

03-Aug-2017

# Global Payments, Inc. (GPN)

Q2 2017 Earnings Call

## CORPORATE PARTICIPANTS

Isabel Janci

Vice President-Investor Relations, Global Payments, Inc.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Cameron M. Bready

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

David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

## OTHER PARTICIPANTS

Ashwin Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Andrew W. Jeffrey

Analyst, SunTrust Robinson Humphrey, Inc.

Glenn Greene

Analyst, Oppenheimer & Co., Inc.

George Mihalos

Analyst, Cowen and Company, LLC

David J. Koning

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

Darrin Peller

Analyst, Barclays Capital, Inc.

David Mark Togut

Analyst, Evercore ISI

## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, thank you for standing by and welcome to the Global Payments 2017 Second Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will open the lines for questions and answers. [Operator Instructions] And as a reminder, today's conference will be recorded.

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

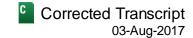
### Isabel Janci

Vice President-Investor Relations, Global Payments, Inc.

Good morning, and welcome to Global Payments' second quarter 2017 conference call. Our call today is scheduled for one hour. Before we begin, I'd like to remind you that some of the comments made by management during today's conference call contain forward-looking statements, which are subject to risks and uncertainties discussed in our SEC filings, including our most recent 10-KT and any subsequent filings. These risks and uncertainties could cause actual results to differ materially. We caution you not to place undue reliance on these statements. Forward-looking statements during this call speak only as of the date of this call, and we undertake no obligation to update them.

Some of the comments made on this call refer to non-GAAP measures such as adjusted net revenue and adjusted earnings per share, which we believe are more reflective of our ongoing performance. For a full reconciliation of these and other non-GAAP financial measures to the most comparable GAAP measure in

Q2 2017 Earnings Call



accordance with SEC regulations, please see our press release furnished as an exhibit to our Form 8-K filed this morning and our trended financial highlights, both of which are available in the Investor Relations area of our website. You can also find a few slides that describe the ACTIVE transaction at www.globalpaymentsinc.com.

Joining me on the call are Jeff Sloan, CEO; David Mangum, President and COO; and Cameron Bready, Senior Executive Vice President and CFO.

Now, I'll turn the call over to Jeff.

### Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Isabel, and thanks, everyone, for joining us this morning. We again delivered double-digit organic net revenue growth this quarter on a consolidated basis with continued strong execution across our markets. In addition, we grew adjusted earnings per share of 24% and expanded operating margin by 130 basis points. We could not be more pleased with the progress we have made against our strategic objectives, and we believe the best is yet to come.

At our investor conference in October 2015, we outlined two key strategic initiatives to accelerate transformative growth: expansion of both our integrated and vertical markets business, and our e-commerce and omnichannel offerings. A bit less than two years later, we have made substantial progress on each of these initiatives. First, our integrated and vertical markets business continues to grow at a double-digit rate, driving an outsized quantum of our overall growth. Our landmark partnership with Heartland enabled us to enter the education, university and hospitality verticals. In addition, we've expanded our offerings into additional geographies, including Canada, the United Kingdom and Puerto Rico, and will soon bring them to Spain and Hong Kong, further differentiating our competitive position in these markets.

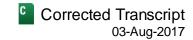
And this morning, we're delighted to announce a definite agreement to purchase the communities and sports divisions of ACTIVE Network from Vista Equity Partners. ACTIVE is a global leader in delivering cloud-based, mission critical, enterprise software, including payment technology solutions, to small-to-medium sized businesses, targeting at events in the communities and health and fitness verticals.

Over the last several quarters, we've been highlighting our technology-enabled, software-driven strategy. This acquisition dovetails with our thesis, to expand our integrated and vertical markets business by owning more of the value set in specific verticals, where we see opportunities to meaningfully increase payment throughput. ACTIVE has high rates of recurring revenue and operates in a fragmented and underpenetrated market with attractive growth fundamentals. It also has no channel conflict with existing Global Payments businesses and partners, and has a complementary global footprint. We expect to realize revenue and expense synergies over time, as we seek to leverage our extensive distribution assets and further scale the business globally.

We are also delighted to announce a strategic partnership with Vista that creates new opportunities for us to offer payment technology solutions to the worldwide portfolio of businesses. Vista is the preeminent global investor in enterprise software, data and technology, with a current portfolio of over 40 platform companies that in aggregate represent the fourth largest enterprise software company in the world. While Vista has transacted with other companies in our sector historically, we are delighted that they have chosen to pursue this key strategic initiative with us, and will be an equity-holder going forward. Their imprimatur speaks for itself.

Second, as you know, our e-commerce and omnichannel solutions business generated roughly \$250 million of annual revenue at the time of our October 2015 Investor Day. Today in less than two years, that business has

Q2 2017 Earnings Call



increased substantially to nearly \$400 million of annual revenue and continues to grow at a double-digit pace. And we've only just begun penetrating the \$30 billion global market opportunity in this space by capitalizing on our market-leading technology and worldwide online and offline footprint.

Over the last couple of years, we have integrated Realex's e-com technology with our omnichannel capabilities to create feature-rich solutions in the United Kingdom, Spain, Canada, and together with Heartland, the United States. In 2018, look for us to combine this business with our eWAY offerings in Asia Pacific, and provide unified worldwide solutions. At the same time, we have continued to further enrich the platform with over 100 additional alternative payment methods, security or fraud management tools and enhanced shopping cart integrations to provide market-leading capabilities to our customers.

Unlike a number of our online competitors that have tried to move offline, we have successfully penetrated a broad range of markets with our omnichannel offerings. And today we provide these solutions to merchants in over 50 countries across five continents. In fact, we have a long history in payment facilitation with some of the most sophisticated technology companies leveraging our solutions globally. Our unified worldwide offering in technology platform, together with our extensive relationships, make us the partner-of-choice for merchants globally.

