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Global Payments, Inc. (GPN)

Robert W. Baird & Co. Global Consumer, Technology & Services Conference

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CORPORATE PARTICIPANTS

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

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Eric Ciura

Analyst, Robert W. Baird & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Eric Ciura

Analyst, Robert W. Baird & Co., Inc.

All right. Why don't we go ahead and get started. My name is Eric Ciura. I'm a Research Associate here at Baird covering payments along with Dave Koning. And with us here today, we're happy to have Jeff Sloan, CEO of Global Payments.

So, Jeff, thank you for being here today.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks for having me.

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QUESTION AND ANSWER SECTION

Eric Ciura
Analyst, Robert W. Baird & Co., Inc.

Q

Yes. So, maybe you can start off maybe just reviewing GPN since you took over a couple of years ago and kind of the change in strategy and how the business has evolved and how GPN has been a big winner over the last couple of years.

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

A

Yes. Thanks, Eric, and we hope that Dave is feeling well...

Eric Ciura
Analyst, Robert W. Baird & Co., Inc.

Q

Yes.

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

A

...and we look forward to seeing him again soon. So, the way I like to think about our business is it really revolves around the right people with the right model in the right places. So, if you go back – I've been in Global Payments for about seven-and-a-half years. I've been running it for about three-and-a-half years. Before that, I was the President and COO of Global. There's nobody who reports to me today, at Global Payments, who is either at the company when I got there or who's in the same role today. So, I think we really have the right people operating all of our businesses. And I think that's the first thing we went about changing as we affected the transition of the company.

The second thing is the right model. As I described before, when I got to Global Payments, a lot of the revenue was what we now call wholesale, meaning outsourced, particularly in the United States here are largely to ISOs and other third parties. But for these purposes, ISO is a good reference point.

In the United States, back in 2010 or 2011 when I started, that was probably 40% of the revenue or something like that in the United States. Today, through investment, acquisition and distribution and technologies globally, that wholesale business in the aggregate is about 5% of the company. And I also like to say that we've invested very heavily in technology-enabled distribution, which was taken from some de minimis piece of the company probably five or six years ago. Today, that's half the U.S. business. The U.S. business is $2 billion of revenue. Half of that is technology-enabled being we're selling products and services through technology partners and is essentially a technology sale. That's providing the vast majority of growth of the company. The wholesale piece of the business is we're not providing any of the growth.

So, a cautious repositioning really of the business in an effort to get more direct distribution of our markets, and that's, as I say, 95% of the business today worldwide at Global Payments is direct distribution meaning we control the relationship with the end merchant customer, about 5% that's retail, 5% is wholesale.

Lastly, as I say, in the right markets we made a conscious effort not just to add vertical markets here in the United States, through Heartland we added K-12 schools, we had a campus, and through Heartland commerce, QSRs,

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restaurants, but also entering new markets. So, in the last three or four years, Eric, we've entered Australia and New Zealand with our E-Z Data business, which is our OpenEdge business in Australia and New Zealand.

We also entered the ecommerce business in Australia and New Zealand through eWAY. We have 25% of the online business in Australia and New Zealand. We entered the – enhanced the worldwide ecom two-and-a-half-years ago with Realex in Dublin, Ireland, which is our worldwide ecom omnichannel business. We entered the Philippines through our JV with Bank of the Philippine Islands, and we entered [indiscernible] (03:24) directly in our joint venture with Erste Bank on the last three or four years.

So, certainly, our focus on the right places geographically has been expansion from 11 to 13 countries in Asia Pacific. It is meant expansion of our suite of services into more ecom and omnichannel, as I talked about with Realex and serving the expansion into additional vertical markets primarily here in the United States through, among others things, Heartland. And really right places, right people in the right places with the right model is what we've been managing against, and I think you can see that reflected in our financial and operating performance.

