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# Global Payments, Inc. (GPN)

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

## CORPORATE PARTICIPANTS

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

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## OTHER PARTICIPANTS

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

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## MANAGEMENT DISCUSSION SECTION

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

All right. Thanks everyone for joining in. My name is Tien-Tsin Huang. I cover the Payments and IT Services sector at JPMorgan. And seriously excited and really happy to have Jeff Sloan from Global Payments. He is the CEO. And I know Jeff you're super busy. So means a lot to have you here.

And there's a lot to go over, so we'll do Q&A as we always do. We'll give the audience a chance to ask questions. And then we also have the portal here. So we'll take questions from the portal to the extent that there are any.

So but, welcome. Thanks again for joining.

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

Thanks for having me.

## QUESTION AND ANSWER SECTION

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

I wanted to ask because we've been sort of pitching this idea or this concept that the industry is starting to see this divide between bank-based distribution and tech-based distribution. And you were very early and you've been very clear to be investing on the tech side for distribution. But would you agree with that statement that we're seeing that as a theme? And why is the tech-based side going to win?

Jeffrey S. Sloan

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

A

Yeah I think it's a great and obviously a very timely question. I think of it really slightly differently, because Global Payments, as you know Tien-Tsin, has a very active bank business, particularly outside the United States.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Sure.

Jeffrey S. Sloan

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

A

So I would say it's really a function of the – wow, that's a big crowd that just came in.

So has a very active bank distribution business outside the United States. So here's how I would think about it. I think the most important thing about those transactions that have been announced so far...

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Yeah.

Jeffrey S. Sloan

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

A

...is that they really validate our technology enabled strategy. That's the first thing I would focus on.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Agreed.

Jeffrey S. Sloan

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

A

And what I mean by that really is what we call our distinctive, defensible, distribution that we've been building up over the last six-plus years. So that means we like to build and sell things that are defensible, that are resilient. In fact, the way we think about our business today is probably 40% of our revenue is coming from software and coming from sectors like QSRs, restaurants, and the like. That while they not be recession immune, they're resilient.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Sure.

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

A

So you're more likely to go to Burger King...

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Yeah.

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

A

...in a worse economy than you are to some of the big box retailers that you read about, like a Macy's, which kind of reported – which reported this morning.

So the first thing I'd say is, these deals really validate our focus on technology-enabled distribution. And they really validate how important it is to be distinctive, defensible, resilient, and all the things that you would imagine.

If you back up further, I think if you haven't made those investments therefore in the last five or six years, then I think defaulting to more commoditized based processing...

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Right.

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

A

...and getting more scale makes a ton of sense for people who are in that position.

But because of the investments that we've made in our business over the last six years, thankfully we're not in that position. I would say most specifically we distinguish ourselves by the type of customer we go after, really the SMB. And I gave you the QSR example.

But the SMB, the geographies we're in. So outside the United States, we're in a lot of geographies around the world like Continental Europe with Erste.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Yeah.

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

A

Like our businesses in Spain, like our businesses in Australia and New Zealand that provide better than market rates of growth relative to the core U.S. economy. Most of those players who you had referred to as part of those transactions are either just or primarily in the United States – there's like a disco kind of lighting going...

[indiscernible] (3:23)

Jeffrey S. Sloan

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

It's to hide the number of people coming in.

A

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Yeah.

Q

Jeffrey S. Sloan

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

But they're either focused on markets that are more mature or slower growing.

A

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

True.

Q

Jeffrey S. Sloan

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

They're in one country, primarily their home country, or they're in one country plus like the United Kingdom. But they're certainly not in 33 countries. And they're certainly not doing business in 60.

A

So if you think about how we sell to SMBs, if you think about the geographies that we're in, if you think about our sales force and what they're selling, which is a mix of software owned and partner to e-com, those are the distinctive things. And I think if you don't have those things, drive some of these other parties to those types of transactions.

So I think it's less about, gee, bank versus non-bank.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Yeah.

Q

Jeffrey S. Sloan

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

Because we have plenty of banks at Global Payments, especially outside of the United States. It's more about, is what you're selling distinctive, defensible, resilient? And are you selling with the technology-led solution? That's really how I think about it.

A

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Right, it's the product and the capability [indiscernible] (4:15)...