Finally, it is worth noting that on a pro forma basis for the ACTIVE acquisition, over 40% of our net revenue now resides within our integrated and vertical markets business, and our worldwide e-com and omnichannel offerings. And of course that is generating a substantial portion of our growth. Further, small-to-mid sized businesses remain our core focus and we make the vast majority of our profit worldwide in the SMB market. Just a few short years ago, we set out to differentiate our company as the leading provider of payment technologies worldwide by changing the game. The extension of our strategy into software solutions further paved the way for us to deliver more comprehensive, vertically fluent solutions to customers worldwide, driving continued momentum and growth in our business. We think our results and partnerships speak for themselves.

Now, I'll turn the call over to Cameron.

### Cameron M. Bready

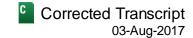
Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.

Thanks, Jeff, and good morning, everyone. Our second quarter performance was once again exceptional and meaningfully exceeded our own expectations across our key markets. We are pleased with the consistency of execution worldwide as we continue to advance our strategy. Total company net revenue for the second quarter was \$848 million, an 18% increase over 2016, driven by double-digit organic growth in each region. Adjusted earnings per share was \$0.94, reflecting growth of 24% or 29% on a constant currency basis. Operating margin for the quarter expanded 130 basis points to 29.2%.

The success of our Heartland integration efforts provides the backdrop for an outstanding performance in our North American business this quarter. Net revenue grew 20% to \$624 million, driven predominantly by low double-digit normalized organic growth in our U.S. direct distribution channels. This was primarily attributable to continued strength in our Heartland sales channel and our integrated and vertical markets business. Canada also delivered better than expected performance with mid single-digit growth in local currency. North American operating margin expanded 230 basis points to 29.7%. Margin expansion was driven by the strong net revenue performance across our U.S. direct channels and the realization of expense synergies from Heartland.

In Europe, net revenues grew 13% to \$159 million or 19% on a constant currency basis, led by double-digit organic growth in our European e-commerce and omnichannel solutions business as well as our United Kingdom

Q2 2017 Earnings Call



and Spanish businesses. Our e-commerce and omnichannel solutions business continues to generate strong growth as we execute against our pan-European strategy while the UK and Spain both benefited from resilient domestic trends and robust tourism seasons. European operating margin of 45.5% declined 200 basis points from the previous year as expected, primarily due to foreign currency impacts and integration costs associated with the Erste transaction as well as higher costs associated with increased cross-border volumes. As a reminder, we anniversaried the closing of our JV with Erste in June and much of the integration work is now behind us positioning us well to bring the full breadth of our payment solutions to our Central European markets going forward.

Our Asia-Pacific business continued its strong performance in the second quarter. Net revenue grew 15% driven by solid trends across our key markets including Hong Kong, Malaysia, Singapore and China. And Ezidebit once again contributed significantly to results in the region continuing to generate over 20% organic growth. Nearly three years after closing this partnership, we could not be more pleased with the performance of this business. Asia-Pacific operating margins of 30.2% increased 330 basis points year-over-year, driven by strong net revenue growth across the region.

Excluding Heartland integration costs, we generated free cash flow of approximately \$130 million this quarter. We define free cash flow as net operating cash flows excluding the impact of settlement assets and obligations, less capital expenditures and distributions to non-controlling interests. Capital expenditures totaled \$44 million for the quarter. In addition, since the beginning of the year, we have reduced outstanding debt by approximately \$180 million, resulting in gross leverage of under four times at the end of the second quarter.

As Jeff discussed, today we announced that we had entered a definitive agreement to acquire the communities and sports divisions of ACTIVE Network from Vista Equity Partners in a transaction valued at \$1.2 billion. Net of a tax asset, the purchase price is roughly \$1 billion. Vista will receive \$600 million of Global Payments' stock and \$600 million in cash as consideration. We expect to finance the cash portion of the consideration with our existing credit facility and cash on hand, and anticipate the transaction will increase leverage very modestly. We expect to close the acquisition in the fourth quarter of 2017.

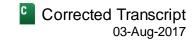
We are very pleased to be adding ACTIVE Network to our integrated and vertical markets business as we look to further our technology-enabled, software-driven strategy globally. Not only is the transaction immediately accretive, but we also see opportunities to enhance returns by leveraging our worldwide distribution to accelerate growth and further scaling the business. Likewise, ACTIVE Network brings state-of-the-art software development resources, data and analytics platforms, and machine learning capabilities to Global Payments that we expect to significantly benefit the company more broadly.

As a result of our strong performance for the second quarter, we are raising our outlook for calendar 2017. We now expect net revenue to range from \$3.40 billion to \$3.475 billion, reflecting growth of 20% to 22% over 2016. Operating margin is now expected to expand by up to 120 basis points. Lastly, we now expect adjusted earnings per share to range from \$3.85 to \$4, reflecting growth of 21% to 25% over 2016. Our updated 2017 guidance does not include any impact from the acquisition of ACTIVE Network, which we expect to be immaterial to 2017 adjusted earnings per share.

We are extremely pleased with our performance in the second quarter, and thus far in 2017. Our continued strong execution across the business, positions us well to achieve our financial expectations for the year, while we also invest in the business to deliver differentiated solutions to our customers worldwide.

I will now turn the call back over to Jeff.

Q2 2017 Earnings Call



### Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Cameron. We are delighted with the strength and consistency of our execution in the second quarter, which we believe to be our strongest to-date. We are most excited about the investments we've already made in our operating and technology environments over the last 18 months to provide further scale to our businesses as we approach calendar 2018. Our partnership with Vista and our acquisition of ACTIVE Network further distinguish Global Payments from our peers. We expect these investments to provide additional catalysts for continued market share gains over the coming months and years.