Eric Ciura
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. And maybe just starting in North America, the ISV channel, which is your main business, U.S. direct. That's been growing very strong in the double digits now for quite a while. So, maybe just talk a little bit about how you continue to see the pathway for very strong double-digit growth in U.S. direct.

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

A

Sure. So, our U.S. direct business, the largest component really beyond Heartland, which I'll come back to in a second is our integrated and vertical markets business, which, today, is probably two-thirds of $1 billion of our revenue. The biggest piece of that is OpenEdge, which is our integrated business. That is a business that we bought at this point four-and-a-half years ago, that we've closed that transaction. We probably have had double-digit, mid-teens growth in that business for the entirety of the four-and-a-half years that we've owned it.

We now run it together with our vertical markets business that we got through Heartland, K-12 schools, campus and alike. So, [ph] if you add (05:09) that stuff together and you get roughly the $1 billion of revenue that I described before in our technology-enabled businesses.

We see a lot of runway, so here we are four-and-a-half years into OpenEdge really from the time we closed the knot in October of 2012. So, here we are four-and-a-half years later, yeah, we just reported that it's [ph] inside (05:21) the company the best quarter globally we've ever reported in terms of double-digit organic reported revenue growth, so call it 10% reported, which is 12% absorbing the currency.

And certainly here in the North American business, we reported probably the best ever quarters that we've had in North America yet we're four-and-a-half years into OpenEdge. And I think it shows the conscious investment we've made in not just additional distribution through OpenEdge and through our partnership with Heartland, but also the focus that we placed on our technology and operating environment.

So, if you go back to 2012 and 2013, we put $40 million of capital into our next-generation data center and the operating environments. We put another $23 million into state-of-the-art operations over the last several years at Global Payments called Project [ph] Mocus (06:11), which we talked about in our October 2015 Investor Day. And I think you're seeing the fruits of those investments today.

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So, the fact that we've had very good performance at Heartland in our integrated and vertical markets business is a reflection of the hard work and investments we made over the years into better technology, better operating environments, which are two of the things that we first jumped on when we closed Heartland about 14 months ago. And you're seeing the fruits now of the good sales that Heartland and our direct businesses had made toward the back half of calendar 2016, which translate into revenue in calendar of 2017.

So, all these things are investments we had made over the last four or five years. And it's nice to see the string of good performance, not just continue but really accelerate. As we've headed into calendar 2017, we've now had more than anniversaried our partnership with Heartland.

Eric Ciura
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. And Heartland, that's been a great acquisition so far. So, maybe stepping back, what originally attracted you to Heartland and the growth there that's used to be on the mid-single digits? It's been north now of high-single, low-double after you guys acquired it. So, maybe why has growth been so strong and can that continue?

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

A

Well, as I'd like to say – as I said on our call, I'd like to say that we've got the secret sauce and no one else has it. I think if you look at Visa and MasterCard and PayPal and their results over the last several quarters including, in particular, the most recent quarter, I view our results as very consistent as the volume and transaction matter worldwide with the results that they have reported. So, the most important thing in all of our markets is a healthy GDP environment, healthy consumer. We're really a consumer derivative. So, I'd like to say it's just us but, I think, mathematically, it's not true. I think if you look at those other folks that I just referenced, we've all grown [indiscernible] (08:00) transactions very similarly. That's kind of the first point.

The second point I would say is, we looked at Heartland as part of the diligence and said, listen, they're on a good streak, they're growing 10% but we think we can enhance their technology and operating environments, which we did very early on with the close in April of 2016.

So, very simply, we said, listen, if they can go 10% and we can enhance what they're selling, the markets that they're selling it in and the quality and the persistency of their technology and operating environments, then 10% should be the floor and not the ceiling in terms of what we can do together. And I think you're seeing that in the last 9 or 12 months or so of combined results.

The third thing I'd say is that we brought additional products and services to the Heartland sales force. So, for example, Heartland was not in Canada, it was not in Puerto Rico, it was not in Spain, it was not in United Kingdom, it was not in Asia. Yes, we've said in the last number of calls, Eric, we brought their products and services to all those markets since we closed the partnership 14 months ago. And I think you're seeing some of the fruits of that.

