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# Global Payments, Inc. (GPN)

J.P. Morgan Global Technology, Media and Telecom Conference

## CORPORATE PARTICIPANTS

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

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## OTHER PARTICIPANTS

Tien-tsin Huang  
*JPMorgan Securities LLC*

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## MANAGEMENT DISCUSSION SECTION

Tien-tsin Huang  
*JPMorgan Securities LLC*

All right. I think we're live. So, thanks, everyone, for coming. My name is Tien-Tsin Huang, I'm the Payments analyst at JPMorgan. So, always excited to have Global Payments with us, actually kicking off the day on the payments track.

With us from Global Payments, we have Jeff Sloan, the CEO. In terms of format, we're going to do fireside chat, if that's okay, Jeff?

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Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

Yeah.

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Tien-tsin Huang  
*JPMorgan Securities LLC*

And we absolutely have this ask-a-question portal. So, for those that want to ask a question remotely, feel free to do that and I'll be sure to address that. So, let's just kick it off.

## QUESTION AND ANSWER SECTION

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Jeff, I think, maybe we can start off, you can just walk us around the globe a little bit and give us an update on what you're seeing on the ground, and also a lot of different trends in different parts of the world. Maybe if we can start there, then we can dig into some details.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Sure. Thanks, Tien-Tsin. And upfront, just thank you for having us here. It's a terrific conference and we appreciate you inviting us.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Pleasure.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

So, I think things are pretty good. We've just reported another good quarter, the third quarter in – let's start with the United States, our largest business, where we saw acceleration sequentially of our rate of organic direct revenue growth. Canada continues to be very stable, Tien-Tsin. We've probably gone three years, three and a half years, really, in Canada with very good, consistent, stable transaction and volume growth.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

And that's against the backdrop of a relatively low GDP growth rate in Canada, and I would really chalk that up to very good execution by our Canadian sales team. We've had very good new sales growth this year in Canada, and we've also released OptBlue into Canada and we've brought OpenEdge into Canada, so very good cross-sell of our core businesses. I just spent the last two weeks with our operating businesses across Europe. Starting first in the UK, we continued with very good organic sales execution in the UK. Revenue growth on a constant currency basis last quarter in Europe was about 16%, 18% – 8% reported. So, obviously, very pleased with what we're doing in the – in Europe. In the UK, we're also bringing OpenEdge to our UK business, which we'll talk more about on our July call.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Spain continues to just have fantastic performance. We're growing at roughly double the rate of the market rate growth from a volume and transactional basis, and we're coming close to lapping the interchange benefits that we saw about a year ago in Spain. So, that would be a nice tailwind heading into the second quarter and beyond in fiscal 2017.

In the rest of Europe, we look forward to closing our joint venture with Erste Bank, which we said we would do at the end of this fiscal year.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

We also have seen relatively benign revenue growth in local currency in Russia, so it would continue to outperform that economy, although clearly, there are challenges in the Russia market, as well as in the ruble.

And then lastly in Asia, the only real heaven we've had there is in the Greater Chinese market, which I would define as Mainland China, Macau, Taiwan and Hong Kong, where we have a fair amount of macro weakness and some headwind in that marketplace, but that has been more than offset with our investments in Australia and New Zealand with Ezidebit, and we also announced the acquisition of eWAY in April, so not in the third quarter, but in the fourth quarter, to expand that business and bring a Realex like functionality into Asia Pacific. And as we said in the call, we remain pleased with our BPI joint venture, where we've effectively doubled our market share in the Philippines and we continue to see very good organic rates of revenue growth in Singapore and Malaysia. So if you step back kind of around the world and you ask how it's going, what I would say is in most markets, I think we're performing very, very well. The only real headwinds we see are in Greater China and, to a lesser extent, Russia, which is a relatively small part of our business, but around the world, especially here in the United States, which is two-thirds of our company, post-Heartland, we see a fair number of tailwinds in our business.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right. Yes. Let's come back to the U.S. last maybe. I want to hit a few of the regions over seas. So, you mentioned Asia and China, I know China is obviously very tough for obvious reasons. Are you still investing in China? And I know that market's opening up. The networks have been talking about that a little bit. Is that an opportunity or are you really more diversifying sort of away from in China and other parts of APAC?