Jeffrey S. Sloan

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

Right. And if you don't have that, then by all means, get a better cost position in something that's fully commoditized. And I think those transactions are as much about that as they are about anything.

A

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Understood. No, that's insightful. So given all the industry consolidation as you mentioned, does that change the sense of urgency for you to do deals, large or small? Because I noted a lot of interesting tech-based companies out there on top of different portfolios. So just curious your thinking on sense of urgency, if that's changed?

Q

Jeffrey S. Sloan

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

Well, I think we operate at a high cadence already.

A

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Yeah.

Q

Jeffrey S. Sloan

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

We've done a lot of deals.

A

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Yeah.

Q

Jeffrey S. Sloan

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

We've invested \$8 billion of capital in our business over the last five or six years, primarily on the technology environment. So in those areas where scale matters in our business, like for example, being in 32 countries outside the United States.

A

So we have a \$1 billion of revenue, 4,000 employees, a tremendous amount of profitability outside the United States in those other 32 markets.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Yeah.

Q

Jeffrey S. Sloan

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

A

We're at scale in those markets already. Some of the deals that have been announced, they're either U.S.-centric, in the case of Fiserv, First Data, or they're really just in a couple countries like Fidelity Worldpay, speaking for the Worldpay side of things.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Right.

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

A

But they're not at scale in India, they're not at scale in Brazil, they're not at scale in China, they're not at scale in Australia. So where scale matters, I think we're at scale in those businesses that we're in.

So listen, at our shop it's always urgent. I like to think that we have – has the right cadence in what we do. But, no. We're looking at

things all the time. You saw us invest \$1.2 billion back into our businesses last year in the form of M&A.

We really started the whole consolidation process with Heartland in the industry back in 2015.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

True.

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

A

So obviously we've been at this a long time, driving consolidation within the business. But that's really nothing new for what our objectives are.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Okay. And I know I've asked you this before, Jeff, but I get this question a lot. So I'll ask you again. Just Global Payments owning a software company, right, very different culture for software businesses with developers. And we've seen that not mesh well with different companies that take them over.

So what gives you confidence that you can maintain the IP and the innovation and the people at some of these software companies.

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

A

Sure. Well, I would say the proof is in the facts...

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Yeah.

Jeffrey S. Sloan

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

A

...really as to what we've been able to do. So our first foray into software was really with APT almost seven years ago now in August of 2012.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Right, APT, then PayPros.

Jeffrey S. Sloan

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

A

APT and then PayPros, but we started with APT in August of 2012. The people running APT and PayPros, which we now call OpenEdge. The people running OpenEdge are the people who were at APT when we bought it seven years ago.

The people running Realex, our e-commerce business in Dublin in the Silicon Docks, are the people who were running Realex when we bought it four or five years ago. The folks running Ezidebit and eWAY, software companies in Australia and New Zealand, are the same folks who were at those companies when we bought that five years ago.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Yeah.

Jeffrey S. Sloan

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

A

So that was absolutely a risk when we walked into APT. I told the story, I think it was on the earnings call, where in those days I used to wear a suit, no tie, kind of like today, because I'm at JPMorgan. But – and they were wearing jeans...

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Yeah.

Jeffrey S. Sloan

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

A

...and T-shirts. And I was thinking, well, this could really be a problem. In terms of retention, today, we look a lot more like the software companies than we look like what we did in corporate America going back seven years ago.

Retention is very good. Our surveys of our people are very high, not just compared to ourselves historically, but compared to high tech companies and market-leading companies. We're far more diverse than most financial services and tech companies today in the United States.



So I would say that I – absolutely a concern. The facts and the jury is in. And those results have been very good. You probably don't have to look further than the rates of revenue growth of the businesses that we bought over time, which are at the same rate or faster than

when you did those deals a year ago. And say, how is it going? And I think the proof is right there mathematically.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

All right. Good. If you want to wear jeans next year, just text me, I'll wear them too. The...

Jeffrey S. Sloan

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

A

Well, I went overboard for you guys. I had a suit without the tie, which was probably a long time ago since I did that. But I figured since we were following Jamie Dimon and started thinking about it, I might as well start somewhere.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

It looks good. Would've been different if we're following Jack Dorsey. The – which was yesterday, which was fine by the way.

Jeffrey S. Sloan

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

A

Yeah.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Not saying it facetiously.