We also brought our Realex ecommerce and omnichannel business, which is based in Silicon Docks in Dublin in Ireland into the United States, so we brought it to Spain and Canada. In the last quarter, we brought it into the U.S.

So, some of this also is conscious planning in bringing additional products and services like cross-border currencies, additional resources on the sell side for ecom sales into the U.S. marketplace. And what we

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announced in the last couple of quarters, the December of 2016 quarter as well as the March of 2017 quarter is that our Realex Portico ecom business here in the United States with Heartland grew 20% year-over-year fourth quarter and grew 20% year-over-year first quarter of calendar 2017.

So, what we've really done is take their products and services and enhance them. We brought additional products and services that they can sell, which salespeople like to do. And we brought their products and services [ph] to adjust (09:55) additional geographies. You pool that together with very good retention, and what we've said in the last number of calls is that Heartland's retention of its merchant base is really at all-time highs and attrition is relatively well. So, we don't model – in our guidance, we don't model all-time low attrition rates and assume that they'll persist, instead we assume that rates will be, typically, on average, what they've been.

But over the last few quarters, it's been roughly 90% retention, probably a couple of 100 basis points better than we were assuming. A couple of 100 basis points on $1 billion of revenue annually at Heartland is not a small number and is a very high-margin retention and I think reflects the hard work that Heartland has done in terms of sales leadership and I think reflects the significant investment that we have done together and make sure that their systems in tech and ops are up to the levels of standards that we'd all be very proud to support. And I think the proof is in the pudding and you're seeing that.

Eric Ciura
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. And some of those cross-sells that you mentioned of bringing Heartland products to other markets or bringing [ph] tool (10:59) products to Heartland, I guess that's all part of the 100 basis points of revenue synergies, which does include pricing, right?

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

A

It's exactly, right. So, as Cameron said, on the call for the first quarter of March of 2017, we have not touched price in the [ph] XDN (11:14) book at Heartland. That was never our intention as we've said all along since December of 2015 going into the transaction. In the first place, rather, it's what you said, which is to expand the products and services that Heartland offers within the United States and overseas. We announced last month, for example, Xenial product, which we rolled out in the United States as one of the first SaaS-based cloud restaurant environments that you can go in the app store, for example, and download [ph] and accept your (11:43) restaurant in 30 seconds. That was launched in the U.S. early May. We expect that to be launched in Spain, for example, obviously, in Spanish and Catalan by the end of calendar 2017.

It's a great example of a market Heartland was not in, and we're very proud of the products and services they have put together. And now, we're actively bringing that into other parts of the world like Europe in the case of Spain. And that's really a win for Heartland and a win for Global.

Eric Ciura
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. And with the software assets that Heartland brought over and the launch of Xenial, you started to get more into kind of different verticals. The investment you need to continue to do is get in to different verticals with the software assets. And how does that maybe compete with the ISV model where you're working with different software providers and kind of keeping more payments agnostic?

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

A

Right. So, as we said at the time in December of 2015, when we announced the Heartland merger, in the first place there really was no overlap between OpenEdge. I think we said less than 5% overlap between the vertical markets, the 60 vertical markets that OpenEdge services and the vertical markets that Heartland was in in terms of ownership of their software.

Global Payments does this globally even prior to Heartland. So, in the case of Ezidebit, for example, in Australia and New Zealand, we're actually on the self-storage software in that market. Here, in the United States, we actually partner to OpenEdge on self-storage. So, I can say that, here we are, 14 months after close, I have yet to receive a single phone call from anybody complaining about channel conflicts.

So, I think it is very simplistic to say we don't do vertical markets because they're complicated. We get paid to manage those things that are complicated. That's why we're here. I think we're very good at managing channel-related issues. We're very cognizant of the 60 vertical markets, not one or two, but 60 vertical markets that we're in today at OpenEdge in the United States. And I think we're very focused on expanding those areas where we think we can generate superior returns without conflicting with our customer base.

