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# Global Payments, Inc. (GPN)

Q2 2018 Earnings Call

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*Chief Executive Officer & Director, Global Payments, Inc.*

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## OTHER PARTICIPANTS

George Mihalos

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, thank you for standing by and welcome to Global Payments' 2018 Second Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode.

Later, we will open the lines for questions-and-answers. [Operator Instructions] And as a reminder, today's conference will be recorded.

At this time, I would now like to turn the conference over to your host, Vice President, Investor Relations, Winnie Smith. Please go ahead.

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Winnie Smith

*Vice President-Investor Relations, Global Payments, Inc.*

Good morning, and welcome to Global Payments' second quarter 2018 conference call. Before we begin, I'd like to remind you that some of the comments made by management during today's conference call contain forward-looking statements which are subject to risks and uncertainties discussed in our SEC filings including our most recent 10-K and any subsequent filings.

These risks and uncertainties could cause actual results to differ materially. We caution you not to place undue reliance on these statements. Forward-looking statements during this call speak only as of the date of this call and we undertake no obligation to update them. Some the comments made refer to non-GAAP measures such as adjusted net revenue, adjusted net revenue plus network fees, adjusted operating margin and adjusted earnings

per share, which we believe are more reflective of our ongoing performance. For a full reconciliation of these and other non-GAAP financial measures to the most comparable GAAP measures in accordance with SEC regulations, please see our press release furnished as an exhibit to our form 8-K filed this morning and our trended financial highlights, both of which are available in the Investor Relations area of our website at [www.globalpaymentsinc.com](http://www.globalpaymentsinc.com).

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

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## Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

Thanks, Winnie, and thanks, everyone for joining us this morning. We are pleased to report another quarter of outstanding operational and financial performance, resulting in the best start to a year since we began running the company nearly five years ago. In sum, we generated double-digit organic revenue growth, expanded adjusted operating margin by 160 basis points and delivered adjusted earnings per share growth of 37% in the second quarter. Each of these metrics represents an acceleration from exceptional first quarter results.

We are also delighted to announce today that we have entered into an agreement to purchase AdvancedMD, a leading provider of cloud-based software as a service, or SaaS solutions, to small-to-medium-sized physician practices in the United States. With this transaction, we are further expanding our technology-enabled software-driven strategy towards a 60% target we established at our Investor Day in March.

AdvancedMD, or AMD, will provide us with direct entry into a new \$9 billion target addressable market for software, benefiting from strong secular tailwinds. The small-to-medium-sized physician healthcare software market is highly fragmented, and AdvancedMD is an industry leader at roughly twice the size of its nearest cloud competitor. AMD is also one of the only companies in the industry that provides users with an end-to-end platform encompassing practice management, electronic health records and patient engagement solutions, all delivered on a single instance multitenant architecture. As a reminder, we currently have exposure to tens of thousands of dentists and veterinarians through our OpenEdge business. AMD will add direct relationships with 33,000 physicians and 11,000 small-to-medium-sized practice groups across more than 100 ambulatory specialties in the United States.

In addition, we have successfully demonstrated the nexus between payments and software in this market, as AMD is an existing OpenEdge partner. We currently capture approximately 20% of AMD's roughly \$3 billion annual payments volume opportunity and expect to be able to penetrate this base more rapidly going forward.

With increasing consumerism in healthcare, in particular in ambulatory specialties core to AMD's business, we see a large and growing payments opportunity that we are now better positioned to capture. Further, we expect to generate synergies from this transaction by leveraging our domestic distribution assets and consolidation of logical corporate functions. With the acquisition of AdvancedMD, in combination with our investment in ACTIVE Network last year and our preexisting education, university, restaurant and hospitality businesses, our annual software revenue represents roughly 15% of our total revenue. This solidifies Global Payments position as the market leader in technology-enabled software-driven payments.

In addition to new investments, we continue to make progress on the other two legs to our growth strategy: expanding our worldwide omni-channel capabilities and increasing our exposure to faster growth markets. We saw ongoing strength in our worldwide e-commerce and omni solutions business in the second quarter, which grew in the high teens year-over-year, further progressing towards the 20% revenue contribution target we set for

2020. As we discussed at our Investor Conference, our focus in this business is largely on SMB customers, and much of our growth stems from enabling e-commerce or omni-channel solutions within a given domestic market or cross-border. In addition, our unique capabilities in hard-to-serve markets for large multinational corporations also continues to drive significant wins, including two signature luxury retailers recently. More to come on this in our third quarter report.

And finally, we remain well-positioned in faster growing markets and are accelerating sales efforts, as we expand our distribution and leverage our best-in-class technology and products into new geographies. Together with our partners at CaixaBank, our joint venture with Erste Bank in Central Europe realized strong double-digit growth in the second quarter, as we continue to bring differentiated solutions, including e-commerce to highly attractive, underpenetrated markets. We are also making progress on our pending joint venture with HSBC in Mexico, having received European Union regulatory approval this quarter, and still expect to close before year-end. Our businesses in Asia, led by Ezidebit in integrated and vertical markets and eWAY and e-commerce, continued their track record of exceptional growth.

While successfully executing on the key pillars of our growth strategy, we also continue to wrap more value around transactions to provide customers what they want and need to operate their businesses more effectively. To that end, we have now launched our Xenial premium cloud-based analytics product in the United States, Canada and the United Kingdom. Beyond standard reporting, we are now able to provide restaurants with customer analytics, sales trends, competitive insights, social media management tools and email-marketing solutions. We will continue to enrich this platform with additional data elements and features to enable our customers to create and manage a broad range of digital advertising activities.

We are excited about the solid progress we have already made on the multiyear framework we outlined in March. Consistent execution of this strategy produced terrific results for the first half of 2018, and we are well-positioned to realize our long-term goals through further investments in technology-enabled software-driven businesses like AdvancedMD.

With that, I'll turn the call over to Cameron.

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## Cameron M. Bready

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

Thanks, Jeff, and good morning, everyone. We are very pleased to report another quarter of strong financial results. Our ongoing solid execution and differentiated growth strategy continue to manifest themselves in exceptional financial performance.

Total company adjusted net revenue plus network fees for the second quarter was \$982 million, reflecting growth of 18% versus the prior-year period, once again driven by double-digit normalized organic growth. Adjusted operating margin expanded 160 basis points to 31.4%, and adjusted earnings per share increased 37% to \$1.29. We are proud of these results and remain encouraged by the momentum in the business throughout the first half of 2018.