Jeffrey S. Sloan

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

A

He still in that beard? Or...

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

In the beading.

Jeffrey S. Sloan

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

A

Yeah, well, there you go. No facial hair in baseball, right.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

So that was a fun conversation with Square. They're rolling out a lot of different products. Obviously they've done a great job of that. You own some software assets. And you're looking to penetrate payments, right, and also

cross-sell with an ecosystem. So can you maybe talk about this bundle? And how that's progressing? And maybe give us some anecdotes on that there?

Jeffrey S. Sloan

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

A

Yeah. So I think the best way to think about that is what you just said, which is let's start with some facts.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Yeah.

Jeffrey S. Sloan

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

A

So we looked at TouchNet many years ago, which for those of you who don't know, is our university business for reselling software and payments into universities, which is something actually Heartland bought in 2013 or 2014.

When we first looked at that, there was about 5% payments revenue penetration into the TouchNet base, call it five years or six years ago. This year it's probably 30% or 40%.

So we've been able to take a business that's primarily a software business that sells into a third of the universities in the United States. And we've also brought that business by the way to Canada, to the United Kingdom, to Asia Pacific. So we're not just expanding the payments pie, we're actually expanding the geographic pie. And by way our business in Canada took away a customer from First Data.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Right.

Jeffrey S. Sloan

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

A

So software as well as the payments. So our ability to further penetrate payments up to 30% or 40% in the case of TouchNet up from 5%. Our ability to do not just that but expand the pie by bringing in two additional geographies and selling software as well as payments is as good a case study, really, Tien-Tsin, as any I can think of in terms of the success of doing that. And that's kind of where I would start.

I'd also tell you that in the context of AdvancedMD, which is a more recent deal, so we have less time passed. It was done last year. We had about 20% at OpenEdge of that payments business when we bought that company about nine months ago. Our goal is to also get it up to 50% to 80% payments penetration by way of revenue. JPMorgan is one of our big competitors in that payments business for AdvancedMD.

As I said in our call a couple weeks ago, we've been very successful in increasing the cross-sell rate of payments and payroll for Heartland.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Right.

Jeffrey S. Sloan

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

Let's just say, payments for these purposes of referrals. I think we quadrupled it in the first quarter that 20% number we started with, as we try to go to 50% to 80%. But just in the first quarter alone within a year of ownership we actually quadrupled the referral rate into OpenEdge from the AdvancedMD physicians.

A

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Okay.

Q

Jeffrey S. Sloan

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

So I think both those things, TouchNet, AdvancedMD, are good examples of what we think we can do on penetration, while we're bringing businesses to additional geographies.

A

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Okay, good. So also on the earnings call, you talked about the restaurant vertical. You're big on restaurant, given Heartland and some of the acquisitions you've done. And I think a lot of people in the audience have met with or seen or heard about Toast and TouchBistro...

Q

Jeffrey S. Sloan

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

Yeah.

A

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

...and LightSpeed just came public. They've got a restaurant piece. And so does Square.

Q

So but I don't need you to rehash that. But what was differentiated to me was that you're very end to end at scale with distribution rights. You can go everything from the enterprise level down to small drive through, mobile. So but from an innovation standpoint, can you out innovate? How much does that matter versus some of the success we've seen that, say at Toast or a TouchBistro?

Jeffrey S. Sloan

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

Sure. So I like to say that the moniker we use internally is we go from a taco truck to Taco Bell.

A

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Right.

Q

Jeffrey S. Sloan

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

Oh, Taco Bell is one of our customers.

A

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Right.

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

A

That's why we kind of like say, Taco Bell.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Right.

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

A

I think like 20,000 tacos a day in the United States are being purchased on your phone, on somebody's phone using our software, for example, just to give you one kind of case study.

But what I would say about our business that's unique about it is, it's really end to end, almost entirely cloud hosted SaaS based payments as well as software.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Right.

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

A

So we tried to lay out in our last call in – a couple weeks ago the mode of competition, to use your examples of TouchBistro and Toast and everybody else. The truth is, whether it's Square or Toast, they compete in narrow slots of the vertical market.

We have sales teams from self-select, where you can do it yourself, all the way up through our enterprise sales people, who are targeting every Burger King in the United States, every Tim Hortons in North America. We have 21 of the top 40 QSRs using our software and payments in North America today.