So, for example, we are not in child care by way of vertical market here in the United States. That'd be one example. We're not in real estate rental here in the United States by way of vertical market. So, there's plenty of opportunities in markets that we're not in where we could look at either partnering in traditional OpenEdge or in acquiring ISVs.

And I think the key thing for us is, when you think about factors that shift that equation, is the size of the addressable market, whether there is a GE-like one, two or three player in any of those markets, whether there's multi-national applicability of those markets, not just in the United States, but in Canada, the United Kingdom and Asia where we brought our OpenEdge business, and that also is very much distinctive to us. So, I think we're very good at managing those things, and I believe our shareholders pay us to be very smart about it.

Eric Ciura
Analyst, Robert W. Baird & Co., Inc.

Q

And then another market in the U.S., ecommerce. Ecommerce has been big for you internationally, in Europe, parts of Asia, but U.S. had [ph] very little (14:50) ecommerce presence now at Heartland. So, maybe you talk about, one, why you don't have a big presence in the U.S. in ecommerce and then what Heartland brings to increase your presence there, and if you expect ecommerce to continue to become a bigger part of Global in the U.S.

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

A

Sure. So, if you go back in just level set, what's going on in ecom and omnichannel at Global Payments. So, we said in our October 15 Investor Day is that ecom, omnichannel back then was about $250 million net revenue business for us. Sitting here today, I think what Cameron said on our call, is today that's $350 million of net revenue. We're up 40% in about 18 months. So, you can get a sense of the size and scope of what Global Payments is doing worldwide as it relates to ecom and omnichannel.

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As I think we've described before, we think we're one of the handful of players worldwide. There will be us, Adyen, Braintree, Stripe and probably Worldpay, who, I think, globally, have the breadth or the footprint and coverage to sell ecom but also omnichannel acceptance across those markets.

So, we think we're in a very healthy place. As I said in our call a couple of weeks ago, we've had a very good partnership, for example, with PayPal, who is wholesaling our cross-border ecom technology. I don't think we'd be doing that unless [ph] PayPal (16:05) has very good technology in the first place, and that's been a partnership we've had since 2008, since our partnership with HSBC in the United Kingdom. So, that's our worldwide footprint today, about a third of $1 billion of revenue. And I think it's Cameron, our CFO, has described it, growing into the high teens organically top line.

Then as you think about the U.S. and other markets, we purchased Realex in Dublin, Ireland about two-and-a-half years ago. We have now bought our Realex ecom business, which is primarily ecommerce but a little bit of omnichannel, too, not just into Spain, which we announced several quarters ago in our partnership with Caixa but into Canada and now into the United States.

So, our strategy, domestically, as distinct from cross-border, is to partner Realex, which has industry-leading tools for sales, for product, for cross-border, for currency functionality here into the U.S. and marry it with Portico, which is Heartland's ecommerce product that about 125 people of Heartland have been selling today. As we announced in the last couple of quarters, I mentioned a few minutes ago, that business grew 20% in the fourth quarter of 2016 and 20% again in the first quarter of 2017 year-over-year.

The nice thing about our business at Global Payments is we're actually the ones doing the disintermediation in the first place. In other words, both our cross-border business in our ecom and omni-channel area and our domestic ecom business is busy actually enabling small to mid-sized merchants to go online to allow you to buy hamburgers and the like on your phone, pay with one of the payees and go pick it up [ph] ala (17:41) a Starbucks in a store. At the end of the day, Global Payments, as I think you know, is primarily defined in the U.S. in particular, which is two-thirds of the company, by vertical market and by SMB focus.

We have no big-box retailers, no real significant retail exposure. So, our ability to take a small pizza chain and put it online so you can order like Domino's, pay for it [indiscernible] (18:02) and go pick it up. Our ability to better help manage small retailers get online I think is distinctive to us. And actually we're the one who's busy on disintermediating the core that you're obviously reading about.