As we celebrate our company's 50th anniversary this year, we're struck by just how far we have come as a business, particularly over the last several years. As I noted, we continue to believe that our best days remain in front of us, and that we're better positioned than ever to grow our business and deliver exceptional value creation for our shareholders. Isabel?

### Isabel Janci

Vice President-Investor Relations, Global Payments, Inc.

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

Operator, we will now go to questions.

## QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] Our first question comes from the line of Ashwin Shirvaikar with Citibank. Your line is open.

### Ashwin Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Thank you. Congratulations on the good quarter and what looks like a very interesting acquisition. Let me start with the acquisition. Could you size both the Vista and ACTIVE opportunities sort of separately and the timing actually of how it might layer in? It seems like a very wide range of verticals that are represented within the Vista portfolio, healthcare, automotive, insurance. I mean, do you need to actually develop now APIs and solutions and connections to each of those and what does that mean for development cost going forward?

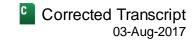
### Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Yeah, Ashwin. It's Jeff. I'll start and I'll ask David and Cameron to join me as well. This, as we said in our prepared remarks, is across its entire portfolio is the fourth largest enterprise software company in the world across 40 companies, really worldwide, in a bunch of geographies. Our opportunity to try to offer our payment solutions to Vista in terms of how we thought about that, the annual process volume across all those markets and all those companies is around \$50 billion of volume per year.

So, as we thought about the opportunity, we need to look at each one of those discretely and determine what our desired markets are, what we can offer to those companies, and how that may play out over time. But certainly,

Q2 2017 Earnings Call



as we thought about it, it's relatively unique in our industry to find one partner like Vista who has that many opportunities in our sweet spot, which is to say multinational corporations growing quickly enterprise software in so many markets around the globe. I also think we're uniquely positioned to offer those solutions as there aren't many people in our industry with the size footprint we have, worldwide as well as the type of technology solutions we can offer to someone like Vista and their companies.

Cameron, do you want to add anything to that?

### Cameron M. Bready

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

No. The only thing I would add, Ashwin, is this is a relationship where we will go portfolio company by portfolio company to determine the right solution for that particular entity. In some cases, there is maybe instances where they become a part of our OpenEdge business and we integrate into their technology environments. In other cases, we may just provide payment services in a semi-integrated format as well. So, we really have to look at each individual business. So, it's something that's going to scale over a period of time. I think to Jeff's earlier comment, the value here is having an extensive relationship with someone who owns obviously so much enterprise software around the globe that perfectly aligns with our strategy again to be in businesses and align with businesses where a software can drive faster rates of payment throughput.

### Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

And to be specific to your question, Ashwin, I don't anticipate us doing anything other than we've otherwise been doing in terms of growing our company. So I don't envision there being additional investments beyond what we do ordinarily, in the ordinary course for Global Payments to service complicated customers like that worldwide which we do every day.

### David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

Hey, Ashwin, this is David, just a little more color on what Jeff is saying, that as we build the sales strategies, it's about sequencing these deals and over some period of time, over a number of quarters, calling on these one by one and creating the right kinds of solutions that Cameron described for each instance.

### Ashwin Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Thanks. No, that color is very useful. A follow-up in terms of the results themselves, you got the beat today here, any commentary with regards to 3Q versus 4Q guidance in terms of segment revenue trends, profitability?

### Cameron M. Bready

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

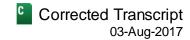
Yeah. Ashwin, I didn't hear - unfortunately, couldn't hear you very clearly. Could you repeat your question?

### Ashwin Shirvaikar

Analyst, Citigroup Global Markets, Inc.

Yes, sir. I'm asking about 3Q versus 4Q guidance in terms of segment revenue trends and profitability.

Q2 2017 Earnings Call



### Cameron M. Bready

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

A

Yeah. Sorry. Okay. So, Q3, Q4 guidance, I would say a couple of things. First and foremost, we're halfway through the year, and we recognize the game doesn't end at half time, so we still have a lot of work to do in the back half of the year to make sure that we deliver on our financial expectations for the year. I think as you all know, we raised our revenue guidance by roughly \$18 million at the midpoint that's on top of the \$20 million raised last quarter. So, we've already raised our revenue guidance for the full year by an entire point-plus, so I think we feel very good about how we're positioning obviously revenue growth for the overall year.

We also raised our margin guidance again by another 10 bps on top of 20 basis points last quarter, so we now anticipate margin increasing or expanding up to 120 basis points for the full year. And then lastly, we raised our earnings guidance by another \$0.05 at the midpoint on top of \$0.07 last quarter. So again, we now expect earnings per share in the range of \$3.85 to \$4, 21% to 25% growth year-over-year, 23% at the midpoint, we're obviously very pleased about that outlook.

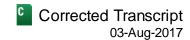
As it relates to each of the individual segments, I would make a couple of comments. One is, generally our expectations remain relatively the same. For North America, we expect and we manage the business to drive high single-digit rates of organic net revenue growth. In that particular segment, we obviously do from time-to-time have the ability to exceed that as we have done in Q1 and Q2. We certainly don't manage the business day-in and day-out with the expectation that we're going to achieve that level. So, the outlook for the balance of the year is in line with our overall expectation for that business.

In the case of Europe, we still expect to produce net revenue growth on a reported basis in the high single-digit range. Again, we've now fully anniversaried the Erste transaction in June. So, as we look to the back half of the year, we would expect revenue growth in Europe to be in that high single-digit range, which is up from the mid-to-high single-digits, previous guidance. And then in Asia, we still expect double-digit organic growth for the full year. We anniversaried the eWAY transaction in Q1 as a reminder, and we do expect double-digit organic growth in the back half of the year in our Asia segment as well.