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

I think, it remains an opportunity. I think we've very good dialogue with the regulators in China, with China UnionPay. We remain the only non-Chinese acquirer licensed to do domestic CUP acquiring. I think that partnership is very good. I do think, though, as we said in the call for the third quarter, that a key part of our strategy across all our markets, but in particular in Asia Pacific was really diversity of distribution, in particular control of our own distribution channels.

And I think the investments in Ezidebit and eWAY, the investments in Bank of the Philippine Islands highlight how that diversity has been a good thing. So I think the math of it is just that those markets are growing more quickly than the rate of growth of the Greater China markets today. So I think it's less about less opportunity and more about that's just the math that clearly we still spend a lot of time in the Greater Chinese marketplaces and very optimistic about where those can be. But in the near-term, it's really been a story of the 20% plus growth that we've seen in Ezidebit and we expect to continue to see in those types of businesses going forward.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right. So that was my follow-up. Just around Ezidebit, eWAY, given what you have, can you grow organically at that 20% plus rate? Do you feel like you need to fill in more on the M&A front or perhaps even organically?

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Well, we are always opportunistic, right, on the M&A front.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Sure.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

But I think we're right-sized in terms of that business. We purchased Ezidebit in October of 2014. So we've more than annualized.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Ezidebit, yeah, we continue to see stable/accelerating revenue growth coming out of Ezidebit. So I would certainly expect us to grow at very similar rates going forward in that business. And I think longer-term when you step back, it's important for us to be able to take those business processes and technologies from Australia, New Zealand into other markets in Asia, and much like we've done in OpenEdge, Tien-Tsin, where we've brought that to Canada and United Kingdom, I'd like to see us bring Ezidebit and eWAY into markets outside Australia, New Zealand, all of which will be additive to the rate of growth.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right. And [ph] upward mobility (7:13) is important. So, I think you did do some restructuring in Asia as well, last quarter.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Yes.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

So, where do you see the margin profile in Asia going, given sort of your plans to invest? I know it's still small, but a lot of opportunity there as well?

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Yeah. So we got ahead of where we saw the macroeconomic headwinds coming in, in Greater China. So those reductions were not done in Australia or New Zealand or any of our growth markets, but those expense reductions were done really in the Greater Chinese marketplace as we realized last fall what we thought the likely turn of events was going to be. So I think those margin enhancements, driven first by the higher margin profile of Ezidebit and second by right-sizing the business as it relates to Greater China, my expectation is you'll continue to see margin enhancement in the Asia Pacific business in the near to intermediate term. That's certainly part of our plan. You would hope over a border period of time, of course, that Greater China will return to some of the historical rates of growth as an economic matter, but the output of our business, as you've seen the last number of quarters, is not dependent on that assumption. So, I think you'll continue to see margin expansion across Asia Pacific, driven in large part by Ezidebit and, to a lesser extent, by getting ahead of the expense game.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Good. So let's rotate the globe a little bit and go to Europe, I know a big subject in payments right now is the regulatory environment, what's happening with interchange caps and soon some new rules that go into effect in Europe. You've got a great sort of view on that because you saw Spain come early.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Yeah.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

With the caps. You lived through that. Now, you're seeing UK go through it live. So any surprises, Jeff, in terms of the implications of some of these changes to Global and how you're going to market let me just catches up there.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Well, the only surprise has been really to the positive side.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

I was just in Spain last week, as I said, I think in our April call, our spreads in Spain remain consistent with levels before the interchange rate reduction in the first place. So, as we always like to say it's usually whether it's Durbin, the Spain change or what's going on now in United Kingdom, we like to model expectations in kind of 12 months,

but in reality, we find that they're much closer to 18 months to 24 months. I think we're 20 months or 21 months into the September 1, 2014 benefit that's started occurring in Spain, and I would say that through the April call, we continue trend consistent with our expectations, which is that these things are generally 18-month to 24-month phenomenon, it's not 12 months even though we'd like to think about 12 month budget cycles.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Yeah.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

In terms of how we model, but they're much closer to 18 months to 24 months and that was our experience here in the United States with Durbin and that's been our experience with Spain, and I expect United Kingdom to follow a very similar path...