Importantly, we delivered this strong performance, while simultaneously executing on our strategy to expand our software-driven payments thesis through the agreement to acquire AdvancedMD. I will provide more details on this transaction in a moment, but let me first highlight the terrific performance our team delivered globally this quarter.

Starting with North America, adjusted net revenue plus network fees was \$719 million, reflecting growth of 18%. Adjusted operating margin expanded 190 basis points to 32.4%, driven by our higher-margin technology-enabled businesses and the addition of ACTIVE Network.

In the U.S., our direct distribution businesses again delivered low double-digit normalized organic growth, accelerating from the previous quarter, while we saw low double-digit declines in our wholesale business, consistent with our expectations. Our Canadian business again grew in line with our expectations in local currency, and foreign exchange rates had a modestly favorable impact to overall North American growth.

Turning to Europe, adjusted net revenue plus network fees grew 19%, driven by double-digit organic growth in local currency. This result was well ahead of the market, reflecting ongoing strength and execution in share gain. Spain remained a bright spot, with local currency growth in the mid-teens for the quarter. Likewise, our joint venture with Erste Bank delivered high teens local currency growth on the back of a good macroeconomic environment, strong secular trends and solid execution.

In the UK, we delivered high single-digit organic growth, which was consistent with the first quarter, despite what continues to be a challenging macro environment. Results in the UK were again driven by transaction and volume growth, as we gained additional market share.

Lastly, our ecomm and omni solutions business grew high-teens, as our unique-value proposition continued to resonate in the pan-European market.

Adjusted operating margin in Europe expanded 210 basis points to 47.4%, driven primarily by the strong top-line performance.

Our Asia-Pacific business also delivered another quarter of mid-teens organic growth, consistent with Q1 results. We saw solid trends across our key markets, including Hong Kong, the Philippines and Taiwan, and Ezidebit and eWAY once again contributed meaningfully to growth in the region. Adjusted operating margin in Asia expanded 130 basis points to 31.5%.

The solid operating performance we delivered this quarter, in combination with disciplined reinvestment in the business, allowed us to generate adjusted free cash flow of \$158 million, excluding acquisition and integration costs, up 22% year-over-year despite a 35% increase in capital investment.

Our capital expenditures totaled \$59 million and largely consisted of investments to support the development of new product and technology solutions and further enhance our operating platforms. During the quarter we also repurchased roughly 1.6 million shares for a total of approximately \$180 million.

In late June, we completed the refinancing of our corporate credit facilities, reducing the interest rate spread by 25 basis points. The amendment also increased our revolver capacity by \$250 million to \$1.5 billion. In addition to improving our liquidity position and extending the maturity of our facilities, the refinancing also yields meaningful annual interest expense benefits.

When combined with the amendment to our term loan B announced in March, we expect to realize \$5 million to \$6 million of interest expense savings annually, net of additional anticipated expense associated with future interest rate hedging activities. This benefit will also help offset the impact of rising underlying rates.

At the end of the second quarter, our gross leverage was 3.3 times.

As Jeff discussed, this morning we announced a definitive agreement to acquire AdvancedMD, a leading provider of enterprise software solutions for small-to-medium-sized physician practices, for \$700 million. We expect to finance the transaction using cash on hand and our existing credit facility with pro-forma leverage increasing modestly to approximately 3.8 times as a result. We are targeting closing the transaction in the fourth quarter.

Moving to our outlook, the momentum in our business that allowed us to exceed our expectations in the first half of the year positions us well to achieve our financial targets for the full year. We are, however, facing some incremental pressure from foreign currency and now anticipate FX being a headwind in the third and fourth quarters.

That said, we expect the strong underlying trends we are seeing in the business to offset this impact. We continue to expect adjusted net revenue plus network fees to range from \$3.90 billion to \$3.975 billion, reflecting growth of 13% to 15% over 2017. This outlook reflects the negative impact of roughly \$35 million of foreign currency headwinds relative to our expectations when we last guided in early May.

Adjusted operating margin is forecasted to expand by up to 120 basis points.

Pressure from rising interest rates should be largely offset by our refinancing activities, and we expect net interest in the third and fourth quarters to be roughly consistent with the second quarter prior to factoring in the additional debt we will incur to finance the AdvancedMD transaction.

Additionally, we are adjusting our effective tax rate forecast for the full year to be roughly 20% to 21%. The reduction in this estimate is driven by further refinement of the impacts of tax reform on our business as well as the incremental benefits we expect to realize as we restructure our international organization to optimize our tax position under the new U.S. regime.

Lastly, we now expect adjusted earnings per share in the range of \$5.05 to \$5.20, reflecting growth of 26% to 30% over 2017. This outlook reflects approximately \$0.10 per share of negative impact from foreign currency headwinds relative to our last update in early May. Our updated full-year guidance does not include any impact from the pending acquisition of AdvancedMD which we expect to be immaterial to adjusted earnings per share in 2018.

I will close by reiterating how pleased we are with our performance in the second quarter and thus far in 2018. The continued execution of our strategy positions us well to achieve our financial expectation as we deliver differentiated solutions for our customers and drive superior results for our shareholders.

With that, I'll now turn the call back over to Jeff.

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## Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

Thanks, Cameron. We have a consistent track record of strong execution and exceeding our own expectations, and the second quarter was no exception. The pending acquisition we announced today represents another investment to expand our software prowess in a key vertical market. AdvancedMD will accelerate the evolution of our business mix and further position Global Payments as the leader in technology-enabled software-driven payments globally. This investment will provide additional catalysts for continued market share gains in the months and years to come.

I'll now turn the call back to Winnie.

**Winnie Smith**

*Vice President-Investor Relations, Global Payments, Inc.*

Before we begin our question-and-answer session, I'd like to ask everyone to limit their questions to one with one follow-up to accommodate everyone in the queue. Thank you. Operator, we will now go to questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Thank you.

And our first question comes from the line of George Mihalos with Cowen & Company. Your line is open.

**George Mihalos**

*Analyst, Cowen & Co. LLC*

Q

Great. Good morning, guys, and congrats on another strong quarter. Wanted to start-off, if we look at the North America business, specifically in the U.S., it looks like your direct business again accelerated a little bit from the first quarter. Wonder if you could talk a little bit about the drivers for that and how should we be thinking about that going forward. If I'm not mistaken, the comps are a touch easier in the back half of the year relative to the first half?