So, that's generally what's embedded in our outlook for the balance of the year. The only other note I would make around FX is sitting here today we have seen the dollar weaken a little bit here over the last month or so in particular. Our outlook for the balance of the year doesn't anticipate that that strength continues. We actually expect rates to weaken slightly relative to current spot levels. So, our forecast would not assume that the current rate environment that we've seen over the last couple of week persist into the back half of the year as well. So, to the extent it does, that's obviously good news for our business, but then today I don't think that we have embedded current spot rates into our outlook for the balance of the year. So, hopefully that helps give a little bit of color on what's in the guide?

Ashwin Shirvaikar Analyst, Citigroup Global Markets, Inc.	Q
No, that's very useful. Thank you very much. Great job, guys.	
Jeffrey Steven Sloan Chief Executive Officer & Director, Global Payments, Inc.	A
Thank you.	

Q2 2017 Earnings Call



Cameron M. Bready

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

Thanks, Ashwin.

Operator: And our next question comes from the line of Dan Perlin with RBC Capital Markets. Your line is open.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Thanks, guys, and congratulations on the transaction. Cameron, you did mention the transaction is immediately accretive. I'm just wondering if you can help us reconcile that statement a little bit with, I don't know, maybe some idea about the financials at ACTIVE? Then I had a follow-up.

Cameron M. Bready

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

Yeah. Sure. Dan, a couple of things. One is, the business today for 2017, we expect to produce net revenue approaching \$200 million on our revenue convention, our net revenue convention, so that gives you a little bit of size around the revenue. Obviously anticipating a close in Q4, there is not much time for it to be particularly additive to 2017. As we think about 2018, we expect it to add a point to point-and-a-half to earnings growth for 2017 from an accretion standpoint. It's also accretive to our rate of net revenue growth, as we mentioned previously and it's also accretive to our operating margins.

So, it's a very nice business, I think financially on top of strategically dovetails nicely with our integrated and vertical markets growth profile. So, it's a double-digit grower top-line, consistent with our integrated and vertical markets business, it has margins that are above our corporate average and our scaling, and obviously our ability to leverage our distribution worldwide and to leverage obviously Global Payments infrastructure, can help the business scale more quickly. So, from a financial profile standpoint, it really aligns nicely with our strategy and the financial profile we're driving for the overall business.

Daniel Perlin

Analyst, RBC Capital Markets LLC

Yeah. That's great. Thank you. The follow-up is just as you think about this strategic relationship in the portfolio, Jeff, are you viewing this somewhat as a feeder pool for other acquisitions down the road, as part of the strategic partnerships you get right of first refusal to the extent that some of those assets would be sold out of that portfolio? Thanks.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Yeah. Thanks, Dan, it's good question. I would say we view our partnership with Vista as one like rest of our partnerships we really have to earn or keep and earn our business every day. So, no, there is no right of first refusal to buy other companies with Vista. They're obviously in the business to maximize value just like we are, so I don't think that really changes anything.

What I would say though that is a little bit different here with Vista. In prior deals they've done with some of our peers or the way that we've interacted with some of our peers historically is, first they've chosen to take equity in Global Payments, and I think that's a real sign of endorsement in their view of the strength of the model. So, that's one point that is somewhat different for us in dealing with a private equity firm from whom we bought assets in the

Q2 2017 Earnings Call

past. APT for example was from a private equity firm, Great Hill, that we paid all cash for it, so I think that's a little distinctive to this partnership.

Second, I think part of the reason Vista looked to take an equity stake as part of the consideration in Global Payments was for exactly the reason you're asking, which is how do they participate in the value creation over time in the revenue stream and the profit stream that might occur from additional processing and technology relationships that we have with our portfolio of companies over a period of time. So, for example, when they've done other deals in our sector with other people with whom they compete, they did not take equity as part of those deals and rather they chose us to do that. So, I do think that piece is distinctive.

The third, to go back to where we started, at the end of the day, we have to earn our business every day. We're going to sit down and go through those companies with the companies themselves and determine what's in the best interest of Global Payments, and of course, we'll do the same thing for their businesses. But I do come back to Ashwin's question, which is what's somewhat unique about this is the strength of our global footprint, our knowledge of their businesses in terms of enterprise software, our ability to deliver really e-com, omnichannel, any product, anytime and anywhere, I think is somewhat unique to us and there is very few people who fall in that category.

Andrew W. Jeffrey	
Operator: And our next question comes from the line of Andrew Jeffrey with SunTrust. Your line is	open.
Thanks, Dan.	
Cameron M. Bready Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.	A
Thanks, Dan.	
Jeffrey Steven Sloan Chief Executive Officer & Director, Global Payments, Inc.	A
That's great. Thank you, guys.	
Daniel Perlin Analyst, RBC Capital Markets LLC	C

Hi, good morning. Thanks for taking the question. Jeff, I appreciate the strategic differentiation that Global has established here. I wondered if you could just comment from a high level especially given all the M&A that's taking place worldwide in payments, sort of how you differentiate Global's long-term approach versus some of your competitors. I'm specifically thinking about the ACTIVE deal and the move into enterprise vertical markets as opposed to maybe a horizontal omnichannel push, which I know you're pursuing in some parts of the world too. But just big picture, I wonder if you could do a little compare/contrast and how you think about Global's role in the consolidating industry?

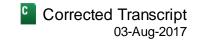
### Jeffrey Steven Sloan

Analyst, SunTrust Robinson Humphrey, Inc.

Chief Executive Officer & Director, Global Payments, Inc.