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Okay.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

... to the one that we've seen in the United States and in Spain.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Okay. How about some of the rule changes that are coming in, anything to consider there?

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

No, I think the rule changes actually have been to our benefits, really, over the course of time. We operate in 29 countries physically today, we do more business than that in more countries cross border, but we're physically present in 29 countries around the globe today. We have a lot of experience in multiple continents with pricing changes...

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

...coming out of regulatory actions, whether in the United States or in Canada...

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Yeah.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

...or Spain or other parts of Europe and the United Kingdom, Australia, of course, as well. So, I would say in general, one of our strong points is that we feel that we have the experience to manage those changes as needed. So, really nothing to our surprise coming out of that, and that's how we manage our business consistently and globally.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Okay. Yeah, I guess one of the sort of broader views is that with some of this regulation that's designed to create a more level playing field, if you want to call it that, we might see more banks sell off their assets or more platforms to become available, meaning there might be more M&A. Is that something we should watch out for and what's your appetite to do stuff in Europe?

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Yeah. I think absolutely, if you ask the folks at Erste, what drove their decision-making around the joint venture partnership that they're doing with us, I'm sure they would tell you that a focus on the issuing side of the business and what Interchange Regulation was doing, Tien-Tsin, to the economics...

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

...on the issuing side, drove their perspective on who to partner with and what to do with the business on the acquiring side. I don't really see that abating. As Paul used to say, the trend line at interchange globally, whether it's in the United States or around the world, is generally down.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Yeah.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

That is, A, to our benefit, more naturally for our merchant customers; but, B, tends to drive the bank reactions. As we've seen in our businesses over time, we're certainly in discussions in a number of places with folks across Europe about additional opportunities to participate in potential partnerships. We hope more of those will come our way. The success for our business doesn't really depend on that...

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right.



Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

...in terms of the business that we have constructed today. But we're – I'm optimistic that you'll see more of that not just in Europe, but also in Asia. The other thing that I think is important to recognize is our investment in Realex in our omnichannel business that's annualized in the beginning of this fourth quarter, I think closed in March of last year. And we've been very pleased. I said in the call in the third quarter, with the omnichannel experience, that we have cross border with Realex. We've brought it into the United Kingdom on a bundled basis last fall, and we announced in the third quarter that we'll bring it to Spain...

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

...this summer with more markets to come. Clearly, the lowering of rates through SEPA cross border in the EU is a good thing not just for our customers as costs come down and for us as a business, but also for initiatives like Realex where it makes it more attractive for us to sell omnichannel solutions in multiple markets. And I think that's why we've gotten the traction that we have in the United Kingdom and in Australia.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right. Now, cross border is big. It's probably one of the underappreciated assets, I'd say, at Global.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Yeah.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

You mentioned Realex. I know that you've also put in a new – some leadership at – in the UK.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Yeah.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Is that – are we starting to see some of that in the way or form of new bookings? Is there more to come there organically in the UK?

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Yeah. So, I think we've had – I may have said this on the third quarter call, maybe in the second quarter call, Tien-Tsin...

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Yeah.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

...but we've had the best organic sales execution in the United Kingdom since I've been – in the six years that I've been at the company, and the last 18 months, really.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Okay.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

We brought in a new head of sales about two years ago. I think he has done a very good job, first, revitalizing some of the historical channels in the United Kingdom through bank referrals or levels of bank referrals in the UK, I think, one this year, this fiscal year, ending this month that probably the second highest that we've ever done. Since he's come in and done a good job with that, our level of cross sell and bringing Real ex as a bundle into the United Kingdom market has also been very good, we've had very good rates of growth. I've [indiscernible] (14:29) that business into the United Kingdom under his leadership, all that is without regard to the interchange reductions that you've seen in the UK starting in December of 2015. So, he's done a very nice job for us, and I think you're seeing that in the numbers that we've been reporting out of the UK.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Okay. So before we open it up, let's transition to the U.S. and then I'll ask a couple of Heartland questions. We've sort of calculated about 10% revenue growth in the U.S., I think, last quarter. Maybe if you can unpack that for us, what's growing above, below, average in the U.S.?