So our ability to take common investments in software, in services, in payments, in cloud, data and analytics, and feed those at every level of the food chain is really distinctive to us. Here's an example. When you look at our ability to actually have 24/7/365 customer service, where if you need to, you can actually get a human being on the line, that's not something Square can do.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Right.

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

A

Particularly at the micro merchant side...

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Right.

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

A

...back to my taco truck, example. Now why can we do that? Because across Global Payments in 33 countries, we probably have 3,000 people answering telephones, right? So the investments we make commonly in our software, in our data analytics environment and web-based self-service in self-select, we can leverage those across our environments 24/7/365 to allow the best kind of service, however you would like it as a customer in any market we're in at any size.

And that's something I think that is very distinctive to us that other companies like Square, Toast, and the like really can't do. So when you give examples of, well, here's somebody who has software pay at the table, which obviously has been coming to the United States and existing in Europe.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Sure.

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

A

That's just a logical extension for what we already do, right? So at the end of the day, our ability to innovate some more products and services into the most complicated customers, our ability to leverage those distribution techniques into the small sky is not something that anyone else really has.

And I think that's how we're winning. We're taking share every day from NCR Aloha from Oracle MICROS and from the people you mentioned at every size.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Right. Okay. So another way you attack it is you do partner with these ISVs, right? You mentioned APT, PayPros, which is now OpenEdge.

It sounded like this quarter was 20-plus percent, I mean correct me if I'm wrong or don't. But what's driving that/ Because you're doing the powered-by model, as I call it, or partner model as you call it. And then you own some software too. But what's driving the acceleration on the partner side?

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

A

So I would say it's the culmination of a lot of work. So it was really a teens in the quarter.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Okay.

Jeffrey S. Sloan

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

A

But that's an ongoing acceleration and extension...

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Yeah.

Jeffrey S. Sloan

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

A

...of really where it's been for a long time. So we've owned the progenitor APT for seven years. It's probably been double digits every quarter for – what is that – 28 quarters, whatever it is, over the six or seven years that we've owned it.

But as we said in the call a couple weeks ago, it has accelerated in the most recent quarter. I think the reason for that is a few fold.

First of all, our investments in technology. So when we did those three companies we mentioned in the February call, Tyler [Technologies], ASI [ph] and Alight (15:12). Those were RFPs. This wasn't just Global Payments.

And we weren't the low or the high, low or high bidder.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Yeah, yeah, yeah.

Jeffrey S. Sloan

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

A

We didn't write a big check. We weren't really the low cost provider. That's really not our model.

We're the provider of the very best technologies into the markets that you care about. So some of the things like Tyler is not just in the United States, it's in multiple geographies.

I can't think of another technology company in payments that is in the United States, Canada, United Kingdom, Australia and New Zealand domestically, including JPMorgan, not just cross-border, but actually in Canada with Canada OpenEdge with local Canadian support sales, product, licensing, compliance. We're actually a direct member at a bank, Visa and Mastercard, and sell directly in Canada. Nobody else has that.

So part of the answer to your question is, the breadth of what we have, the technology of what we have, which is all API-driven, the sales force we have, which has been at this for a very long time.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Sure.

Jeffrey S. Sloan

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

A

In those markets, you're down to a very small list. And in most cases, we're not the low cost provider, but we are the best provider for the value that you're seeking to acquire.

So we're very proud of those things. Obviously, we've only wrote out 122 municipalities out of the 15,000 that Tyler has, which is what we said a couple weeks ago. We've only rolled out 100 – sorry, 1,000 chiropractic offices of the 10,000 that ChiroTouch has. So we have a long runway ahead of us for continued growth in our OpenEdge market.

On your question about owning versus partnering software, we pick those vertical markets to own software that we're not in by the way of partnerships. So it's really very simple. As we said at the time of Heartland, there was really no overlap between Heartland's business at the time relative to the vertical markets that we were in.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Sure.

Jeffrey S. Sloan

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

A

In terms of partnership, and that continue to be true.