Sure, Andrew. That's a great question. So, what we tried to say in the prepared remarks is, actually we feel like we've laid out a fair amount of the roadmap in our October 2015 Investor Day. So, if you step back for a second

Q2 2017 Earnings Call



and you're asking where are we going, I think more broadly we think about our business as really two pieces: one is technology because we're a technology company; and the second is distinctive and defensible distribution where we continue to capture share gains. So, most of our partnerships and acquisitions falls in one of those categories, if not all, although the latter is a little bit more rare than the former.

When we think about ACTIVE for example, as we mentioned in our prepared remarks, this gets us to over 40% of the combined business being in the technology-enabled, high end of our distribution the way we described our distribution in our October 2015 Investor Day. We think our ability to build defensible distinctive distribution is enhanced when we own more elements of the value stack, as we do, not just and will with ACTIVE when it closes, but as we do in TouchNet, in the case of the university business, in the K-12 business in Xenial and Heartland Commerce in the case of their QSR business. So, what I like about where we are is that we continue to build on that theme of technology enablement and distinctive distribution where we're competing on the basis of other than price. So, on the basis of value-add, around the software stack and the quality of what we're distributing.

While we've done that, the other element of technology enablement, Andrew, is the e-com and omnichannel business and while we're very excited about ACTIVE, I don't want to lose the messaging we had in our prepared remarks that we've taken the e-com and omni business from \$250 million of net revenue back little bit less than two years ago in October 2015, up to \$400 million is our expectation this year, with a growth rate of 60% in less than two years. So, as we look at that business, I don't view either of these integrated and vertical markets business or e-com and omni as mutually exclusive, rather we're growing them both well into the double-digit rate.

If you look at some of our peers by way of comparison, I think you are right in what you said. They are much more horizontally focused. Some of the markets in which they're contemplating going into narrower markets that we've been into since the last decade. Those are attractive markets that we very much like the footprint, as we described in our results, Europe being a very good example and Asia as well. We very much like the footprint that we have in those markets today. We think in some of those markets, in particular that we're right-sized for this moment in time, and I think you can see that in our financial results that notwithstanding some of the currency impacts, notwithstanding issues around macro, as it relates to Brexit, we continue to deliver very good operating results in those European markets, and that's my perspective on how this stuff fits together.

### Andrew W. Jeffrey

Analyst, SunTrust Robinson Humphrey, Inc.

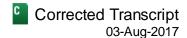
Okay. That's helpful. Thanks a lot. And could you just comment when you look at ACTIVE's business on, who you think the primary competitors are?

### Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Sure. It's really a bunch of fragmented smaller private companies. So one of the things that we really like, Andrew, about ACTIVE and businesses like it, is that we have the ability to partner with the leader in the market space. As we said in the slides that we attached to our website this morning, we think we only have with ACTIVE 5% to 7% of the addressable \$60 billion a year of volume market opportunity. The next [indiscernible] is far slower than that. So, we like businesses where we could adopt a strategy of partnering or buying the number one competitor and then everyone else is much smaller and we'll either choose to just continue to gain share on that business organically or look to partner further. So, we like businesses where we're one or two where everyone else is much smaller. So the answer to your question is, smaller privately owned companies in that segment.

Q2 2017 Earnings Call



Andrew W. Jeffrey  Analyst, SunTrust Robinson Humphrey, Inc.	Q	
Terrific. Thank you.		
Jeffrey Steven Sloan Chief Executive Officer & Director, Global Payments, Inc.	A	
Thanks a lot.		
Operator: Our next question comes from the line of Glenn Greene with Oppenheimer. Your line is open.		
Glenn Greene Analyst, Oppenheimer & Co., Inc.	Q	
Thank you. Good morning.		
Jeffrey Steven Sloan Chief Executive Officer & Director, Global Payments, Inc.	A	
Good morning, Glenn.		
Cameron M. Bready Senior Executive Vice President and Chief Financial Officer, Global Payments, Inc.	A	
Good morning.		
Glenn Greene Analyst, Oppenheimer & Co., Inc.	Q	

I guess on ACTIVE, a couple more questions, I don't know how familiar we are all with it. So, I was just wondering if you could help us with the business model, how do they drive that \$200 million of revenue, I saw on the slide presentation, \$3 billion of volume, I don't know how relevant that is, but maybe the drivers of the revenue growth and then also how did you sort of rationalize at a high level, the \$1.2 billion or \$1 billion sort of net valuation?

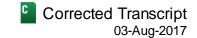
### David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

Yeah. Glenn, it's David. In terms of the business model, think of ACTIVE as the exclusive interface between consumers and the folks who manage events in the communities and the health and fitness industry, so let me drill into that just a little bit. In communities, that means we're the system of record and we're the engagement engine as well as the registration and payment engine for parks, kids camps, YMCAs, program registrations, all sorts of payments that all those types of institutions have to actually drive.

So being the system of record, we are enterprise class in the cloud, helping them drive engagement with the consumer, or say with a mother or father who's registering a kid for that camp or someone who is actually joining and becoming a member of the YMCA. And the payment is central to that transaction, right. The payment is actually the registration. So, think of this as software revenue that's expressed in terms of the fee we charge for the payment and the registration for the interaction with the consumer. We also have ancillarly services around demand generation and marketing. But really we are the system that drives camps and YMCAs in the community business.

Q2 2017 Earnings Call



In sports, think of the exact same interface with even larger deals, larger opportunities for demand generation, and other ways to monetize the payment. In this case, you're talking about anything from a local 5K, all the way up to a marathon or a triathlon. So, all the software in the cloud that drives those enterprises, all able to do that on a global basis. So, we already operate in 74 countries, maybe greater than 74, depending on the count. That \$60 billion of market opportunity we take in all those countries, the software operates in 30 languages. So, you can see already, it's ready for Global Payments, to scale it around the world, given our world-wide direct distribution.