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

So, yet another quarter of mid to high-teens growth in OpenEdge, and we bought APT...

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Yeah.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

...on October 1, I think it was at 2012, so I can't count how many quarters. We've had a really good growth in that business as a revenue manner, but yet another mid-to-high teens growth rates. So, clearly, that's above the trend line in the United States. Our gaming business, excluding Fidelity for a second, our gaming direct business grew mid-single digits, which if you compare that to our peers in the marketplace is much further ahead than our peers are growing, and then you layer Fidelity on top of that, obviously, it's probably double-digits of growth reported in that business.

I would say our third-party businesses, which are ISO, and indirect businesses, really nothing much has changed there, Tien-Tsin. This is probably, the last three years or four years are kind of low single-digit to flattish growth in our third-party businesses. And today, pre-Heartland, I think our U.S. business is 75%-25% direct versus kind of third-party wholesale. Post-Heartland, I think it's 90%-10% kind of direct versus wholesale in the United States, and of course the entirety of the company is 95%-5% direct/wholesale.

So, none of that has really changed in the mix of our businesses in terms of the rates of growth. As we said on the call, Mercury, whatever migration Mercury and Vantiv wanted to do happened in the third quarter, and whatever is to be migrated has migrated. And as we've said, it's in our guidance and really has had no significant impact to any of our earnings, as you can see.

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Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right.

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Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Or in our numbers for the quarter or for the year. So, that is already through the forecasted numbers.

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Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Yeah. I think you and Cameron have both said to me, and publicly, obviously, on different occasions, that your wholesale or your ISO business, that natural attrition there, you'd welcome that.

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Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Yeah.

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Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

So, how do you see that business evolving, at this point? Is there anything that you can do to accelerate or change that, or is it really more just betting on the integrated channel, as you've been doing?

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Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Yeah. I think the last time I looked at the actual numbers, we had something like 90 active third-party relationships in that channel. I think it's a very natural thing, Tien-Tsin, that as those contracts come up, of the 90, we look at each one individually. And we make a decision about whether we should renew, what we should do on price, et cetera. It's a very nice cash flow business for us, but I think we understand that it doesn't really provide any of the growth. And I think as we said in our Analyst Day last October, our technology-enabled channels, which are pre-Heartland, about 40% of the company, generate about 80% of the revenue growth.

So, clearly, third-party-related businesses are about flattish. They don't really generate a lot of the rate of growth. That's in contrast to our U.S. direct book, which grew high single-digits yet again organically last quarter, up sequentially, 50 to 100 basis points versus the second quarter. So, you can kind of compare those rates of growth, in terms of where the performance is coming from.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Yeah.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

So, as those contracts come up, we'll go through a very natural review of what businesses we want to keep and what we do not. I think we're in a happy place, as it relates to a balance of the amount of effort in expense, and head count and investment that we put in that business versus the rest of our businesses. And like every company, it's really a portfolio and we have a mix. The nice thing is we've probably taken that mix from 60%-40%, when I got to the company, down to 90%-10%, as it relates to the United States business.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right. Well, the density has definitely changed with Heartland, obviously, coming in. So, let's talk about that for a few minutes and then open it up. I think when we originally spoke, you and I, I was a little bit worried about the cultural fit of Heartland, given its roots in very unique sort of CEO and sales commission structure. It feels like that you've gotten a lot more comfortable with that. I've gotten certainly more comfortable with it, maybe catch us up on the fit side of it, now that you've owned it a little longer.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Well, it's nice to be able to travel to Plano, Texas; Princeton, New Jersey; Rochester, Pittsburgh, where I've been.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

In the case of Heartland rather than spending a lot of my time overseas.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Having said that, of course, I've just spent two weeks in Europe, but I hope to spend more of my time here in the United States.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Yeah.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Just in terms of wear and tear on me, as much as I do in Asia or in Europe. I would say we've been very pleased with the cultural fit and the quality of the people at Heartland. During the diligence process, but also just going over the last 20 years, I knew Bob Carr, Bob Baldwin and Samir really very well. I did not know the next 10 to 20 people from Heartland as well as I knew the two Bobs, to be honest. So as we went through the diligence process, but certainly in the last four or five months since we announced the deal and since we closed on April 22, I've spent a lot more time in the facilities I just mentioned. We, at Global, can spend a lot more time with our counter partners, the integration efforts alone. We have 14 separate track leads going on concurrently for integration with 100 employees on both sides contributing to those efforts, and clearly, there's a lot going on underway.