**Cameron M. Bready**

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

A

Hey, George, it's Cameron. Good morning. So a couple of comments, I would guess, as it relates to the second quarter performance versus the first quarter performance. We did see some acceleration in our U.S. direct businesses and we are obviously delighted with that. Probably upwards of about 1 point I think between Q1 and Q2, largely driven by our integrated vertical markets business. So our direct distribution relationship-led channel was pretty consistent Q1 to Q2 in that high single-digit range, it was really our integrated vertical markets business that accelerated slightly from Q1 to Q2 that drove, again, the overall accelerations in the U.S. direct business.

As we look to the back half the year, as we talked to you guys before, we manage that business to high-single to low-double-digit rates of organic growth. I think our guide would suggest that we expect to be in that range as we get into the back half of the year. You'll recall, or you are recalling, I think, directly Q3 last year because that would've bene a hurricane impact in the business. I don't know if that's dramatic enough to call out as making it a significantly easier comp, quite frankly, but I think, as we look towards the back half of the year, again, we feel very confident in the ability to continue to grow that channel in the high single-digit to low double-digit pace we have been now for the last probably six to eight quarters.

**David E. Mangum**

*President & Chief Operating Officer, Global Payments, Inc.*

A

And George, it's David. Maybe a little bit more color just from a performance standpoint. We are very happy with the way the businesses have started the year. As Cameron pointed out, the vertical markets businesses are off to a very strong start. That includes, particularly, integrated payments of the OpenEdge business, our education

businesses in good schools and universities at TouchNet and school solutions are really well ahead at the start the year.

On the core sort of sales question, interestingly enough, we're really happy with where we are from a sales perspective across the United States, North America, actually the world and I'll come back to that in just a second, but the sales across the board are in very good shape. We're off to a good start in core sales in the direct book, which was what Cameron was describing earlier as the sort of direct non-vertical market. We had a couple of different record months over the course of the last six months; really very happy with the sales there, really happy with sales in OpenEdge in the vertical markets. Canada sales are ahead, and actually, Asia and Europe sales are ahead at the start of the year. So, as Cameron and Jeff said, in kind of the core prepared remarks, we're really happy with where we stand halfway through the year.

George Mihalos

*Analyst, Cowen & Co. LLC*

Q

Great. Nice to see the momentum. And then I guess, Jeff, the AdvancedMD acquisition, anything you guys are able to share around the growth rate that you expect there, revenue contribution, EBITDA? Anything that can kind of help us think through the business financially? And again, congrats on the quarter.

Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

A

Thanks, George. It's Jeff. I'll start and I'll ask Cameron to add some of the financial color that you just asked about. So we're delighted to announce a partnership with AdvancedMD. As you know, in our technology-enabled channels we target low double-digit growth organically for those businesses. So clearly, Cameron can give more color. But needless to say we're looking at markets that are large. In the case of healthcare, we talked about the physician practice management businesses of small-to-midsized physicians in the United States. It's a \$9 billion target addressable market, highly fragmented, though I think we said in our prepared remarks they're twice the size of their nearest cloud competitor. We also like the fact that there are already in payments, particularly with us [indiscernible] (22:11) partner for what we do. I think we said we have 20% of their payment stream, which we size currently today at \$3 billion annually of volume. You may remember we announced ACTIVE Network a year ago, that was also about \$3 billion annual payments volume at that time. So when you step back and look at some of the largest addressable vertical markets, which is really our focus and our specialty here in the United States, we certainly think that healthcare, by definition, is kind of one of them. We especially think that the small to midsize physician practice management business, in particular, with a payments overlay, a business we are already in, in the case of partnered software, is very attractive for own software assets for the reasons that we already mentioned. Cameron, do you want to comment on the financial question?

Cameron M. Bready

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

A

Yes, George. Again, I think Jeff talked about the growth rate of the business. We do view this as a low double-digit growing business, very consistent with the rest of our integrated and vertical market businesses. And that would be our expectation for it going forward. So at that level we would view it as accretive to the overall rate of growth of Global Payments which is going to be important as well.

For 2018, we were expected to do probably around \$125-ish million of revenue, again, growing in low double-digits into 2019. So that would be our expectation as we go through the business for 2019.



From an EBITDA margin standpoint, this is a business that is still scaling, I think, as Jeff kind of characterized and made commentary. I think as we look at the business, obviously, coming into Global Payments as we get into 2019, we'll give you more color as we head into the year as to what we think the implications will be. It is a business that we think will be accretive to margins as we get out a little bit further in time for Global Payments as it relates to 2019. And they moderate our margin expansion a little bit as we further scale the business, leverage distribution to drive faster rates of growth in the business. But overall, a very attractive financial profile, and one that we think, obviously, is going to be accretive to growth, accretive to margins for Global Payments over time.

**Operator:** Thank you. Our next question will come from the line of Glenn Greene with Oppenheimer. Your line is open.

Glenn Greene

*Analyst, Oppenheimer & Co., Inc.*

Q

Thank you. Good morning. Good results again. Yeah. Just want to follow up on the AdvancedMD. Maybe a little bit more color. Just trying to better understand a little bit. It sounds like their market share based on that \$125 million is still very, very low in a pretty big market. But I wanted to understand the payments component, is it just the 20% tie-in with OpenEdge or do they have their own component? And where can you take that 20% of their payments volume today?

David E. Mangum

*President & Chief Operating Officer, Global Payments, Inc.*

A

Yes, Glenn, it's David. I'll start and let the other guys chime in as well. What you've just described at the beginning of your question is exactly what we like about the market – highly fragmented. We remain the number one competitor in the small to medium space by a long shot, much larger than its cloud-based competitors as I just said, twice the size of the nearest [indiscernible] (25:09). And also a market full of legacy traditional providers who are on-prem with more limited software capabilities.

So, we've great opportunity with a very strong direct sales model that we have. Obviously, we look to that almost primarily a first when performing due diligence on the deal. So, we're really happy with the pieces and the opportunity of the market. Fragmented is what we like. The fact that they're the largest but small, that seems like a really good thing to me as we think about the future of the business and the low double-digit growth that Cameron and Jeff have each described. So really happy with those pieces.

As a payments matter, there are kind of a couple of components to payments. Maybe two or three. Fundamentally it's the one you mentioned, which is OpenEdge. So, we got about 20% of their payments volume. That means there's 80% to address that's going to a different cloud provider for co-pay fundamentally at its simplest level. I don't know why that number isn't really, really a lot higher just inside the next year or two. We'll focus together on joint sales as one of our key revenue synergies to drive that payments penetration to OpenEdge's integrated payment to 30%, 40%, 50% over the coming years. No reason that can't happen, no reason that can't happen particularly when we're one company together. We [indiscernible] (26:12) companies as you'll understand.

