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Global Payments, Inc. (GPN)

Keefe, Bruyette & Woods Cards, Payments & Financial Technology Symposium

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Steven Kwok
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MANAGEMENT DISCUSSION SECTION

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc.

Let's get ready to start. Hope everyone had a great lunch. Up next we have Cameron Bready, EVP and CFO of Global Payments. Obviously, the Heartland integration appears to be going very smoothly and with the legacy Global and Heartland sales force now fully integrated. Moving on, the company has focused on the higher-growth technology enabled sales such as integrated payments and that would drive future revenue growth.

So with that please join me in welcoming Cameron Bready from Global Payments and we also have Isabel Janci from IR, sitting over there.

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QUESTION AND ANSWER SECTION

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc.

Q

And let me first touch upon revenue growth. Obviously, today a large part, as I mentioned, of growth about 30% of your business is focused on the technology-enabled channels. At your last Investor Day in 2015, you noted that about $5 billion revenue opportunity in North America and there's another $5 billion on the international side. The market opportunity is even greater for the omni-channel, you mentioned about $8 billion in North America and $20 billion on the international side. Can you provide an update around how much run way remains on these channels?

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

A

Sure, Steven. I'd be happy to. First of all, thank you very much for having us. We're delighted to be here today and appreciate everyone attending today's discussion. So, obviously, as we've talked about in the past, our technology-enabled distribution channels are the tip of the spear for growth for our company. I think at 2015 Investor Day, we said that we expect that 30%, 35% of the business to deliver something in the neighborhood of 80% of the growth going forward.

And that continues to be the case today even on the heels of the Heartland transaction. We're still about a third of the business being technology-enabled distribution and about two-thirds of the business being more of a relationship-led distribution. And as we move forward in time, we expect that ratio to continue to shift more towards technology-enabled distribution businesses, as one, we continue to add to those inorganically through additional partnerships and acquisitions. And then two, they're obviously growing at a higher pace than our relationship-led channels. But we still think there's a tremendous runway in both of those strategies for us, for lack of better term, going forward. I'll talk about integrated first and then I'll turn to omni in a moment.

But on the integrated side, here in the U.S. market, in our most penetrated vertical, we still think we're probably only 25-ish percent penetrated. And on average, we still think the penetration across all of our verticals through the integrated channel is in the 10-ish plus percent range. So, we think there's a tremendous amount of runway in front of us in the integrated space.

I would note, we've been in the business now almost five years as Global Payments and our partners that now form the foundation of our integrated business have been in the business much longer. And most recently, some of our competitors in the space have suggested integrated is a good thing to get into and have launched their own initiatives to get into integrated. And I think that's somewhat of a validation of the strategy we've been executing against now for, again, going on five years.

So, we feel very good about the platform we have today. And as we've talked about more recently, we really think we're on to the next evolution of our integrated strategy, whereby we think we can own outright more of the software solutions in verticals that have attractive fundamentals and couple that with obviously our partnership model, OpenEdge where we partner with ISVs to continue to pursue vertical-specific opportunities in the U.S. market and then take those capabilities and solutions to international markets over time.

So, a long runway, I think, in front of us for both growth domestically for integrated business in terms of both our partnership model as well as our ownership model of the software solutions itself. And we're very bullish obviously

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the long-term prospects for growth in that business and it continuing to be, again, the tip of the spear for growth for our overall company.

As it relates to the omni-channel opportunities globally, again, we remain very bullish and very comfortable with the positioning we have in all of the regions around the globe that we serve. Our ability, I think, to couple both market-leading e-com gateway services with merchant acquiring for e-com customers and then further bundle that with brick-and-mortar capabilities in 30 physical markets around the globe, I think, is a unique competitive advantage for our business.

We think of a competition in the space not as the traditional merchant-acquirer competitors here really in the U.S. market, but more of the audience of the world. And they're approaching it more from the e-com side of the equation, and we're approaching it more from the brick-and-mortar side of the equation.

I think we built – we've acquired and built, I think, market-leading but certainly at the minimum market-competitive e-com capabilities over the course of time. And I think we're uniquely position again to bundle that with the brick-and-mortar services and the different markets around the globe that we serve today physically, and that's really the harder of the two in my mind.