So I would say, culturally, Heartland is much more similar to what we have at Global than we probably initially thought. The quality of the people running those businesses at Heartland is something that we're very pleased with versus not really knowing so much when you first get in there. So, as I said in the call for the third quarter, we spend a lot of time between December and April working on the synergy plans and what the go-to-market strategy is. And as I said in April, we are very confident in our ability to hit the targets that we set out as it relates to the synergy plans for the companies. I'd also say that while we've quantified at 1% to 2% of the revenue of the combined companies and revenue enhancements, that's not in our guidance numbers. And having been in Europe in the last couple of weeks, there certainly exists a number of opportunities to cross sell the Heartland businesses into the UK and Spanish markets, in particular, the educational businesses around TouchNet, which is already present in certain of the markets in Europe. My experience in the last few weeks has only reinforced...

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Okay.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

...my perspective that there's a lot of opportunity to cross sell those businesses. So, I feel very pleased with the culture and the people at Heartland, and also very pleased with the hard work from the Global folks and the Heartland folks to kind of get to where we are today.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

All right, good. One more. Just on the cost side, I know the dollar amounts you've given out, but maybe can you give us a little bit more detail on the timetable...

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Sure.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

...and how hard, easy, some of these pieces are to get to the total cost synergies?

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Sure. The easiest way to think about the cost synergies is just to think about the full run rate of the \$125 million because that's kind of the – in fiscal 2018, kind of ultimate size of the pie, so to speak. It's \$50 million in 2017 and an incremental \$75 million in 2018, you get to \$125 million. So...

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

...it's roughly split a third, a third, a third; a third on personnel, a third on operating environments and a third on technology. As you might imagine, the first third is generally around expense reduction around personnel.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Yes.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

That's something clearly, to your question, something within our control.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Yeah.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

We can make decisions when we feel the right thing to do is. On the first day we closed, we've made notifications to a variety of Heartland offices and, to be fair, a number of Global offices that we would be closing those facilities and reducing...

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Yeah.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

...head count coming out of those – of the transaction closing. So, that was done on April 25, the very first day after we closed. So obviously, we're very confident in our ability to hit those targets as it relates to operating environments, and of course, that – the senior folks at Heartland as well are announcements we made on the day of close, right? So, the folks in the proxy generally are people that we knew we were not going to retain in general, upfront. So, that's all occurred.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right, right.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

As it relates to the next tranche, which is really the operating environments, we expect that we'll close our Owings Mills facility and move it to the Heartland facility in Jeffersonville, Indiana, which is on the Indiana, Kentucky border by Louisville. We'll do that in phases. It's certainly starting in the fall of 2016, heading into the winter and the spring. And we expect thereafter for the technology environments to be combined, in general, will be moving to Global Payments technology on front and back. There are certain technology products and platforms within Heartland that we think are attractive and we'll use those. But in general, the front and back-end migration will occur thereafter.

And I think that Heartland, Tien-Tsin, is most of the deals that we do around the world usually involve some kind of third-party...

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

...consent because we're on a different provider's platform, much like Vantiv with Mercury kind of involved us in the migration. That's not the case with Heartland. Heartland is generally within the four walls of Heartland. So, we have a fair amount of control over our ability to migrate the technology in operating environments that I was describing. In most deals, you need somebody else...

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Yeah.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

...to kind of help you, as you've seen with Vantiv, to help you do that. That's not the case in Heartland. So, it gives us a lot of comfort in our ability to manage those technical and operating environments.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

All right. Good to know. Questions from the audience, happy to take them if there are any. We have a mic walking around, otherwise, I can keep going. So, maybe I'll keep going. So, the Heartland has some non-card businesses that are quite interesting. I guess I'll put education still in the card book and ultimately, but how do you see that fitting strategically for Global?