There are also some payments around bill payments and electronic billing payment that happen at the back end on the acquisition, nice little payments opportunity there. It's something we're good at when you link this terrific Rhythm software platform, again, the only cloud-based single platform that's available in the market itself, to the payment process. So really good payment fundamentals, and as you well know, we want to wrap value around the payment. And the payments and the technology and the software, it's a perfect fit for technology driven – or a software-driven technology-enabled strategy.

Glenn Greene

*Analyst, Oppenheimer & Co., Inc.*

Q

Thanks. That was very comprehensive, David. Follow-up question will be the Europe strength in the quarter seemed to accelerate as well. I heard some of the comments but I was surprised at the UK strength and sounds like Erste is doing really well. Just a little bit more color on the Europe strength and the organic growth there.

Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

A

Hey, Glenn, it's Jeff. I'll start and I'll ask Cameron to add some more of the financial and data related details. So, I would say it's really just a continuation of the trend. We've made, as you know, over the last number of years, very significant investments in our technology footprint globally, that for these purposes and your question, particularly into Europe, one of the things that we called out was our integrated and vertical markets business in Europe as well as ecomm and omni solutions business. The primary market for which for us for these purposes is really Europe, particularly in the European Union post SEPA and PSD2 and the like.

So very attractive target market for us. We kind of called out a couple of significant wins in the quarter. We don't want to spend too much time on that, because we intend to spend a lot of time in the third quarter call going through an update, as we do annually on our ecomm and omni business and I would say a continuation of the trend, Glenn, which is to say why we invested so significantly over the years in ecomm and omni, in all businesses, but especially here in Europe, why did we enter faster growth markets? Because we think that those are attractive, but we also think we can layer on top of those our leading-edge technology, in fact, we call that ecomm and omni products in the case of Erste Bank in Continental Europe.

So, I would say, Glenn, I view the quarter very much as a confirmation, probably over the last number of quarters of trending and probably mostly being in the United Kingdom as Cameron mentioned in his comments, but notwithstanding macro headwinds which is the FX, same-store sales, retail, GDP growth. Notwithstanding that we still saw very consistent volume and transaction growth trends in the second quarter that we saw in the first. Again, I think that's a tribute to our teams there, but particularly a further validation of investment in new technology and then targeting in those markets. I think Cameron called this out, but a lot of it, undoubtedly, given the macro backdrop is pure and simple market share gains. And I think we've been saying that for the last number of quarters.

Glenn Greene

*Analyst, Oppenheimer & Co., Inc.*

Q

Great.

Cameron M. Bready

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

A

Yeah, Glenn, it's Cameron, a couple of comments. If you look at Q1 and Q2, little bit of the acceleration as we talked about before was in ecomm and omni business and [indiscernible] (29:14). Those are the two things that stand out to me.

On the ecomm and omni, I think Jeff described how we're positioned strategically very well and obviously we're seeing that manifest itself in nice rates of organic growth in that channel over the course of the first half of really 2018, but even more so in the second quarter.

Erste JV, I think is really a function of you're seeing now the value of having them migrated onto our platforms, our ability now to sell products and solutions into those markets that are very distinctive, relative to what traditional buyers in the Czech Republic, Romania, Slovakia are able to deliver, is very powerful and obviously that's driving very attractive rates over organic growth in that business.

So we're delighted with that performance and it really speaks to I think in a microcosm the value of managing our business a single common platform globally, our ability to distribute products and solutions ubiquitously across the markets that are very differentiated.

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Glenn Greene

*Analyst, Oppenheimer & Co., Inc.*

Okay. Great. Thanks.

Q

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Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

Thanks, Glenn.

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**Operator:** Thank you. Our next question will come from the line of David Togut of Evercore ISI. Your line is open.

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David Mark Togut

*Senior Managing Director, Evercore Group LLC*

Good morning. Nice to see the acceleration in organic growth.

Q

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Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

Thanks, David.

A

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Cameron M. Bready

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

Thanks, Dave.

A

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David Mark Togut

*Senior Managing Director, Evercore Group LLC*

The UK results were particularly strong given the broad payment trends we're seeing in that market. Can you comment a bit on what you're seeing in terms of open banking? UK is really the first of the broad European markets to adopt consumer ACH payments in open banking. So I'd be curious, A, if you're seeing any traction from some of those initiatives?

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Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

Hey, David, it's Jeff, I'll start. So what I would say is the fastest growing piece of our UK business really is debit, and particularly contactless debit. So we certainly have seen a very meaningful acceleration in the use of that, particularly in places like in transit, so for a lower ticket item, the ability for consumers to use different forms of payment.

A

There, as you know David, it's a little bit less about using your phone and a little bit more for consumers about just taking out their wallets and putting it on top of the NFC receptor. So contactless is something that on Visa and Mastercard, the networks talk a lot about here in the United States. But that time has already come, David, in Europe, in the United Kingdom and to a certain extent in Asia.

That's really not a new trend. I'd say that the last number of quarters we've seen very substantial acceleration of our debit businesses in the UK. And I think the clearest example of that is consumer usage in places like the Tube. I know that the networks are hopeful that could be extrapolated to other markets like the United States, but the UK's probably the market leader in that technology.

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David Mark Togut

*Senior Managing Director, Evercore Group LLC*

Q

Understood. And then congrats on Xenial. I'm just curious, how is Xenial positioned against Square for restaurants, which just rolled out as well? I mean, if you look at the feature functionality, what are the main differences in how the product is positioned in the market?

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David E. Mangum

*President & Chief Operating Officer, Global Payments, Inc.*

A

Yeah. Sure, David. This is David. I think a couple of distinctions maybe around the answer. The Xenial we were describing today was actually a set of analytics products that we're really excited about rolling out in Canada, the UK and they already rolled out in the U.S. at the end of the year.

As a restaurant matter, we are very comfortable with our restaurant positioning. And in the enterprise class, which I think is your direct question, with Xenial, with the rest of our software products, we have a combination of terrific technology, extensive and scalable software solutions for high volume customers, includes multiple stations, different payment solutions, multicurrency, flexible pricing, all the things you need to run and operate.

Just as you would expect because we've been in this business for years, there are no surprises there whatsoever. We can uniquely combine that with high volume payment, supporting in analytics, so very happy with where we sit there. We're also, I would tell you, very comfortable with our price points against the competition in that sort of higher end of the market.

So it's a very large target market. We and others can unseat some pretty nice traditional competitors at the high end of the market.