On that theme, it's sold by a direct sales force. There is some telesales elements, there is a lot of direct sales elements. We think we can amplify that, but as Jeff described a little bit ago, we're into the direct distribution business. This is a directly distributed software product, out to the end user, who is the person who's managing or organizing a community event or a large event, all with our enterprise, again great software, SaaS based software, where the payment again is central to the action we like, as you can see from the slides, available where payments drag software and software drags payments. We know payments very well. We're in the business now, and another way of describing what Jeff described, of wrapping more and more value around that payment, owning more of the value stack, owning more of the value chain, having multiple ways to make money, but better still multiple ways to delight customers. So, all-in, at the end of the day, and I'll let Cameron talk about the actual numbers and the opportunity, it's a pure software business, it's critical to running the vertical we're serving, the vertical again being event management and communities in the health and fitness business, all running at enterprise scale with a direct distribution model, it's a perfect fit for our tech-enabled software-driven strategy.

### Cameron M. Bready

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

A

And Glenn, it's Cameron, I'll talk a little bit about valuation. You're right. The focus on the \$1 billion is obviously net of a tax asset, that's really what we're paying end of day for the business. As you think about it on an EBITDA multiple basis, we really view it as a sort of 12 times, 12.5 times multiple transaction on an NTM basis, which we think obviously is fair, but compares very well against other software-oriented deals with similar characteristics as a company like ACTIVE and view that multiple as attractive, frankly relative to where other assets in the market have traded. So, when we're acquiring a business, again that's a double-digit top-line grower with margins well above our corporate average with good growth potential and our ability to scale that business over time, acquiring that at a 12, 12.5 times EBITDA multiple on an NTM basis feels like a good value, I think good value for us, and frankly good value for Vista.

### Glenn Greene

Analyst, Oppenheimer & Co., Inc.

All right. That's all very helpful. Just one more for – back to the partnership with Vista, maybe for Jeff. I guess I'm just a little bit unclear on exactly how this works. My guess is, you're still going to have to go out and fight every day to win business within each of those 40 portfolio companies. Or does this give you some sort of leg up on the competition. I guess I'm just a little bit confused as to what the partnership brings you?

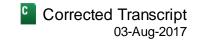
### Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

А

No, Glenn, we're still going to have to fight for that business every day as we do around the world with all of our customers globally. But what I would say is like every other proposal we make to new partners, the fact that we have a relationship with Vista, the fact that we know their strategy, the fact that we have equity ownership in common, and that we understand at the very highest levels, their philosophy and where they would like to take their companies and they understand our technologies in depth, I think does nothing but really help us at the end

Q2 2017 Earnings Call



of the day. I don't think that they're going to find many people who have the potential and the breadth that we have in our solutions and technologies. We're not going to find very many people who have the breadth and depth of ownership and understanding that they have. So, I think this is the – they started it. But no matter what we do, Glenn, whether it's a partnership with Vista or partnerships with other large Fls globally that we've done for many decades. We always generally think with the perspective that we have to earn our business every day. We don't really rely on contracts or anything else to kind of get us there.

David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

Α

Glenn, it's David. From a sales perspective, every sale is easier if it starts with a warm hand off, a warm introduction. We get a very warm introduction and all that and from there we expect to earn a fair amount of business over time.

Glenn Greene

Analyst, Oppenheimer & Co., Inc.

Fair enough. That's all very helpful. Thanks, guys.

David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

А

Thanks, Glenn.

Jeffrey Steven Sloan

А

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Glenn.

.....

**Operator**: Our next question comes from the line of George Mihalos with Cowen and Company. Your line is open.

George Mihalos

Analyst, Cowen and Company, LLC

Great. Good morning, guys, and good job on the quarter. Jeff, I just want to stay on this M&A theme a little bit longer. You've obviously had impressive growth on the e-com side that you've laid out. But as you think of the e-com market and the evolution there, and I guess what I'm getting to is sort of the growth of more facilitator models, growth of marketplaces and the like. Do you think your technology is up to par with competing against some of those entities, and quite frankly, do you foresee in the future the need to potentially acquire some of these facilitator assets in an online world?

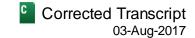
Jeffrey Steven Sloan

Δ

Chief Executive Officer & Director, Global Payments, Inc.

Yeah, George, it's a great question. What I'd say on the facilitator side is that we already have one of the largest payment facilitators in the world using our technology for a very long time. So, clearly, if it were not the case that our technology were competitive, that partner would not be a part of it. We're signing up new partners all the time worldwide using our existing technology. So certainly, I think what we have today is very market competitive. As we said in our prepared remarks, if you look at our investments in online as well as offline, which we call omnichannel, as I mentioned in our prepared remarks, I think we're relatively uniquely positioned based on what we know from the online providers who had a lot of trouble going into offline omnichannel acceptance, especially

Q2 2017 Earnings Call



cross-border, particularly as a licensing matter, as a servicing matter, especially worldwide, given their economic model.

So, I think the proof is in the pudding. The first thing I'd say is we have large facilitators using us for a long time. The second thing I'd say is we've been able to grow that business as much omnichannel as it is e-com really. I would say that the mode of competition is going to shift, George based on my view of the industry, that increasingly the world has moved from online-only into any payment, anywhere, anytime no matter how it comes in, which is why I think having a face-to-face element that couples with online acceptance is so critical.