So I think that business today is probably 10-ish percent of our total company net revenues and growing at a very attractive pace. And we think we have all the assets we need to continue to grow and scale that business attractively over the course of time.

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Got it. And just as a follow-up, a number of your competitors are starting to ramp up in the integrated space. Have you seen any impacts from them entering the market?

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

A

I would say not specifically today. I think one of the unique advantages we have in the space is, first of all, as I mentioned before, we've been at it five – almost five years now, and the partner businesses that we have today that serve the foundation of that channel for us have been in it much longer.

Today, we are in 60 to 70 different verticals in the U.S. market. We have well over 2,000 software partners in the U.S. market and have brought that ecosystem to Canada and then bringing to the UK as well [indiscernible] (5:54) the ability to take it to global markets also. So, I think that serves as a nice advantage for us because actually have depth of experience and I don't know that there's any other really integrated player in the market, they didn't say that they are active across a number of verticals we're active in or whether they've been able obviously to partner with the number of software businesses we've been able to partner with.

So, we think we know the space as well if not better than anyone. We think our ability to have a diverse vertical market exposure and they're partnered with as many software companies that we partner with today. That's our best calling card when we go and pitch a new partnership in a vertical within a new ISV. It's our ability to be able to create a deep level of integration in their software solutions. We speak their same language. We have great experience coding into a number of different technology environments with our partners, and then being able to work collectively to go-to-market to enhance the value of the underlying product and their own revenue growth, and obviously at the same time drive revenue growth for our own business.

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So, I think our experience speaks for itself, and generally, we find when we're in discussions with potential software partners that rings loudly to them.

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc. Q

And so the key attributes, what separates you and your peers? Is it the technology, the customer service or the industry verticals that you serve?

Cameron M. Bready
Chief Financial Officer & Executive Vice President, Global Payments, Inc. A

In the integrated space?

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc. Q

Yes.

Cameron M. Bready
Chief Financial Officer & Executive Vice President, Global Payments, Inc. A

I think it's a combination of all three. I mean what I like about our integrated business today is we're diversified across all these different verticals. We've shown more than an ability just to create an integrated solution in one vertical-specific market. We've been able to do it across all 60 markets to 70 markets now. So, I think that diversity of experience and capability of integrating our technology solutions, coding them into different software providers, obviously, 2,000-plus of them, across all those verticals is really unique to us. I think if you overlay that, on top of that, I think our approach to the market, which is we provide very high levels of customer service, very highly reliable payment technology environments to serve our customers in both our integrated channel and our other channels, of course, I think that creates a very unique value proposition for both our ISV partner, as well as the customers that come to us through that channel.

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc. Q

Got it. And just switching gears to e-commerce. We recently picked up to European names. How big is – you mentioned your e-commerce exposure is about 10% of your business. What's your strategy there? Does it involve leveraging off your Realex acquisition and [indiscernible] (8:32) e-commerce assets?

Cameron M. Bready
Chief Financial Officer & Executive Vice President, Global Payments, Inc. A

Yeah. It's a great question. So if you look at the Realex transaction that we did two years ago now, right around two years ago, that really serves as a foundation technologically for our e-com capabilities in most markets around the globe. We're trying to leverage Realex, which we think, again, at a minimum is a market competitive, in many cases, market-leading gateway and using that to facilitate our e-com capabilities in different markets around the globe.

We brought it to Spain. It's obviously in the UK. We're bringing the key functionality from Realex to the U.S. market and Canada as well. So, from a technology point of view, it really serves as the foundation for our e-com capabilities in most markets, most of the major markets where we have an e-com presence today. Outside of Australia, where we have eWAY, which is a recent acquisition we did. It really serves the foundation there.

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So Realex is critical to us and it's been key in terms of expanding our e-com capabilities and more importantly, combining those e-com capabilities with our brick and mortar face-to-face physical presence in different markets around the globe to provide that true omni experience to customers. We clearly have the ability and have many enterprise level e-commerce customers today. But I think the sweet spot for us remains providing that integrated omni solution experience to small to medium-sized merchants in the markets we serve, and that's what we're going to continue to pursue as a means by which to grow that channel of our business.