Let me pause for a second and take you back a little bit further. We start with sales are running ahead in the United States, we actually think we're performing very well. We actually don't see Square in a lot of sales situations, quite frankly. For most of their business, they're serving a smaller customer. Our market is going to be a little bit higher than that.

And again, as I said a moment ago, as you head toward the high end of the bank card volume, where you really do linking the software with Xenial, we're really, really comfortable with our solution. And fundamentally, we have a big advantage when it comes to service and relationship.

Remember, I talked a lot about building local and meaningful relationships with customers. The higher you get, the more technology you enable, the more the relationships kind of matter, we believe. We sell on that, and we think the competition is more limited in that regard.

And then sort of fundamentally, I'd say you haven't seen us lose business to Square. So high end of the market, very comfortable with technology, really glad you asked the question. Low end of the market, we don't play that low. We play in the middle to upper end, and we're very comfortable with our sales results to-date.

David Mark Togut

*Senior Managing Director, Evercore Group LLC*

Thanks so much. Extremely helpful.

Q

Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

Thanks, David.

A

David E. Mangum

*President & Chief Operating Officer, Global Payments, Inc.*

Thank you.

A

**Operator:** And our next question will come from the line of Ashwin Shirvaikar with Citi. Your line is open.

Ashwin Shirvaikar

*Managing Director, Citigroup Global Markets, Inc.*

Thank you. Hey, Jeff, Cameron, David. So good results, and the acquisition team is consistent with the strategy you guys laid out, so congratulations on that.

Q

Two questions, and I'll ask both of them at once. The first one is, the margin performance year-to-date is pretty solid, and I guess the question is, why not take up the outlook? Is there an offsetting set of incremental investments that you guys continue to make? Obviously, there's a pricing opportunity as well. So can you talk I guess first of all about the margin performance and the ability to take up outlook?

And then the second thing is, clearly from a macro standpoint, there's been a lot of worrying headlines, tariffs, trade war, Brexit, things like that. How do you factor that into guidance? If you could broadly talk about that given your global presence? Thanks.

Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

Hey, thanks, Ashwin. It's Jeff. I'm going to start actually with your second question. I appreciate you asking the two upfront, so we can kind of categorize it on our side and route it accordingly. So I'll start with the second question on the macro. And then I'll ask Cameron to talk about what's embedded in our outlook.

A

So the short answer to what you asked about the macro is, no. We have not seen an impact on the tariff stuff and the trade discussions. I would tell you the most important driver of our business, as we say over time is the health of the consumer, the rate of GDP growth. Obviously the U.S. has had a very high GDP print the other day, and I would say this is probably in the quarter in our views of where we are today is just a continuation of the trend really kind of globally in terms of the expansion of GDP.

I would say in the macro point of view, and this will dovetail with what Cameron is going to describe, where the only difference now versus the last time we spoke in our last earnings call is probably the FX, the foreign currency

related environment, but I would tell you that from my point of view today, the consumer remains extremely healthy and we've yet to see any impact to our business from the question you asked. Cameron, you want to talk about the outlook?

Cameron M. Bready

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

A

Yes, Ashwin, that's a probably good jumping off point for the outlook around margins which is a really good question. So, what I would say is first of all, we're delighted obviously with the margin performance we've seen kind of year to date of 150 basis points year-over-year for the first half relative to last year's performance. If you looked at the back half of the year, there's a couple things I would call out, first is [indiscernible] (36:53). FX is obviously, based on our outlook for currency as I mentioned in my prepared remarks, we see FX being a headwind in the back half of the year, so it's going to be a headwind to revenue, headwind to EPS but also a headwind to margin.

So, as I look at the margin guide today, there's probably at least 20 bps of FX headwind in that margin guide relative to where we were back in May. So, I think that's probably the first important point to call out. The second is and we said this coming into the year with tax reform, we are taking that opportunity to invest in the business and some of those investments will ramp as we work through the year. So as we get into the back half, some of that opportunity to reinvest back into the business is obviously ramping up and that will I think put a little pressure on margin expansion relative to what we saw in the first half of the year, but obviously still over the year very healthy margin expansion, well above our stated sort of guide on a cycle basis for margin expansion for the business.

And to me that's a really good thing, because one of the things I'm most proud about, I think we're most proud about is the ability to generate the type of consistent financial performance we have while still meaningfully investing in the businesses that we could grow. So, we're not starving the business for capital, we're not starving the business for investment, we're investing in the future while also obviously delivering on the promise we believe we have in the business today. So, I think that's a very good thing, and we're always balancing the level of investment in the business with obviously our desire to continually expand margins in the business over time.

Ashwin Shirvaikar

*Managing Director, Citigroup Global Markets, Inc.*

Q

Got it. Thank you for that. I will catch up with you on the 10 AM follow up [indiscernible] (38:27). Thanks.

Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

A

Thanks.

Cameron M. Bready

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

A

Thanks, Ashwin.

**Operator:** Thank you. Our next question comes from the line of Darrin Peller with Wolfe Research. Your line is open.

Darrin Peller

*Managing Director, Wolfe Research LLC*

Thanks, guys. Nice job on the quarter.

Q

Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

Thanks.

A

Darrin Peller

*Managing Director, Wolfe Research LLC*

Let me start off just on your strategy – hey, around the [ph] iPOS (38:41) building out internationally and kind of any updates around that. Obviously, it's outperforming in the U.S. for a long time now so just curious to hear how that's going in the UK and Canada and maybe what the competitive dynamics are there?

Q

David E. Mangum

*President & Chief Operating Officer, Global Payments, Inc.*

Yeah, Darrin, David here. I'll start. So, actually, very happy with the steady rollouts of [ph] iPOS (38:59), I would actually maybe broaden it a little bit to make it more of a technology answer. So integrated payments are a core part of the way we're selling now in Canada and in the UK. A combination of integrated and semi-integrated solutions is certainly helping with the developed market performance you've seen us post in Canada and the UK and across Europe for the last several quarters [indiscernible] (39:18) commented a little while ago. When you think of [ph] iPOS (39:21) specifically, we've got a much broader Xenial rollout going on as we speak, as we talk about in other settings.