So, if you look at what we've done with Realex since we partnered with that business just about three years ago now, bringing that company from just the UK and Ireland, which is where it was with us initially into Spain, into Canada, into the United States in partnership with Heartland and as I said in my prepared remarks, plans are to bring into Asia through an integration with our eWAY business in 2018, we obviously continue very much to invest in that business. And I think that's a good indicator, George, is where we think the mode of competition is going, the ability to have a unified worldwide platform not just in one country or a couple of countries but worldwide. And lastly I'd say, as we probably have said previously but not recently, we're a direct member in almost all the networks, and into the financial intermediation markets, pretty much everywhere in the world with the exception of a few markets we really can't be, Mainland China being one example and here in the United States, just given the histories of regulatory environment here, as you know, we're not a bank here in the United States.

So, I would say, you couple that George with the direct licensing that we have by way of footprint in all those markets that David described. So, we have the technology element, a distribution element and a licensing and operating element. I would tell you, there aren't a lot of people online or offline who have that cross-border in the way that we do.

Lastly, in terms of whether we would do more deals, as I said, the last number of quarters, it's relatively rare for Global Payments to go a year-and-a-half and not really announce anything of size. Obviously, there's a lot going on in the industry. Clearly, we think we have critical mass into e-com and omni businesses as we do in integrated and vertical markets. But obviously, as you know, we're opportunistic. We're very much driven by strategy, culture and returns to our shareholders from doing deals, I think ACTIVE is a very good example, other type of profiles, and the slides I think lay that out of what we're looking for. So, certainly we expect to do more over time, but it's from a position of strength, I don't think we need to do more to be competitive and lead the market with what we have

### Cameron M. Bready

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

On that point, Jeff, George, you asked a couple of specific technology questions in your question. I want to go back to that as a solutions [indiscernible] against that marketplaces, just to be clear we have the technologies to operating marketplaces now around the world. We have an omni strategy that Jeff described. We have all the capabilities Jeff described in the prepared remarks. But whether you're talking about marketplaces, shopping cart integration, software integrations, alternative payment methods, all of that solution exists within Global Payments, we're selling it today.

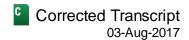
### George Mihalos

Analyst, Cowen and Company, LLC

That's pretty comprehensive. Thanks, guys. And just one quick one, Dave, the overview of ACTIVE, really appreciate that. In very simplistic terms, is ACTIVE doing in the event organizer space effectively what MINDBODY is doing in spas?



Q2 2017 Earnings Call



### David E. Mangum

President & Chief Operating Officer, Global Payments, Inc.

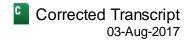
Д

Yeah. I think that's a perfectly reasonable analogy, right. This is the software that runs the business. Maybe I will relate it to the way we describe software within Global Payments, whether you are in out TouchNet university system or school solutions K-12, we like to be in the middle of helping our customers run their businesses. We want to create more value for them, and obviously have stickier and more valuable solutions for us to market overall and turn into the results you saw today. So, yes, it's absolutely fair to think about ACTIVE relative to MINDBODY, relative to TouchNet, school solutions and our Heartland Commerce business that Jeff described earlier.

earlier.	
George Mihalos Analyst, Cowen and Company, LLC Thank you, guys.	Q
David E. Mangum President & Chief Operating Officer, Global Payments, Inc. Thank you.	A
Operator: Our next question comes from the line of Dave Koning with E	Baird. Your line is open.
David J. Koning  Analyst, Robert W. Baird & Co., Inc.  Yeah. Hey, guys, thanks. Nice job.	Q
David E. Mangum President & Chief Operating Officer, Global Payments, Inc. Thanks, Dave.	A
Jeffrey Steven Sloan Chief Executive Officer & Director, Global Payments, Inc. Good morning, Dave.	A
David J. Koning  Analyst, Robert W. Baird & Co., Inc.  Yeah. Good morning. So, I guess on the acquisition maybe could you just mix where the different revenue streams land and then the tax asset, is that actually going to help your reported tax rate kind of as we go forward	hat couple hundred million of benefit, is
David E. Mangum President & Chief Operating Officer, Global Payments, Inc.	A

Yes, Dave, it's David. I'll start on the first part, and obviously turn it over to Cameron on the tax side. So, this business is almost entirely U.S. revenue. 90-some-odd percent without quoting the exact number. What's great about that obviously as you sit here with Global Payments is, it has as I said earlier, already makes some sales in 74 countries, obviously quite small, 30 languages, the platform is fully enabled for global use, and we can follow customers around the global large marathon or a large triathlon like provider we can follow around the globe. So,

Q2 2017 Earnings Call



obviously job one for us to think about growing this thing even faster, is how to take advantage of our direct sales presence in 30 countries around the world. Great fit, we have the scale, we can drive that as well. I'm going to talk about a couple of other things where we can add value that are very exciting as well.

Think about even within that U.S. business, we have a sales force that calls on thousands of customers a week around the country. There isn't any reason that can't turn into more leads passed over to ACTIVE for more communities, more lives, more clubs, more events, et cetera. We obviously talked about global. We also have existing vertical markets in charitable giving, K-12 and universities where they are a direct fit between activities, running camps and some of the smaller things you can see in our communities business.

And then finally, ACTIVE itself, I mentioned earlier there is an engagement element to ACTIVE helping with demand generation. They have world-class data analytics, data scientists, user interfaces, remember this is consumer-facing software, so there's even sort of reverse leverage across Global Payments as we think about applying that technology. But fundamentally, the most obvious thing staring us in the face is how do we more rapidly globalize this fantastic software. Cameron?

### Cameron M. Bready

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

Yeah. Just couple comments Dave on the revenue side. The majority of the revenue today does come out of the U.S. markets. Although they have obviously international scale and scope in their business, the majority of the revenue is coming out of the U.S. today. As it relates to the tax asset itself, it's effectively a cash tax benefit. We'll pay less cash taxes over the course of time by virtue of getting the basis step-up in the transaction, being able to amortize that through our tax rate, so that we get that cash tax benefit and effective tax rate benefit over time.