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

So, we're looking in all of our businesses, both on the Heartland side and also the legacy Global Payments side, as we do kind of continually to see what the fit is. I think the most important thing is for us to make sure that we don't lose any momentum in direct sales on the Heartland side. So, it clearly will be involving a lot of the senior leadership on the Heartland side in any kind of decision-making about what we do with some of those products and services. I would say that for sure, TouchNet, which is a business that we looked very closely at when we ended up going into Australia and New Zealand with Ezidebit, is a business that we liked for a long time. When Heartland bought it, I'd like to think that we would have bought it at the time, but for going into Australia and New Zealand with Ezidebit, which has turned out great.

So, here, we had a second bite of the apple and I'm kind of glad it worked out in the scheme of things. But I think the rest of the businesses within Global and within Heartland, we'll take a look at those over the course of the next few months, I think we'll have more to say as we head into the summer period. I think the goal for us is to make decisions on most of those businesses by the end of the calendar year and decide whether, once we get to January 1 of 2017, whether there are elements of that business that belong or do not belong, but I would highlight TouchNet is one that we were very keen on as part of Global Payments, independent of Heartland.

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Tien-tsin Huang

*JPMorgan Securities LLC*

Q

Got you. Any other questions? So, sort of coming back to Heartland again, more on the revenue front, I hear you on the cross-selling. That makes sense. Their pricing philosophy obviously is quite unique. We have Visa coming in a couple of sessions later. They've made some big assessment fee changes.

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Jeffrey Steven Sloan

*Chief Executive Officer & Director*

A

Yes.

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Tien-tsin Huang

*JPMorgan Securities LLC*

Q

So, two questions there, like how would you address differently things like assessment fee changes from the networks and how to plan to preserve sort of the pricing philosophy of Heartland?

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Jeffrey Steven Sloan

*Chief Executive Officer & Director*

A

Yeah. So, one of the things that we said upfront, Tien-Tsin, which I know is important to the folks on the Heartland side, was that we're going to maintain in the Heartland businesses, [ph] any region (28:01) channel, which legacy Global Payments didn't really have a sizable agency book of business, the Merchant Bill of Rights and the Sales Professional Bill of Rights, and retain the go-to-market Heartland name in those segments. So, if you look back for a second, Global Payments prior to Heartland had big sales concentrations in OpenEdge and in Gaming.

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Tien-tsin Huang

*JPMorgan Securities LLC*

Q

Right.

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Jeffrey Steven Sloan

*Chief Executive Officer & Director*

A



But Global Payments, ex-OpenEdge and ex-Gaming, we had about 50 sales people at Global Payments, who are not attached to OpenEdge and not attached to Gaming. And those folks, we're moving over to the 1,400 sales agents over at Heartland. So, as we think about the business and we said this in our December call, there's relatively little overlap by way of distribution channel between Global Payments and Heartland. Therefore, it's very important for us to maintain the way Heartland goes to market because outside of OpenEdge and Gaming that really is the way we go-to-market and we will be going to market in the United States.

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Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Yeah.

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Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

As it relates to pricing, more generally, clearly pass-throughs from the networks are something that Heartland was doing already.

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Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Yes.

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Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Right, so that's not really new news in the scheme of things. And I think anyone in our business is probably somewhat similar to how we approach what's going on with the networks. As it relates to other pricing changes, those are conversations we're having with the folks who run the Heartland sales team. Clearly, we're very conscious of the fact that the golden goose, in the case of Heartland, is sales growth, sales distribution. If you look at our deals with APT and PayPros and OpenEdge, Realex in Ireland, Ezidebit in Australia and New Zealand, we've been able to not just to maintain but actually accelerate rates of organic revenue growth for periods of times well after the closing of the initial transaction. We hope to do the same in the case of Heartland. And, of course, the key thing there is not to go in and muck it up.

We understand that that is really the value of proposition that drives Heartland. And it's important for us, therefore, with the right oversight, to let Heartland drive the Heartland business. So from that point of view, I don't anticipate changing any of the basic tenants of what Heartland is doing. Of course, there are new products all the time that are released into the ecosystem.

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Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Sure.

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Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

And we'll have a look at those. There are cross-sells that we've discussed. There are new markets we can bring Heartland in. The nice thing about where we are, Tien-Tsin, is that we made no assumption on pricing as part of the economics of the deal to look at OpenEdge. In the case of APT and PayPros, probably a third of the lift in those businesses in terms of revenue growth over a period of time has been making their pricing closer to our pricing to reach the milestones that we've reported. We haven't made any assumption around that in the case of Heartland.