A

We mentioned analytics today, which rolled out to Canada and the UK but beyond that, we're rolling out restaurant functionality over the course of 2018 and 2019, particularly full roll out in 2019 in Spain, later in 2018 in Canada, 2019 in the UK. All those processes are continuing at pace as is our full roll-out to QSR table service and enterprise in the United States over the course of 2018. We'll combine that with Xenial [ph] gift (39:52) analytics and other reporting products. So right now, we have the ability to sell analytics on top of what you might think of as sort of [ph] non-iPOS (39:59) payment technology in Canada, UK and Spain. We have analytics with [ph] iPOS (40:05) in U.S., Canada, and UK and rolling out more and more consistent cloud-based product over the course of 2018 and 2019 in such a way that we expect that in the middle of 2019, towards the end of 2019, have the full suite of all of our software capabilities available in all of our major western markets.

Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

Yeah, I'd add to that, Darrin, to what David said, that we've also been successful in rolling out our university product, TouchNet to markets outside the United States, it's obviously a software-based solution in currently ecomm and omni businesses for selling a lot of technology, which we called out, I know we'll spend more time on in the third quarter. And then lastly, I don't want to overlook Australia, as I mentioned in my prepared remarks, New Zealand and Asia-Pacific with our Ezidebit, our integrated and vertical markets in Australia, New Zealand and our eWay ecommerce products. Those continue at very healthy rates of [indiscernible] (41:00) after we consummate this partnership. So, I would say that David's right. But just specifically on [ph] iPOS (41:10) but I think more generally outside the United States, our ability to take the integrated and vertical markets, technology-enabled software assets into a multinational environment, you're seeing the fruits of that in those results today.

A

Darrin Peller

*Managing Director, Wolfe Research LLC*

Q

Okay. That's really helpful, guys. Just one quick follow-up. When we look at the pricing opportunity in the U.S., maybe just a quick comment on where you still feel like you are, maybe coming out of Heartland. And then, kind of on the UK side, just considering the UK market regulatory headlines around pricing in that industry, I mean, I'd just be curious to hear your thoughts. It sounds like you guys were pretty transparent in your pricing model, Interchange Plus, but any thoughts on the impact this could have or may or may not have going forward?

David E. Mangum

*President & Chief Operating Officer, Global Payments, Inc.*

A

Yeah, Darrin, David again. And then, I'll let Jeff take on the UK situation. I'll talk a little bit on the United States. So, we believe we have an enormous amount of remaining economic value opportunity in the United States. It comes, really, from the service we offer, and we're still in the middle of matching the economics to deliver great values, so [ph] more on income fees (42:12) and things like that. In fact, what we are looking at is saying, we provide this world-class service on industry-leading infrastructure, high quality reporting compliance [indiscernible] (42:21).

So, let's take a look at whether or not we're pricing for that service appropriately [ph] versus (42:26) historically, priced for that service appropriately. So when we started, as you'll recall from a year or more ago by better aligning our new sales economics and tools with the level of service we provide. Now we have the ability to go back through the services we provide and can find folks who maybe aren't meeting contractual obligation, find folks who are sort of in long-term below-market condition, and kind of ratably and progressively make sure we address those things from [indiscernible] (42:49).

So again, not a broad based approach to jump these, more specifically targeting the massive economic value of what we're providing to service value. So we're rolling that through, and doing that in that measured fashion, I'd tell you we've got a long runway ahead of us in terms of being able to provide more and more economic value, more and more economic turns on top of business services we sell and the accelerated sales results [indiscernible] (43:11).

Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

A

Yeah, I'd add to what David said, Darrin, on your second question that the UK has been historically [indiscernible] (43:15), and I expect it to be an, going forward, an intensely competitive market. You've had a number of not just existing competitive market entrants, new market entrants in fact over the last number of years. [indiscernible] (43:32) of people who have entered the UK markets. So, the first thing I'd say is it's always been competitive. Our markets are generally competitive. But for these purposes, the UK's been intensely competitive, and I expect it to remain that way. And of course, there's legacy competitors there too [indiscernible] (43:48) prospective pro forma for the AMD announcement this morning, the UK's roughly 8% of our revenue, but nonetheless, it's an intensely competitive market and I don't expect that to change.

The second thing I'd say is, for years, we've been Interchange Plus pricing in the UK, which means changes in interchange get passed through, that's what Interchange Plus means, to all sizes of merchants, small, medium, and large. Third, I think you touched on this. We're highly transparent in our pricing and billing. I think as you know, in some markets like in Canada, we're actually a bank and regulated. And as such, obviously, the context of what we do is highly regulated by folks like the Financial Conduct Authority in the United Kingdom and, of course, Visa, Mastercard generally in most markets have their own set of rules about transparency in pricing.



Given our bank background in markets like the UK, given the fact that we are a bank in certain markets like Canada and [indiscernible] (45:09) using Mastercard in nearly all of our markets, particularly in the United Kingdom for these purposes, we're very transparent, and the market is highly competitive.

Lastly, I'd say, there's a lot of switching in places of merchants, in places like the UK, and that market you tend to see 15% to 25% term rates, the vast majority of those is people choosing different providers. The attractiveness from new people like Square [indiscernible] (45:14) come into that market. So I would say sitting here today and given how we operate, we really don't expect it to have any kind of material impact to our business. I think we just answered someone else's question this morning about the products and services we brought into that marketplace. I think David's philosophy that he just expressed on how we add value to transactions here in the United States applies to the UK and our other markets, which is to say that we try to charge fairly for the products and services that we are [indiscernible] (45:45) investment along those lines. So we feel good about where we are, and I don't see that really changing anything for us.

**Operator:** Thank you. And our next question comes from Tim Willi with Wells Fargo. Your line is open.

**Timothy Wayne Willi**  
*Analyst, Wells Fargo Securities LLC*

Q

Hi. Thank you and good morning. I had one question I guess around technology in the back office and operations. So you talked a lot about technology strategy on the frontend and driving revenue and products. Could you just talk about what you're doing with data, machine learning behind the scenes that may be driving, or at some point will help to drive additional margin expansion as you improve and streamline, not just a top-line driven revenue margin story, but maybe more on the backside?

**David E. Mangum**  
*President & Chief Operating Officer, Global Payments, Inc.*

A

Yeah, Tim. It's David. I'll start and let the other guys chime in, because [indiscernible] (47:03) around the enterprise and it's actually – it's a fantastic question because we think about it in the same way. The very same back-office tools that allow us to stage data to roll out analytics products like the Xenial products we described earlier today, the ability to kind of roll out these solutions that give you daypart sales and let merchants have insight [indiscernible] (47:27) customers and drive campaigns and manage social media. All that same data is sitting [indiscernible] (47:31) as are the tools that phase it in. So whether that's the ability of our finance folks to help us with forecast analysis and opportunities to improving the enterprise. A little more importantly, and maybe more specifically the margin [indiscernible] (47:45) is the ability to actually be better at the way we serve customers. We do try and differentiate, as you well know, on service and on high touch, so yes, these tools are really right in the sweet spot of our strategy going forward the next couple of years.