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc.
Q

And in addition, you also have been very successful around JVs with banks such as HSBC, CaixaBank, Bank of the Philippines, Erste Group Bank. Can you talk about what led to these banks partnering with you and what's the value proposition you provide to them?

Cameron M. Bready
Chief Financial Officer & Executive Vice President, Global Payments, Inc.
A

Sure. That's a great question. I'd say, first of all, all of those ventures are snowflakes in that they all have unique attributes to them, and the banks typically have unique reasons for wanting to pursue partnerships, and they're typically looking for different things out of that.

But there are a few common threads that, I think, transcend all of those joint ventures. One is, banks are typically looking for someone to bring scale, innovation, and distribution to the market that is differential or differentiated relative to what exists in that market today, and I think we've shown a great ability to do that.

Two, this is a critical portion of the commercial banking services that banks provide their customers in market, they want to partner with someone that they know is going to bring high levels of service, treat their customers as they want to treat their customers, is focused on growing obviously and accelerating the rate of growth of that business, expanding its margin, but ensuring that at the meantime, the customers are being served well.

We become an integral part of the bank's offering when we partner with a bank in a marketplace as we have with the institutions you mentioned previously. Each one of those have been, I think, very successful at this point, Erste being the newest of those, and I think time will tell, but certainly we're off to a very good start with that joint venture as well. And we expect it to continue to contribute meaningfully to our growth going forward over time.

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc.
Q

And just how much of your growth is being driven by the JVs today, and what's also the future potential JVs that you can do in the pipeline?

Cameron M. Bready
Chief Financial Officer & Executive Vice President, Global Payments, Inc.
A

Well, we're always looking at new potential partnerships in different markets where we can either augment the distribution capability we have in a market that we're already in today, or the means by which to enter a new market. In many markets around the globe, bank-based distribution is still the primary mode of distribution in those markets.

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And typically, when we want to enter a new market, the best opportunity for us to do that is by partnering or acquiring a bank portfolio and bank – a merchant-acquiring business and then bringing our own distribution capabilities, our own technology, our own scale to market to, again, accelerate the rate of revenue growth in that market, to expand and enhance margins in the business, and obviously, provide a better value proposition for the bank long-term in terms of means by which to provide best service to their customers.

So, I think there's going to be more opportunities for us to do that over time. I think banks more and more are realizing that the investment that it takes to be able to have sufficient scale in a payments technology business like the one we operate, and to be able to provide innovation in new product to their customers to be able to keep up with the pace of change and the rate of change in the marketplace, that's coming from the application and more and more technology towards payments.

And quite frankly, a lot of banks face capital needs and this is typically an undervalued asset in the context of a bank portfolio. And if they can obviously extract value by either partnering or exiting the business entirely, while still ensuring their customers are served well and they can provide a better commercial banking product set to their customers, then I think a lot of banks are going to be interested in pursuing those opportunities.

And I continue to believe we remain very well positioned to execute on those as time progresses. And today as we say about M&A, it all starts with what's available. So, the bank has to be interested in pursuing something like this. It has to be actionable and it has to fit our strategy and the returns have to be an attractive use of our capital relative to the alternatives that we have.

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc. **Q**

Right. And just because it's hard to have – not have a conversation without bringing up Heartland acquisition. You recently increased the expense synergies from Heartland by $10 million to $135 million. Are there other areas of business that could potentially lead to even greater expense synergies? You also mentioned on the last earnings call the potential for tax benefits from Heartland.

Cameron M. Bready
Chief Financial Officer & Executive Vice President, Global Payments, Inc. **A**

Yeah. It's a good question. So, we have increased our expense synergy target from Heartland from $125 million, which was our original target to $135 million. That is inclusive of some tax benefits that we expect to be able to achieve from the combined business. In terms of additional expense opportunities, we'll obviously update as we continue to execute on integration. And if there's more opportunity available, we're obviously going to pursue it.