Therefore, it's all incremental to the extent that anything really change. We think there's a lot of capacity from that point of view to think about what the go-to market model looks like.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

That's helpful to hear. Last question, anyone? Otherwise, I'll ask one more. So just on the competitive front, Jeff, I know there's a lot going on and let's call out a few names, right? First Data, going more of a vertically-integrated model with Clover. Chase has this ChaseNet push.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Yes.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

You're clearly going direct with integrated and bringing in Heartland. Do you feel there's a big change competitively here at this point in this cycle or is it more of the same? How would you sort of scale the intensity of competition today?

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Well, I would say it's always been very intensely competitive, and I don't think that's really any different today, Tien-Tsin. You have to really parse it by geography. I would say the one area that you might point out is a change is our omni-channel offerings coming out of Realex. So our competition in omnichannel e-com coming out of Realex are really Adyen, Stripe and Braintree. And I think that's very different for us today than it probably was three years or four years ago, and very different than some of the peers that you just mentioned.

So, certainly, the perspective on having card-not-present, as well as card-present physical adoption in multiple countries in Europe and around the globe, clearly, that's a new thing in the scheme of mode of competition. And that's where a lot of our investment has gone and is going. And I would say that's a newer mode of competition, if you look at who I just mentioned versus where it was a period of time ago.

I'd also say that Visa Europe, Visa coming in with Visa Europe will result in a number of changes in the marketplace. I don't expect that to really up end the things that you just described, but I do expect Visa Europe to look more like Visa Inc. I think in general, it's a good thing for our business. I think the ability to accelerate rates of product, innovation to provide more value-added services cross border has been very helpful to our businesses in other markets, and generally, changing something from a utility to a for-profit model has been good...

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Yes.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

...for us and the rest of the industry. So, I think when that ultimately happens, I think that will accelerate some of the growth characteristics that you've seen in the marketplace in Europe, and look forward to having that deal

closed and having those things happen within Continental Europe. Certainly, we operate that way. As one consolidated company...

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Sure.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

...it will be nice to see Visa operate that way as well, and we'll have to see what the competitive dynamics are coming out of that change.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Got you. I have to do a little bit of self-promotion. We're doing an event in June in San Fran that has Adyen and Braintree and Stripe for those that are interested, that's June 22. Just one more, just I mentioned First Data, Clover.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Yeah.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

And Heartland owns some hardware as well. Obviously, we have Square and others that are also...

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

Yes.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

...playing the hardware game. So, what – how do you see that balance of owning versus partnering on the hardware front?

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

So, I think this falls right in the category of diversity of distribution.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Yeah.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

It's hard to say sitting here today, what's going to work in a market, what's not going to work in the future. Our business in Spain, for example, has built around hardware and software solution – I think they buy the hardware – but has built around a Clover-like solution, and we have partnerships in every other market around the world with the same type of outcome, and of course, Heartland had various bits and pieces., and Heartland Commerce has a fair amount of point of sale...

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Yeah.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

...software and distribution, as you described. I think the important thing is to see what works and make quick changes. So, for example, our business in Spain has its own [ph] TPD (34:37) tablet. They've done a terrific job at Comercia and Caixa, selling down through the different branch-based businesses, and we have high expectations heading into fiscal 2017 about how that's going to play out.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Right.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

A

But we can also partner that with Heartland Commerce in the United States and outside the United States to really see what works. So, I think, rather than saying this is the answer and it's king of going to work in every market around the world in, say, a period of time, it's important to have multiple avenues of attack for each of these areas, so that we're exposed to [indiscernible] (35:04-35:12) they kind of play the thank you for the...

Tien-tsin Huang  
*JPMorgan Securities LLC*

Q

Got no statue for you though, unfortunately.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

Thanks for having us.

Tien-tsin Huang  
*JPMorgan Securities LLC*

Always good to catch up. Thank you.

Jeffrey Steven Sloan  
*Chief Executive Officer & Director*

It's good to hear [indiscernible] (35:17). Thank you very much, though.

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