So, I think we're in a very good place as it relates to our ecom and omnichannel strategy. Obviously, at 10% of the company's revenue, which is about $350 million on $3.5 billion is, we'd like it to be a bigger business for us. But certainly, the third of $1 billion of revenue growing 20%, we're pretty pleased with where that business is today and, at its core, it's really additive to the footprint of the company.

Eric Ciura
Analyst, Robert W. Baird & Co., Inc.

Q

And how do you think about margins in North America over time? So, once you get the Heartland's synergies in full stride, beyond that, is it simply just strong revenue growth and good operating leverage leading the margin expansion in North America?

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

A

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I think margins are going up if that's what you're asking. But the – listen, I think it's – at the end of the day, pre-Heartland and post-Heartland, Global Payments was raising margin, and that's a function – in North America, and that's a function of two things really. The first thing it's a function of is those businesses and technology, which, again, is half the revenue of our U.S. business and the vast majority of the growth, those businesses, by definition, are better than the corporate average in terms of margin because they're technology businesses at the end of the day.

So, the first thing I would say is, in terms of mix shift, we were growing margin before the deal, we thought it made sense. Heartland was inherently lower-margin business for a variety of reasons. We thought it made a lot of sense since Global pre-Heartland was probably at 31% margins to set margin back a bit and then grow it from there, and that's exactly what we've done. Our guidance for this year is to probably be just under 30, high-29s of margin for the year. That's up 110 bps is what we've guided to itself, up 20% since the first quarter in terms of our guidance for this calendar year.

So, obviously, a big piece of that, two-thirds of the companies in the United States, three-quarters is in North America. You're not going to get through that margin expansion at the core. So, I think the conscious investment and better margin opportunities businesses is certainly driving principally the way to margin accretion that you've seen over probably in the last three or four years at Global Payments.

Secondarily, we think we're very good at doing deals, back at your point about Heartland. So, now, post-Heartland, in the first quarter where we added 250 basis points of margin in North America, as we said in the call, that surpassed our expectations. We don't plan on doing that every quarter or we'll get to the mid-30s very quickly, which is not our intent. Our intent is to get there over time. As you know, our cycle guidance is for 75 basis points of expansion. This year that's obviously 110 basis points to reflect the investments we've got coming out of Heartland.

But at the end of the day, in the first quarter of this year, we did not own Heartland a year ago in March of 2016, so the synergies were incremental in the first quarter. And obviously, since April, we'd overlapped some of the synergies that we have last year in the first quarter. So, I don't expect nor are we managing the company for 250 bps of expansion every quarter or we'll be on some other trajectory that I'm not familiar with.

But I think, at the end of the day, it certainly is the goal of the company to continue to accrete margins. I think, sitting here, we can very comfortably get to the mid-30s without losing any trajectory in the rate of revenue growth once we get – which will take a period of years from now. Once we get beyond that, we'll obviously have to assess whether we're making the right investments in sales and product and infrastructure to sustain the high-single-digit ongoing growth that we've talked about organically as part of the three- to five-year model.

Eric Ciura
Analyst, Robert W. Baird & Co., Inc.

Q

And then – and moving to Europe, you had solid growth, high-margin unit that's been doing well. So, maybe just kind of the puts and takes around how you think about growth and – especially in the light of Brexit and other changes across Europe?

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

A

So, we clearly couldn't be more pleased with our European businesses. Let me start for a second now with the UK [ph] then in (21:55) Spain.

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Eric Ciura
Analyst, Robert W. Baird & Co., Inc.

Q

Okay.

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

A

So, we've had our partnership with Caixa, which is our second largest business in Europe. As you know, Europe is about 20% of our company, probably a little bit under half, that's the UK, the rest is Spain and Continental Europe, et cetera.