I would say, however, we've been very cautious all the way through the integration that we've done thus far and we'll continue to be cautious about making sure we are not disrupting the rate of revenue growth of the business as we work through the integration process and that we're not saving a dollar of expense, but at the same time harming the rate of revenue growth or the productivity of the sales force by virtue of some action that we take.

So everything we've done from an integration point of view has been with an eye towards not disrupting sales momentum in the business. And I think thus far, the returns are early, but I think we've been very successful at doing that. We've been able to increase our synergy target from an expense point of view and we've been able at the same time to maintain very strong rates of organic revenue growth in the business and are very pleased with the progress we've made integrating the businesses culturally, and integrating most particularly the sales force culturally.

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So, we're delighted with the progress that has come. There may be more opportunity for expense synergies; I think a lot of that will depend on how things play out from here. But as we talked about in our second quarter of fiscal 2017 earnings call, we're really pivoting more now to focus more discretely on revenue enhancement opportunities. We targeted 50 basis points in North America of revenue enhancements in calendar 2017. A lot of that is going to come from some boundation setting we did in the back half of calendar 2016 and as we look to scale those opportunities further in calendar 2017, as we look to ramp up towards the 1% to 2% top-line incremental revenue growth, we expect to be able to achieve through revenue enhancements from the combined business over time.

So, we're very confident in the ability to get the expense synergies and that's obviously been a meaningful contributor to how we've been able to absorb margin degradation coming from the Heartland business and still position the business for margin expansion. Obviously, if you look at the total aggregate amount of expense synergies, it's probably more than 50% of the pre-transaction EBITDA coming from Heartland. So, we feel like the expense side of the equation is contributing a healthy amount of contribution. And now again we're more focused on continuing to advance the revenue enhancement opportunities as those will drive, hopefully, longer term sustainable value from the combination.

Steven Kwok Q
Analyst, Keefe, Bruyette & Woods, Inc.

Got it. And just around that 50 basis points of contribution on the revenue side versus the 1 percentage point to 2 percentage points that you talked about. How do we get from that 50 basis points to 1 percentage point to 2 percentage points? And then how much is the pricing that's been embedded in that assumption to get to the 1 percentage point to 2 percentage point?

Cameron M. Bready A
Chief Financial Officer & Executive Vice President, Global Payments, Inc.

Yeah, it's a good question. So, if you think about the 50 basis points, that's on average what we expect to contribute or deliver in calendar 2017. So the exit rate for that is obviously going to be higher than 50 basis points. So as we look to get to that 1% to 2%, I would hope over the next couple of years, as we continue to scale these opportunities, we're going to be getting closer to that run rate that we originally target of 1% to 2% top-line revenue enhancement from the combined business.

As it relates to the components of that, it's really going to be driven by more cross-selling of opportunities, products and services across the various distribution channels that we have today and the platforms and portfolios that we have today. It's going to be exploiting more whitespace opportunities, as we like to call it.

David mentioned on our Q2 earnings call about our new inside sales team, which is an investment that we've made, we, Global Payments, have made in the Heartland channel shortly after the closing of the transaction to create more of an inside sales force at Heartland to pursue opportunities that generally fall within major metropolitan areas in the United States. So we think there's great opportunity there over time.

And then thirdly, to your point, we don't really think about in the context of pricing for pricing sake. We're not just going into the portfolio and raising the average basis point or yield coming from a particular customer. We think about it in the context of obviously getting paid appropriately for the level of service and value in the product that we're delivering to our customers.

Philosophically, our model is to provide very high levels of service, system availability, reliability, our technology, we think, is best-in-class. We think our operating and servicing environments are best-in-class. We think our

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customer service professionals are incredibly capable people and provide outstanding service to our customers, and we want to be paid fairly for that.

Having the lowest cost in the market does not dovetail well with providing the best service in a high-touch service model to the market. So, philosophically, we believe in getting paid fairly for delivering a very high level of service and a very high experience to our customers. And over the course of time, we want to be paid appropriately for that.