So we focus on those vertical markets where we don't compete with our customer base. And really very simply, we compete in those geographies, we focus on those geographies, like outside the United States, like in Australia and New Zealand, where our ISV partners are not. So really we've had very few issues that way. And I expect that to continue.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Okay. Good. No, I know you're very thoughtful on which verticals you're going after. But on another theme here with independent software vendors, it does feel like a lot of them are increasingly converting or considering converting to become payment facilitators, right? Taking the payments in-house, using a Finix, and doing that transition and flipping the economics around, right? Flipping the revenue share. And then into a [ph] cost to consult (17:43) with a processor, right?

So are you seeing that? And I know you're playing a little bit on both sides there. But how big of a threat or opportunity do you see that for Global Payments?

Jeffrey S. Sloan

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

A

So the short answer is no.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Okay.

Jeffrey S. Sloan

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

A

We're not seeing that. And this was a concern when we bought APT...

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Sure.

Jeffrey S. Sloan

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

A

...seven years ago. And back then, it wasn't called a facilitator, it was called the VAR ISO. I don't know if you remember, Tien-Tsin.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Yeah, yeah.

Jeffrey S. Sloan

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

A

I've been around long time and...

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

I changed them, I did everything.

Jeffrey S. Sloan

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

A

You and I are like contemporaries. I mean we've both been around a long time. But back then it was the VAR ISO stuff. And you were worried that the VAR would become an ISO or vice versa.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Yeah.

Jeffrey S. Sloan

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

A

In point of fact, that has really not happened. And the reason that hasn't happened, you know this, but for the audience, Visa and Mastercard are constantly changing the rules about what you need to do to be compliant, about what a facilitator really is...

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Right.



Jeffrey S. Sloan

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

A

...about what the limits are, about what the pricing is, about what the liabilities are. So it makes it very hard if you're not in the payments business. We have full compliance teams, full technology teams, full licensing teams. It's very hard to do, point number one.

Point number two, the economics of software are such that, why spend all the time in the stuff that's not making you any money. At the end of day on the payment side, that's a relatively small portion...

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Yeah.

Jeffrey S. Sloan

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

A

...of what facilitators and VAR ISOs and ISVs really do at the end of the day. Instead, they prefer to sell cloud based SaaS software or licensing software. That's what they prefer to do.

Payments is really a small opportunity. I think we sized this at our Investor Day last year. Payments is, what, standalone \$25 billion a year – you know better than I – whatever the math of the revenue is. What's software? \$500 billion. I mean pick a number.

Why would you do the reverse? You're going to go into a business that's 80% smaller than you are. Why does that make sense?

I'm not trying to talk down payments. I'm just saying at the end of the day, it just strikes me that you stay with where you think you have your competitive advantage, as it relates to marketplaces and facilitators. We have one of the largest – well, there's PayPal is one of our...

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Yeah. I did know that.

Jeffrey S. Sloan

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

A

...core partners outside of the United States, primarily in Europe and Asia for cross-border.

So we're very familiar with different models, where you share and exchange wholesale technologies. But the truth is, in fact, that it really hasn't occurred in the United States. We really haven't seen evidence of it.

Now lastly I would say, and I think you alluded to this, it's important therefore to hedge your bets as it relates to distribution. So our thesis around what we're doing is diversity of distribution is important. We think it's important to have a balance across owned software as well as partnered software as well as e-com as well as existing in new geographies.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Yeah.

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

A

So our model is to make sure that we balance across those metrics and that we're not rifle shot just into one, as we were many years ago with ISOs.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Yeah.

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

A

And kind of got into trouble. So I think in the day, that balances service really well. I really don't expect that to change.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Okay. Let me ask one more, then we'll open it up. You mentioned e-com. You've got the Unified Commerce Platform. We've heard from a lot of different e-commerce providers. So how are you differentiated there platform wise, technology wise, distribution wise?

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

A

Just to start with some facts.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Yeah.

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

A

And we did a deep dive into this in our October/November of 2018 call. So we think we're the second largest e-com omni-business in the world today by revenue. That was \$520 million of revenue...

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Right.

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

A

...last year in 2018. I think Cameron [Bready] said on the call that we grew mid-teens plus again in the first quarter of 2019. So we think we have a very large, well-positioned business already.

On how we compete and how it's distinctive, I would say it's really two things. First of all, we stick to our knitting. And we focus really on SMBs in a given country. So as good a company as Amazon is, we're not interested in Amazon, right? It's for us to be a commoditized provider.