We couldn't be more pleased with our partnership with Caixa. Here we are six-and-a-half years later. And even when GDP wasn't really growing in Spain, we were still growing double digits. Now that GDP in Spain is growing faster than the United States, we're at high teens local revenue growth, organic, in the country of Spain, the second largest market that we have in Europe. So, it's hard not to look at that and be delighted. I think we have 300,000 merchants just in the country of Spain. Just as an example, those are mostly SME, which is obviously our sweet spot.

As it relates to the UK, as we said on our calls, Eric, we really haven't seen any impact from Brexit other than the pound. Obviously, their currencies kind of are what they are. As I think Cameron and Isabel said, we're cautiously optimistic. But still, as Brexit gets warned, the truth is we're cautious about what that may mean. Having said that though, we just posted probably one of our best quarters in the UK with low-double-digit organic revenue growth in that market with Erste in there with mid to high teens. But if you back that out of its low-double-digits organic revenue growth in United Kingdom, that's having lapped step-up in the changes in [ph] CEPA (23:13) . So, obviously, that's really apples-to-apples in the scheme of things.

Our guidance for the year, in the UK and Europe, is really high-single digits, mid- to high-single digits organic and reported growth. That's a function of currencies. That's the function of the lapping of Erste, which we've been talking about.

So, I would say that we're cautiously optimistic. We have not really not seen an impact coming out of Brexit as it relates to the underlying fundamentals of the UK business. But as the heavy lifting gets going with the May elections coming up in the next several days, as we start to see what's going on with the EU, we'll have a better sense over time. But I think as we said in the last call we really haven't seen an impact yet in that business.

Eric Ciura
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. And then maybe touching on Asia Pacific, talk to some of our good friends in Payments who have traveled there with you and visit with the Ezidebit business, and they described it as a West Coast Internet company and that's turned very well. So, I guess, can you touch on that business in particular and can you take Ezi to other markets as well across Asia?

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

A

Yeah. So, I would say, I think Heartland will be the best partnership we've ever had in terms of dollars returned to investors, but it's hard not to look at Ezidebit and their rate of return and not feel really proud of the rate of growth. We don't really model north of 20% organic revenue growth three-and-a-half years after we did the deal, but that's

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exactly what we've been experiencing at Ezidebit. And we're also very pleased in our investment in eWAY, which Ezidebit is managing, which has 25% of the online market in Australia and New Zealand.

So, that business continues to grow very well. I think Asia Pacific is coming off of six really strong quarters, I would say, of organic revenue growth across all of Asia Pacific in a row. I think it was mid-teens U.S. dollar organic revenue growth last quarter with continued margin enhancement.

I would be remiss in not pointing out that we also had record growth in Hong Kong, Philippines, India. I'm not sure demonetization is a great social policy, but I can tell you it's really helped our business in India, banning cash is generally good idea when you sell cards. I'm not sure it's socially pretty fair but that's kind of a separate matter. So, it's not just Ezidebit. It's also with card business as usual, our business across our 11 other markets in Asia Pacific.

As it relates to bringing it into other markets, we already have it. We have relationships in Hong Kong through our integrated partnerships. We have some relationships in other markets around the world, in Europe and North America, through Ezidebits. So, we certainly have the ability and we have taken Ezidebit beyond the borders of Australia into New Zealand and other markets in Asia, in Europe, in the Americas, and I don't see why that wouldn't continue. Together, between Ezidebit and OpenEdge, we're probably have $400 million in net revenue growing well into the high teens, if you put the two together on an organic revenue basis with expanding margins.

So, it's hard not to be really pleased. Years into doing those deals in the first place. So, I think the key in all these things is not just to cut expense, but to accelerate the rate of revenue growth on one of your partnerships, and that's we've been able to do really with Ezi as well as OpenEdge.

Eric Ciura Q
Analyst, Robert W. Baird & Co., Inc.

And then also in Asia, China, it's probably I mean 10 years ago now, is there a probability that this can be an opportunity and double the size of your Asia business?