It starts with making sure the yield on new customers is where it needs to be, getting paid for product and service appropriately when we're adding incremental solutions to the solutions that we're delivering to customers, and all that will happen over the course of time. And naturally, that is a part of the 1% to 2% because we're obviously driving the business towards the long-term model that we're managing against, very high level customer service, reliability, availability of our systems, a great customer experience and being paid fairly for that.

Steven Kwok Q
Analyst, Keefe, Bruyette & Woods, Inc.

Got it. And just moving on to the operating margins, your adjusted margins have been around 30% over the last – for the past year, despite bringing in Heartland, which was a lower-margin business. You've also talked about getting to the low to mid-30s as a target level. When we think about the growth of your business, so you've been growing in the integrated space, which has higher operating margins, I think at some point in the future, like what's the true run rate of the margin for the business?

Cameron M. Bready A
Chief Financial Officer & Executive Vice President, Global Payments, Inc.

It's a great question. I think we're targeting mid-30s given our net revenue convention, and I always remind people not all net revenue conventions are the same. So, it's hard to compare margins exactly from one period to the next because we tend to use different net revenue conventions, which drive obviously a different mathematical margin outcome.

But we think for – given our net revenue convention and how we manage our business, mid-30s is the right target. We're at roughly 30% today. We have suggested that over a cycle, which we view as a three to five-year window, normalize for the integration of Heartland that we expect to be able to expand margins by up to 75 basis points annually as we drive towards that mid-30s target.

For this calendar year 2017, we guided to up 90 basis points, which is really up 140 basis points on a constant-currency basis. That has incremental synergies obviously baked into that. But as we look beyond calendar 2017 getting to 2018 and 2019 on more of a normalized basis, we would expect to expand margins at that 75 basis point level.

And it's really a combination of a few different things. As you highlighted earlier, our technology-enabled businesses are growing more quickly. Those tend to be higher-margin businesses. So, you're getting a natural mix shift as we're driving our higher-margin business or growth rates more quickly than our other businesses. And our wholesale businesses are flat to maybe slightly declining, which is purposeful as we pivot our strategy to more and more direct distribution.

So, the mix shift benefits we see in the business are obviously contributing to margin expansion. We're also selling more products and technology solutions above and beyond the core sort of merchant acquiring as a

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service model, and those products and solutions tend to have higher margin than the traditional sort of merchant-acquiring economics that we enjoy in our businesses today. So, that's contributing to margin expansion as well.

And then lastly, beyond the Heartland integration, we continue to move to our single unified operating company structure globally, which is really a combination of a common operating environment and a common technology environment as many markets around the globe as possible. That model transformation away from what we were historically, which was a holding company with a lot of individual operating companies to the single unified operating company model is also critical to margin expansion as it allow for us to scale the business more effectively, it allows for incremental margins to be higher than they otherwise would be if we were still trying to maintain different operating environments, different platforms in numerous markets around the globe.

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc.

Q

And when we think about the – for the capital management piece, like if it's – by the end of this year, you should be at 3 times to 3.5 times. Are there any attractive acquisitions that you will consider and in what geographies will you look at?

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

A

Sure. I think we're certainly in the M&A business. We have been an acquisitive company over the course of time, and I think my own personal perspective and I am somewhat biased because I do manage our corporate development initiatives, I think our ability to identify source, execute and integrate transactions that augment our strategy, that accelerate our rate of revenue growth, that help reposition the business and transform the business in different markets around the globe, I really think it's a core competitive advantage for our company. I think we're very good at it, I think we have a history of being quite good at it and proving that we can accelerate the rate of revenue growth for businesses that we partner with or acquire; we can expand their margins and improve their overall profitability as part of a combined global payments platform.

So I expect M&A to continue to be a core part of our growth strategies long-term and an important use of capital for us as we look to continue to grow and expand our business and execute on our global growth strategy. Certainly in the near term, we are prioritizing paying down debt as we look to get back to our targeted debt ratio as you described. We think if majority of our cash flow goes towards that pay down this year, we'll be back towards the 3.5 times by the end of – as we exit calendar 2017.