If you look at how – I know Adyen was here the other day, and it's a very good company. But no contracts, 30-day outs, no minimums, no service, low fee. Why is that interesting? And primarily e-com only. By the way I'm not saying that as a stock. I'm saying that as an operating model.

Our model is contracts with real customers who are interested in virtual as well as physical environments, who are interested in long term relationships, who are interested in fair value and customer service, who are interested in third party support.

So for example, if you go back to scale, we have \$1 billion of revenue outside the United States in those 32 countries. We do business cross-border in 60 today. The number was in our Investor Day and was in our October thing. But I think it's something like 150 currencies that we authorize and settle in today.

So we focus on those SMBs in country and cross-border where we think we have a competitive advantage, because of our physical presence and our virtual presence in those markets, kind of point number one.

Point number two, if you look at the select MNCs that we focus on, primarily in Europe and Asia, we are focused on those MNCs that are hard-to-serve markets. A great example of this is Taiwan. So when an RFP came up for a couple years ago for a very large technology company that was looking for a virtual presence, online, as well as a physical presence, when they opened their first store in Taipei. We were one of two providers who could really bid on that RFP. So it was us and a local bank, China, National Trust Bank, I think it was.

And not surprising, when that came out, we won it, right? Because those markets, Taiwan, Singapore, and Malaysia, markets in Continental Europe with our Erste partnership, we're one of one, one of two, one of three...

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Yeah.

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

A

...people who can really provide the virtual as well as the physical servicing that someone's going to need.

So unlike some of the deals that have been announced, where they say they can cross-sell e-com, where we've been in India, Brazil, China for many decades. We have licensing, operating environments, sales environments, customer service environments. Good luck getting that stuff done.

And I think when you hear Adyen and other folks talk about, we're going to go from large guy to the small and medium sized guy, that's because that's what's attractive. That's kind of where we are. And we hear about folks saying, well, I'm virtual only. And now I'm going to go to omni. Yeah, that's a great idea. That's where we are too.

So I think the world is really trying to come at more of our direction. Why? Because we've been successful in doing it. And the good news is we're starting from a base where we have been operating like that for many years.

And we already have the second largest business in the e-com omni world, which is why we've been so successful in doing it today.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Good. No, that's a helpful summary of e-com. So let's take questions. We have a mic if you don't mind using that. Thank you.

Q

[ph] Do any (23:57) of these recent mergers alter how you think about your own distribution? Or do you think about – or do you think they will have any major changes in the industries'...

Jeffrey S. Sloan

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

A

No.

Q

...mode of distribution.

Jeffrey S. Sloan

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

A

Right, so I think it's a good question. What I said upfront was I think those deals validate our focus on technology enabled distribution, particularly here in the United States, our home country and our largest market.

So I think the simple answer to your question is no. In the immediate term, I think those deals are all about getting additional cost position when you lack the distinctive distribution that we've invested in in the first place.

I think in the relative immediate term to near term, I think those transactions are good news for us. We were already picking up salespeople and operating and technical people in some of those markets that are parts of those companies that are at issue.

As the disruption in the integration goes on, we'll pick up more people coming from out of those deals. So I would say in the near to intermediate term, it's probably good news for us. In the long term, it's kind of neutral. Just validates I think what we were doing in the in the first place.

I think we have scaled today in those businesses where scale is relevant for what we do. That doesn't mean we wouldn't look for more scale. Those scale economies are always a good thing to have. But we have a very different distribution scheme than the ones that drove those companies to sell at the prices that they sold at.

Q

Thanks for that.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Yeah over here. I can't see, but...

Q

Q

This morning the President of Vista Equity was here. I know you guys did the ACTIVE Networks (sic) [ACTIVE Network] (25:35) deal about two years ago and formed a partnership with them. Can you just talk about how that's gone? And what opportunities you found to work with them?

Jeffrey S. Sloan

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

Yeah. I think it's been great. We actually announced a new partnership with them, I think it was last quarter in February, on the PowerSchool. So they and some of our friends bought a business called PowerSchool that provides services into the K through 12 environment and primarily in the United States. And they've become a referral partner of ours. And this was in February of 2019. So that partnership is really ongoing.