So when you think about the combination of AI, sort of artificial intelligence from our products, we are employing that as we speak. We've got a lot of stuff in beta in specific business units and actually in our university. We actually have a robot that answers questions right now and directs calls, maybe from Spain. I can't remember his name off the top of my head, but regardless. We were using everyday AI to augment analytics and help us drive the enterprise further, and to your point, drive margin over time.

So as an example, we've got prototypes out for intelligent layer on top of analytics to help us with decision-making. We are using in the call service, call centers already, natural language processing, machine learning to answer questions. Again, you may or may not want to talk to a human, but you do want quick service, and you want the answer right away. To the extent we can make that a better experience, we're going after that. The

applications include voice-enabled systems, accelerated processing. We do have some testing of automated resolution of customer queries. Let me pause for one second, financial services remains the land of exception management. At the end of the day, all the cool software in the world still doesn't work perfectly all the time across communication vendors or for internet providers and things like that, so you've got to match exception.

You also got to enable more self-service for chargebacks, payment matching, even batch recount, that's our reconciliation around these jargon and transactions.

So using AI and analytics for that, boosting our productivity, boosting our ability to turn, so it's more value-added activities like building products and selling, instead of answering questions. So actually, we're pretty intrigued. You can probably hear it from my tone. The more of this we invest in, the more excited we get about the opportunity to scale at the backend. As you heard Cameron describe earlier, put money back into that frontend revenue-producing customer touching side of the business.

So look forward to talk a little bit more about it going forward, maybe not in the next couple quarters, but as we go forward.

---

Timothy Wayne Willi

*Analyst, Wells Fargo Securities LLC*

Q

Great. I just had a follow-up on AMD. I want to make sure I understand it. I missed some of the earlier comments, I apologize. But is the primary payment flow of AMD the consumer payment to the physician? Or are you also touching the payment or the possibility to touch the payment from the insurance provider back to the health system or the physician?

---

David E. Mangum

*President & Chief Operating Officer, Global Payments, Inc.*

A

Yeah. So, Tim, the absolute primary piece of the payment is – think of it as the co-pay. So it's fundamental to have consumers checking out, which you'll recall is the core business we enable in OpenEdge. When you check out, we automatically update patient records and scheduling, send off the forms to claims, the Cignas of this world, et cetera.

There is an element of billing and payment opportunity at the backend that's further down the road that we're pretty interested about, and given my history, I'm a little interested in that payment flow as well. But the core of this is what we know really, really well, the OpenEdge card processing payment flow.

---

Cameron M. Bready

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

A

And, Tim, it's Cameron. I'll add just a couple of comments. One thing we haven't really touched on as it relates to AdvancedMD is, they're really focused on ambulatory practices. So these are outpatient. And they're also focused on those specialties where there's more consumerism in health care.

So as we think about the opportunity, obviously there's an existing base of payments that we can further penetrate, but longer term, we're going to be more and more in specialties where there will be an increasing amount of consumer oriented payments, relative to insurance billings and whatnot, as it relates to healthcare payments going forward.

So that's part of the attractiveness of the business from our standpoint. So as we look at it from, again, a financial profile standpoint, that's why we're confident obviously with the ability to continue to drive that low double-digit rate of organic growth in the business going forward, why we see the business as being accretive from an EPS standpoint in 2019 and going forward.

All of that, it creates a very nice backdrop for a financial profile for AMD that we think is highly attractive for us.

Timothy Wayne Willi

*Analyst, Wells Fargo Securities LLC*

Q

Great. Thank you very much. That's all I have.

David E. Mangum

*President & Chief Operating Officer, Global Payments, Inc.*

A

Thanks, Tim.

**Operator:** Thank you. Our next question comes from Andrew Jeffrey with SunTrust. Your line is open.

Andrew Jeffrey

*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Hey. Good morning. Thank you for taking the question. I wanted to follow up on David Togut's question a little bit around Xenial and restaurants. And David Mangum, very much appreciate the color competitively.

One of the things that I think has come up a lot – and it came up yesterday on Square's call, too – is self-service onboarding, and I think that surprised a lot of people from a scalability standpoint. And I appreciate the high customer touch and the nature of the customer.

But could you comment a little bit on whether or not that's a trend that you're seeing in your business and something you might want to pursue going forward?

David E. Mangum

*President & Chief Operating Officer, Global Payments, Inc.*

A

Sure. Happy to, Andrew. It is something we want to pursue. It's actually something we've already pursued. So that exists.

I don't know that I think of that as a massive trend fundamentally changing the market at all. Faster onboarding, the ability to be transacting right away are all just the kinds of services that we all need to offer.

I recognize that many "traditional" competitors in the space can't offer that. But no, the idea of being able to get onboard immediately, maybe even come back and doing the underwriting a little bit later, yes, absolutely exists. It's something we enable as well market-by-market around the world. We're working hard to get better and better at that in the States.

Part of our competitive differentiation – when I say high touch, high service, it means you know your customer. It doesn't mean you're not applying technology, not boarding quickly, not enabling transactions immediately, not settling batches the first night you bring reports back. It means, hey, I know my customers well, I know and I speak the restaurant language, the hospitality language, the physician language, in the case of AMD, the university language. It's being able to be more and more vertically fluent to speak the language of your customer

and provide them that kind of relationship and service. It by no means is a replacement for having to be right on the cutting edge of technology as well.

Andrew Jeffrey

*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Okay. Yeah. Appreciate you elaborating on that. And, Jeff, I might ask, perhaps you can expound a little bit on some of the competitive comments in Europe, particularly around sort of the next gen ecomm acquirers. Did I understand you in your prepared remarks to say that you think Global thrives because it's more of a specialized player, hard-to-reach markets, domestic ecomm? Is that the right way to think about the competitive differentiation at least today in Europe and perhaps APAC?

Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

A

So, Andrew, it's a great question. I think if you go back a little bit to what we described in the March Investor Day where we had a bunch of slides on what we thought, how the market was stratified and how we'd compete, I would say if you look at that, we really compete two ways in our ecomm and omni business.

The first thing is our core, as it always is, is SMB. So adding in, for example, talked about this in their perspectives, that the top 10 customers I think are a third of the business, and those are all ecomm owned. If you think about us by way of – based on what they said.