With that being said, we're in the market today from an M&A point of view and we're always looking at different opportunities. I'll touch a little bit on the things that are interesting to us around the globe. But it's certainly we're open for business from an M&A point of view; we're going to anniversary the Heartland transaction in April. Much of that integration is behind us and I think we're quite comfortable with where we are in terms of having combined the business effectively. So I think we'll be obviously thinking about and continuing to look at M&A as a means by which to grow the business as we get into certainly into the latter part of calendar 2017 at a minimum.

In terms of what's interesting as we talked about before here in the U.S. market, as this market continues to become more verticalized, obviously, we are open and interested in continuing to expand our integrated business by owning more software solutions outright, perpetuating the model that we now have in restaurant, hospitality, higher ed and lower ed, where we owned the underlying software. We're integrating our payments into that and we're obviously using that as a vehicle by which to drive higher rates of payment growth in specific verticals that have attractive fundamentals and attractive attributes to us. And I expect us to continue to do that in this market over the course of time and that will be from an M&A point-of-view I think an important part of our strategy.

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In Europe again, where there are a number of markets on the continent that we're not in today, and I think we like to be in long term, I think, we're bullish the European marketplace, and we have a fantastic foundation with our domestic businesses in UK, Spain, and Central Europe in particular, and then layering on top of that our e-comm omni solutions business on a pan-European basis, I think gives us a terrific foundation, but we'd like more physical presence on the continent.

And then Asia, again it's going to be a continuing story of looking to enhance scale and markets that we're in today where we might subscale. Obviously, continuing to look at opportunities to enter other Asian markets that we're not in today that are sizeable GDP markets. And then lastly, continuing to think about technology assets in that marketplace, in particular, in Australia where we have a fantastic technology business today with the combination of Ezidebit and eWAY, that business continues to grow at north of 20% top line. It has been an absolutely fabulous partnership for us. I only wish it were 10 times bigger. But it's growing nicely and we have a very capable team there. And I think the more we can do to add to that business, the better off we're going to be long term. So those would be our M&A priorities as I think about around the globe.

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Got it. One more and then I'll open up to questions. Around the FX, we've seen a stronger dollar over the past couple of weeks. How does that affect both your guidance from of revenue and operating margin perspective? And then as we look at from an acquisition perspective as well, how does the stronger dollar, how do you balance that?

Cameron M. Bready
Chief Financial Officer & Executive Vice President, Global Payments, Inc.
A

Yeah, so it's a fair question. So, our guidance for the year is our guide. We guided to at the midpoint, up 20%, roughly on earnings on our adjusted EPS and that was 24% at the midpoint roughly on a constant-currency basis. So, we are envisioning obviously about 400 basis points of headwind on the bottom line, 2% to 3% on the top line, if my memory serves me correctly, from a stronger dollar year-over-year relative to calendar 2016. So, that remains our expectation for the year.

We've been battling a strong dollar, for lack of better term, for three years now. We've grown the business over the last couple of years. It was 18%, which was 26% on a constant-currency basis and it was 18% and 29% on a constant-currency basis. And as I said, our guide for calendar 2017 is 20% and 24%. So we've, I think, done a good job of managing the business through a period of sustained strong dollar headwinds, continue to produce terrific earnings results. Naturally, I'd rather be producing the constant-currency results, but it's somewhat is what it is.

I'm hoping that the dollar [ph] was at a (28:34) minimum to stabilize. I think to me flat is the new up in terms of foreign currency relative to dollar or the new down depending on how you're thinking about it. But I'd like to just see the dollar stabilize and no longer as much of a headwind for the business. Because when it does, you see the real earnings power of the business I really think flow through.

As it relates to making investments with the dollar where it is, it obviously makes everything else around the world a little bit cheaper. The question is where rate is going from here, where currency is going from here, and that's always in back of our mind, as we think about making investments globally. Are we buying it at the world watermark or is there more pain to absorb from a currency point of view in these local markets as we think about putting capital to work. We do have a fair amount of capital offshore. We do keep it there because we do expect

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to reinvest it in our businesses and work to use it to expand our businesses around the globe, and we're very open-minded to doing that. But we certainly weigh currency and currency risk into the equation as we think about any transaction. But being a multinational business, of course, foreign currency exposure is something that we just have to manage there. And I think we've done a good job of it.