So we feel very good about the state of play with Vista Equity. I hope Brian's [Sheth] discussion this morning was good. I didn't – I was on a plane when it was occurring. But I think that they and we share the same point of view about the convergence of the digitization of payments with the ascension of cloud-based SaaS computing. So the merger of software and payments is a thesis we share in common.

I think deals they've done like MINDBODY, deals they've done like PowerSchool, like ACTIVE – which is how they became a shareholder at the time with us – I think show that we have a similar line of thinking and that makes us good partners together.

So we're pretty optimistic about it. We also announced a couple weeks ago that Gather, which is one of their businesses, is going live with us in the immediate term through OpenEdge. So hopefully more of those deals to come. But so far so good.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Yeah, mic coming.

Q

Q

Can you talk a little bit about the emergence of Uber Eats and all of these DoorDash companies, does that affect the payment and how the restaurant would look at your services and software?

Jeffrey S. Sloan

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

So our software, unlike Clover, for example, our software is open architected via API. So we talked on our call a couple weeks ago, Heartland register, Heartland restaurant, which is really the point-of-sale that looks like Square and Clover. That is tied into those delivery services already.

A

So the answer is, we have a foot in the door. We don't own those things. We're doing it through API and partnership. But we are seeing volumes come through those, through our register and restaurant businesses.

So to be honest, I think it's an opportunity for us. As I mentioned a few minutes ago, the ability to buy a taco on your phone, pay with your thumb or your face and go pick it up is something we're already doing with Taco Bell, Whataburger, Bojangles, et cetera here in the United States.

So alternative modes of delivery of your food, whether you order ahead or they deliver to you, are really opportunities for us. And I think we're in a very good position in QSR land. I think we have something like 125,000 locations in North America using our software and payment services today.

There's been more change in technology in the QSR environment in the last four years than the last 30 years. And I think that really plays to our strength.

When people say, well, why are you in the tech – why would you be in the technology business? Why would you invest in software? Why would you invest in mobile apps? Well, that's why. Because that's where the business is going. And that's what our customers want here. Yeah.

---

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Thought I saw one over there. If I can order a Bojangles, I would, man. I thought there was one other question. So I'll keep going, so...

---

Jeffrey S. Sloan

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

A

You should get the Bo-tatos, those are...

---

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

I miss living down South when we could eat that. The – so when does pursuing a bank joint venture in the U.S. make sense?

---

Jeffrey S. Sloan

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

A

Well, I think if you back up for a little bit, Tien-Tsin, I would say we're always pursuing bank joint ventures globally, period.

---

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Right.

---

Jeffrey S. Sloan

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

A

We obviously go to where we think the supply is of opportunities. Primarily bank joint ventures make sense for us when it's a new market entrant, like a new geography.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Okay.

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

A

So if you look at Spain with Caixa (sic) [CaixaBank] (29:10), if you look at Central Europe and now Austria with Erste, if you look at Bank of the Philippine Islands, which is the second largest bank in the Philippines, in the country of the Philippines, where it makes sense is where we can get access to large market share in those environments. So inside the United States, banks including JPM and Bank of America are limited by a deposit cap.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Sure.

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

A

And banks here in the United States can't have 10% – more than 10% of the deposit market in the United States.

So therefore, it's very different when we look at a bank inside the United States versus a bank outside. Because if we're lucky enough to partner with Caixa (sic) [CaixaBank] (29:49), we can get 30% of the country in one institution.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Right.

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

A

And we try to pick, not surprisingly, number one or number two in those markets to get better access to the merchant base.

Same thing was true with the Erste. Same thing was true with Bank of the Philippine Islands, 28% of the Filipino economy in one bank. 30% of the Spanish economy in one bank. In the United States that's impossible.

So while I wouldn't say never in the scheme of things. And we look at and we do have a bank business that's small in the United States today, it's much harder for us to get our hands around philosophically a bank joint venture here in United States because of the diffusion.....

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Right.

Jeffrey S. Sloan

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

A

...of the banking environment, number one. Number two, because it's a more mature economy. And what we're being successful with here in United States is selling technology and rather than just relationship based processing.

So for those reasons, it's less likely here in the United States than it is outside the United States. But listen, we'll look at almost anything at the end of the day. But when you look at the history of the bank JVs in the United States, those have really been mixed, particularly as you look at the First Data saga with JPM, BofA, PNC, Wells [Fargo], et cetera.