Jeffrey Steven Sloan A
Chief Executive Officer & Director, Global Payments, Inc.

Well, I think if you think about Greater China as Mainland China, Hong Kong, Taiwan and Macau, it already is a big percentage of our Asia-Pacific business. So, Asia-Pacific for us as a whole is about 8% of the revenue of that company. Greater China, the way I just defined it, is probably a third of the business, so it's really a meaningful part. As I mentioned a few minutes ago, Macau and Mainland China grew into the double digits in the most recent quarter. Organically, revenue-wise, we're very pleased by how they are doing.

We continue to make investments across Greater China. We just became a direct member in Macau with Visa and MasterCard. We have new bank and distribution partnerships in Mainland China today that we didn't have as recently six or nine months ago. With the regulatory changes that are proposed to allow non-Chinese companies like ourselves to do more business in China, obviously, we're very optimistic about those. The devil is in the details. The Alipay announcement, for example, the other day about providing wallet and DCC services in Asia is in partnership with us.

So, I certainly think there's an opportunity whether it's QR codes, whether it's demonetization in India, whether it's [ph] direct (27:33) membership in Macau, expanding our relationship with Apple in Taiwan, all those things are going on right now and I think it's allowing us to drive the kind of results that we've been describing.

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Eric Ciura
Analyst, Robert W. Baird & Co., Inc.

Q

And then, uses of cash, it's been over a year since you closed the acquisition of Heartland and, historically, GPN makes acquisition. So, what's your appetite for M&A and how do you balance that with leverage and share buybacks?

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

A

So, it's odd for us at Global to go a year and a half and not do deals. I mean, that's not really the environment that we're in, but we thought it's very important to annualize Heartland, which we did a couple of months ago to show that we're on track with the integration and get the balance sheet back in the right place which we've done. Leverage is down to just over 4. Through March growth [ph] in $37 million (28:17) probably net. And as I think Cameron said on our call, by the end of this calendar year, we'll be right back to where we were in terms of financial capacity before we entered into the Heartland partnership in the first place.

So, we're actively looking now. I think now that we're beyond the anniversarying of the partnership, I think we're ready to do more. Obviously, it takes two to tango, so we need to find the right partners with the right strategy and the right cultural fit. But we're very optimistic that we'll continue to make very good return-based M&A investments in new markets, in existing markets to provide more scale and to show the same kind of returns that we've been able to show in our partnership with Heartland. I think we announced the deal. We thought it would be a high-teens return investments. Sitting here today, actually, it's probably high-20s based on its performance and our synergy performance since the transaction.

Eric Ciura
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. And we're just about out of time, but just to wrap-up, business is executing very well, what do you view as the biggest risk, like, what could take you – what keeps you up at night?

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

A

Well, I think the most important thing in our business is to ask yourself, where you would like to be in the next three years? So, many of the asset investments today that we make – and we're really a technology company, we're really a product-based technology company, the investments we're making today in technology, just like we made in OpenEdge, just like we made in Realex, in ecom and omnichannel, are debts that we expect to pay off three years from now, right? Very rarely do we [indiscernible] (29:44) it pays off tomorrow. Instead, these are focused investments on how we want to grow the company, where we want to be for the next three years. We're very confident in running the business the way it is today to produce the returns that we've already committed to.

So, what I worry the most about is, do I get that wrong? Do I make an investment today that, three years from now, missed the next new thing? OpenEdge is a great example of an investment that turned out right. I think Realex and ecom and omni is also an investment that turned out right. I think Heartland is the same way, but you really need to wait kind of a year and a half to two years to figure that out.

So, certainly, we could make an investment that doesn't pan out or we could miss something, which I'm just as worried about, but sitting here today, it's hard not to feel as optimistic as we really ever have been looking at the business that we have.

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Eric Ciura

Analyst, Robert W. Baird & Co., Inc.

Well, great. It looks like we're out of time. And thank you, Jeff, for being here today.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks for having me. Thanks, Eric. I appreciate it.

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