. So, with that, I just want to say thank you for insights. Appreciate your doing this, Cameron.

Cameron Bready: Thank you very much for having us.

Ashwin Shirvaikar: Yes, thanks, yes.

Cameron Bready: Thanks.