But think about the way we go to market, SMB is our core. Those are generally omni, meaning virtual. They're both ecomm as well as physical acceptance. And in particular in Europe, as I described in response to David Togut's question, across a number of geographies across the European Union.

So when you think first, Andrew, about SMB, ecomm as well as omni in the European region, there are a lot of folks who fit the bill in all those touch points that I just highlighted. And I think by far that's the predominant means of kind of what we do, kind of point number one.

Point number two, the cross-border, which we referenced in our prepared comments, too. There I think our global footprint, where we're physically in 30 countries but doing business cross-border, especially ecomm, in more than 50 with over 140 currencies, there I do think there is a lot of value to first having a single provider in all those markets.

So while we certainly overlap with a number of the folks competitively in any one geography, increasingly we see a trend toward smart multinational corporates picking one provider that solves all their payment needs.

I believe that's some of the markets that we're in, Taiwan would be an example, Singapore, Malaysia, New Zealand, go down the list, Hong Kong. There aren't a lot of providers cross-border in those markets plus Europe across most of EU who can really provide the most sophisticated multinationals, now [ph] I'm on that point (55:59), not SMBs, with all the payment solutions they need with one technology environment. You put those two together, which is SMB, kind of our core online, as well as physical store combined with complicated multinational for a single provider in all the markets they can possibly be in, [indiscernible] (56:10) in some cases you're going to do some of these RFPs. You might be one or two providing that, because those needs are really hard to solve. So that really is the genesis of our mode of competition, and how we go to market ecomm and omni. And I think we've laid out this most recent quarter but certainly over the last number of years what that's meant in terms of our growth because again this quarter coming in the third quarter, we'll talk more about how that business is

performing and what we continue to expect. But we're well on our way as we described in the Investor Day to [indiscernible] (56:44) 20% of our revenue in 2020 to be coming from our ecomm and omni solution business.

Andrew Jeffrey

*Analyst, SunTrust Robinson Humphrey, Inc.*

Very thoughtful as usual. Thanks.

Q

Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

Thanks for your compliment.

A

**Operator:** Thank you. And our last question comes from Paul Condra with Credit Suisse. Your line is open.

Paul Condra

*Analyst, Credit Suisse Securities (USA) LLC*

Hi, thanks. Great. Good morning, everybody. Cameron, I just wanted to ask about the software revenue, you said 15%. Should we think of that as recurring SaaS revenue? Could you put a margin profile on it? And then how should we think about that growing?

Q

Cameron M. Bready

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

Yes, it's a very good question, Paul. So you're right to think about that as a highly recurring revenue stream for us. The vast majority of that is SaaS or it relates to products today that we're in the process of converting to SaaS platforms, but the vast majority of that is going to be SaaS for us today, highly recurring, highly visible, AdvancedMD is a good example of that. We look at the revenue profile of AdvancedMD, we see that as 95%-plus recurring revenue in that business and very attractive, obviously, revenue profile.

A

And naturally given our strategy, that's a portion of the business you should expect to see continue to grow over the course of time both organically and inorganically as we drive on software driven payment strategy towards that 40% target, obviously that complements the 20% target that Jeff just highlighted for ecomm and omni bringing our total technology-enabled target to 60% by that 2020 timeframe.

So again, that's a highly attractive aspect of the growth profile of the business. We see those SaaS businesses at a minimum growing in the low double-digits and we're going to be growing more quickly than that. But obviously contributing very nicely towards unit growth over the course of time. From a margin standpoint, you should assume by and large, those businesses should be at or above the corporate margin at a minimum. Some are still scaling, to be fair, so over the course of time some of them are going to scale to being at or above the corporate margins, but certainly our expectation is all those businesses over time should be obviously accretive to the overall margin profile for the company.

Paul Condra

*Analyst, Credit Suisse Securities (USA) LLC*

Great. Thanks. And then I guess just for the follow-up in terms of M&A, I mean, you're not going to be terribly leveraged coming out of this deal, so should we think of kind of an annual deal pace the way that you guys are thinking about it of this kind of size or any kind of changes or insight you can give us on the strategy?

Q

Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

A

Hey, Paul. It's Jeff. I would just say our pipeline remains full. I think you're right in what we said, we don't view 3.3 times today, 3.8 times lever pro forma as being anywhere but right in our sweet spot in terms of what our goals are and we've articulated before.

Our pipeline is full, I hope it doesn't take another year for other deals to come to pass in the technology-enablement world [indiscernible] (59:32) but at the end of the day the most important thing for us is the strategic fit, the [indiscernible] (59:36) fit and the financial returns that we can generate as we advance our strategy.

So time will really tell as it relates to what we're looking at. But I would say in general, we couldn't be more pleased with AdvancedMD where our strategy is, where we are along the path, well down the path of over 60% that we articulated, obviously inorganic growth, mathematically, is a part of that. We love that AdvancedMD beyond how good the business is, is the fact that it exposes us more directly to the healthcare vertical market which is a big chunk of the U.S. economy. There are other vertical markets in the U.S. that we don't have significant exposure to that we also look at. So stay turned, but we're very pleased with where we're now and pleased with where we're heading in terms of our strategy.

Cameron M. Bready

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

A

And, Paul, it's Cameron, I'll just add maybe a couple of points to that. One, as we talked about historically, our priority remains to invest in growth of the business. We talked very clearly I think at the Investor conference about the three pillars of growth, where we want to continue to invest to drive growth across those aspects of our business, so rest assured we're working very hard every day to find opportunities that fit, strategically fit, culturally fit, financially are accretive to our rate of revenue growth, accretive to our margins, accretive to earnings as AdvancedMD is, all those things are very important to us.

I wouldn't necessarily want to put a target out there as it relates to, I know others in the States like to do that, but I think that implies you're going to do deals regardless of strategic fit, cultural fit, and financial fit, and we're not that sort of investor. So we're obviously, to Jeff's point, working on a very full pipeline now. I think we remain very confident in our ability to find opportunities to fit the criteria that we have for the business, and we'll be able to continue to grow towards the targets we've established through, obviously, organic and inorganic growth and I think AdvancedMD is a great example of that.

Paul Condra

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Great. Very good. Thanks. Have a good morning.

Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

A

Thanks, Paul.

Cameron M. Bready

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

A

Thanks, Paul.

## Jeffrey Steven Sloan

*Chief Executive Officer & Director, Global Payments, Inc.*

On behalf of Global Payments, thank you for joining us this morning and thank you for your interest in us.

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**Operator:** Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect. Everyone have a great day.

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