Given our targets to grow our revenue 10%, 9% to 11%, ex the wholesale piece organically, buying something that grows 0% is not a good idea as a mathematical idea, a mathematical matter.

So it's not to say never. I would just say you can see where our focus is. Our focus is in the same place that PayPal is focused, that Square is focused, that's where we're focused. It's really not where Fiserv and Fidelity are focused.

---

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Okay. No, that's helpful to hear that. Thank you for that. Yeah, please. The microphone is coming.

Q

Just in terms of how you think about M&A. In the areas of sort of ERP software for small businesses, accounting, finance, payroll, is that something of interest for you in terms of M&A? And do you want to make that a bigger part of your business model?

---

Jeffrey S. Sloan

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

A

Yeah, so the general answer to that is no. So we ask ourselves all the time, [ph] why were we a better buyer (31:41) of those assets, particularly at a horizontal level, than somebody else?

I think where we've gotten very comfortable is we target those vertical markets, restaurants is probably – because we're not the only ones doing it. Restaurants are probably the best example.

But those vertical markets that we think are very closely aligned with our underlying payment strategies. I think if you got into, hey, I want to do something with an accounting – a generic accounting software provider, then I think you're in the world of, well, why isn't Intuit a better buyer of that? Why isn't Microsoft with Great Plains a better buyer of that? Why do I really want to take SAP and Oracle kind of head on? I'm not sure that that's a battle we want to win or could win.

So I think at the end of the day, we think about the world by way of vertical markets, vertical markets software that has payment applicability in the United States and globally, most specifically. It's hard therefore to look at horizontal service providers and think that we'd be better at that really than the next person.



By the way Vista has the same strategy. So going back to the question about Brian. So it's not just us who feel that way. But we certainly share that philosophy, that the world is increasingly specialized and verticalized. And that's the way to go about it.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Any others? We have one more – time for one more question. So maybe I'll – a lot of people wanted me to ask you, just on the regulatory side, Jeff, because I know you see a lot, you're traveling the world, especially in Europe with PSD2 and the UK, card acquiring market review, et cetera. Where is the pendulum swinging do you think right now in terms of regulation in the key markets that you care about?

Jeffrey S. Sloan

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

A

Well, so we're already highly regulated as an industry and as a company. So in addition to being a public company here in the United States, we're a transaction service provider to banks here in the United States. So we're regulated today by the FFIEC, which generally means the Federal Reserve.

In our parlance, we're actually a bank in Canada.

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Right.

Jeffrey S. Sloan

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

A

So we're direct member of Visa and Mastercard, regulated by OSFI, which is the Fed equivalent in Canada. We're really a direct member, Tien-Tsin, of Visa, Mastercard, every country in the world where we we're allowed to be. Exceptions to that are the United States, whereby rule, Visa and Mastercard doesn't want you to do that. Where here, we're heavily regulated anyway. Or in China, where we're not native to domestic Chinese, that kind of thing.

But putting those aside, we are very heavily regulated currently. In every country we're in, pretty much, there's a payments regulator in addition to what I just said, regulating us separately as a payments company.

And of course our genesis outside the United States is we're either a bank, in the case of Canada, or are partnerships or JVs payment banks, like HSBC or a Caixa (sic) [CaixaBank] (34:06) or Bank of the Philippine Islands or Erste Bank (sic) [Erste Group Bank] (34:07).

Tien-Tsin Huang

*Analyst, JPMorgan Securities LLC*

Q

Right.

Jeffrey S. Sloan

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

A

So therefore we're really at an adjunct to the financial institutions markets. And we're regulated the way a bank is regulated. So the form of our statements, the form of our notices, how we go about our business is regulated already.

So I would say we look at that. And I actually think that's to our advantage relative to startups who are not regulated whatsoever. So I look at that really as a competitive advantage...

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Q

Okay.

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

A

...for what we do. We're going to be heavily regulated no matter what we do. We welcome other people coming into those kinds of standards. And I think that better serves how we go about business in the first place.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

All right. Great. I think we're out of time. Wish we had more time. But, Jeff, always thank you for the time.

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

Thanks for having us. It's great to see you.

Tien-Tsin Huang  
*Analyst, JPMorgan Securities LLC*

Appreciate that.

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

Thanks.

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