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc.

Q

And do you have any interest in any foreign – FX hedges in place to be able to perhaps contract some of those forces going forward?

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

A

So we don't really try to hedge the translation risk. We have natural hedging in place in most of the markets around the globe because we have expenses denominated in the local currency in the market as well as having revenue. But we haven't layered in specific hedges to try to manage the translational risk of being a multinational business. And I think it's fair to debate whether or not companies should do that. I tend to philosophically believe we're a multinational company and by virtue of being a multinational company, we have foreign currency risk. I don't know that always our investors want us to try to manage that risk. I think investors know that when their investing in businesses that have foreign exposure that they're baring some foreign currency risk as part of that.

And over the long term, the dollar will be a tailwind at times; it'll be a headwind at times. We hope it'll average out to not be a significant impact on the business over the long term. But obviously, there are periods where it can be more of a sustained headwind or more of a sustained tailwind. But again, I think that's part of being a multinational business.

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Are there any questions in the audience? With that, let me move on to my next question then. When we look at the Durbin amendment, there's been talks about repealing that. At the same time, if that happens, the merchants will see there are costs of acquiring increase. How do you balance that with – if that does go through, do you expect pushback from merchants on your business? And can you effectively pass the higher interchange through?

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

A

Yeah. It's a really good question and obviously a very topical. We've gotten that question fairly regularly lately. I'll start by saying, I would hate to wager as to what may happen with Durbin, whether it'll be amended, repealed entirely, or even frankly what the fate of Dodd-Frank as a total regulatory matter may be.

As it relates to our business, I would say whether interchange is going up or down, it's ultimately going to get passed along to the customer, and I think that's true for probably most of our competitors in the space.

We're not really in the business of absorbing incremental costs from either issuing banks in the form of interchange or Visa, MasterCard for that matter in terms of [ph] dues and (32:16) assessments for use of the network rails.

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Whenever interchange goes up or down, it creates an opportunity to go back to our customers from a pricing point of view. And any increases in the interchange that come with a potential repeal of Durbin, we would pass that along to our customers as well. And I suspect most in the space, if not all, would do the very same thing.

I don't think any of us want to see our economics deteriorated by virtue of issuing banks receiving obviously an uplift in terms of interchange back to maybe pre-Durbin levels. And I think that's, again, generally true whether interchange is going up or down.

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Got it. And then just when we think about your business, a substantial piece of your business comes from the U.S. If, let's say, corporate taxes were to be lowered and other pro-growth policies were in instituted, how would that affect Global Payments?

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

A

Well, I would start with the overall GDP, right? I mean the underlying premise of tax reform and other regulatory reform is you're going to be able to drive faster rates of GDP growth in the U.S.

So, out of the mid 1s to high 1s to the 3s to 3.5. Now, we'll all wait and see whether that materializes or not, but I would say as an opening matter, we're a GDP-derivative business. So anything that drives higher rates of GDP in any market we serve, certainly the better macro backdrop for our business, presumably the better rates of organic growth we're going to see because we'll see that materialize in better same-store sales numbers and this creates a more constructive backdrop for our business.

As it relates to our own sort of tax position, I think it depends on what a company's tax reform. I'm not naïve enough to think that corporate tax rates are just going to get lower. And there's going to be no other changes to the tax code that are going to impact my business, particularly the multinational company. So it's hard for me to sit here and say corporate tax rate coming down. In the U.S. we're going to have x effect on our bottom line earnings without knowing specifically what going to accompany just an overall corporate tax rate.

I do think it's really nothing but good news for us to borrow a term from my friend and boss, Jeff. But in the day, we'll have to see how it plays out. But it's hard for me to envision a scenario where it's negative for us business. I think it's nothing but positive.

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Got it. And with that, any other final questions from the audience?

Steven Kwok
Analyst, Keefe, Bruyette & Woods, Inc.

All right. Let's wrap it right there then. Thanks, Cameron.

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

Okay. All right, Steven. Thanks so much for having me.

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