### David J. Koning

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

Okay. Great. And just one quick follow-up. North America will be all organic in the back half of 2017. Now that we'll just see that they are clear organic numbers, is it kind of high single digit revenue and close to mid-teens EBIT growth?

### Cameron M. Bready

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

### For North America?

David J. Koning

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

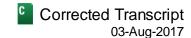
#### Yes.

### Cameron M. Bready

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

Yeah. Before ACTIVE, we're targeting again high single digit rates of organic revenue growth for that business, which will be Q3 and depending on obviously the timing of ACTIVE closing, maybe some part of Q4. That with margin expansion in the business gets you to double-digit EBIT growth for the North America business in the back half of the year. We expect, depending on the timing of closing of ACTIVE as we mentioned before, we're targeting Q4, we expect Q3 to be entirely clean. I would argue, Dave, Q2 was effectively clean as well. I mean we've said time and time again how much the contribution from Heartland was last year. If you add that back to

Q2 2017 Earnings Call



last year's numbers, if you look at our North America growth rate, it was sort of 10%-ish with currency headwinds almost 11% without. So, again, we're double-digit for North America for Q2, which I view as effectively clean.

David J. Koning

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

That's great. Thank you.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Dave.

Operator: Our next question comes from the line of Darrin Peller with Barclays. Your line is open.

Darrin Peller

Analyst, Barclays Capital, Inc.

Thanks, guys. Nice job. Just want to start off first, the growth rate of ACTIVE on the top-line, maybe I missed that, but if you can give us a little color around that? And then Europe obviously outperformed, well, it outperformed our expectations meaningfully, can you give us a little more color on what you're seeing there in terms of the card acceptance and more regulated environment and just how the trends should be there organically going forward given what we're seeing now is a pretty strong organic environment?

Cameron M. Bready

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

Yeah, Darrin, good morning. It's Cameron. As it relates to ACTIVE as I mentioned before, it's a double-digit grower on a top-line basis. So, very consistent with growth with what we would expect to see out of our integrated and vertical markets businesses in both of the channels of the business. So, we think it fits again very nicely with the growth profile we're trying to achieve as a company. Is it accretive – it is accretive, excuse me, to our rate of net revenue growth that we're driving in the business. So again, very consistent with what we would expect coming out of our integrated and vertical markets business.

As it relates to your second question, Jeff, do you want to cover that?

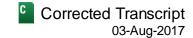
Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Yeah Darrin, it's Jeff. So, I would say that overall across Europe, the macroeconomic trend is actually very good. Of course you have places in a better position, France, and some a little bit lighter, but having just been there myself, I would say that the optimism in Europe is high, reasonably high than it has been since the financial crisis across Europe. Tourism is very good in our business, particularly in Spain, and in the UK, it is fairly sensitive to tourism over the December months, that you can see a little bit of that obviously in the June quarter, of course July and August tends to have similar tourism trends. But certainly what I did there, you've seen a lot of tourism coming in there and really a return to optimism mostly across Continental Europe, so when you spend time in Spain with Caixa or with Erste in Austria and Czech Republic.

Certainly our partners across Europe are fairly optimistic. I would say that we remain cautious, particularly in the UK market as it relates to Brexit. I think tourism is very strong there right now, given the movement of the pound that you've seen year-over-year. So I think that quite helps. I would say though that people as we get closer to the

Q2 2017 Earnings Call



first calendar quarter of 2018, looking ahead at the March 2019 Brexit date, certainly I think business leaders have become more concerned than they were in the last year, when I was over there about four to six weeks ago, there was an announcement every other day about a relocation of employment from the City of London into elements of Continental Europe, primarily Germany and France.

So, certainly I think as we get deeper into the Brexit and earlier into calendar 2018, we remain a bit cautious on the UK market for that reason. But I would say overall in Europe, if you step back, is fairly positive and I would say that it really is a distinctive uptick versus where it's been over the last couple of years.

Cameron M. Bready

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

And Darrin, maybe just a couple of specific comments reflecting back to our prepared remarks. Obviously, we saw a good double-digit growth in the UK that again echoing of off Jeff's comments was certainly better than our expectations.

We obviously can't say enough good things about Spain and the growth that we're seeing in that market, a market again where we already have 26%, 27%, 28% depending on the exact measure. Market share continued to grow well into the double-digits with very strong tourism this season, which is certainly benefiting results in that region as well.

And again, Jeff did mention it a moment ago, but our e-commerce and omnichannel solutions business continues to grow very nicely, and that's a nice tailwind for growth for the European business in aggregate as we continue to expand the Spain European strategy. And then, lastly, our Erste joint venture organically is growing quite nicely. Those are good fundamental markets with high rates of market growth; albeit relatively small, they are obviously tailwinds to growth for the European market.

Darrin Peller

Analyst, Barclays Capital, Inc.

All right. That's helpful. Just one quick follow-up. I mean, in the backdrop of a mix shift in your business to the fast growth channels and obviously with areas even that are developed markets like Europe that are still doing pretty well, going forward is there any reason in the second half why you wouldn't be able to organically do similar growth to the first half that we should just bear in mind in terms any unusual number of days or anything else, just because again your mix of the highest growth channels keeps going up, so obviously that should benefit you?

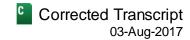
Cameron M. Bready

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

Yeah. I would say, in general, we have very positive momentum in the business, I think that's a very fair observation. As I said earlier in response to a previous question, we don't manage the business for double-digit top-line growth. Obviously, the business has the capability to produce that as it has the last couple of quarters, which is terrific. But we're not managing the business to drive that particular outcome, we're managing the business to high single-digit rates organic growth.

So, yes, obviously we have the capability to perform at that level, but as I said, day-in and day-out, we're not managing the business to try to achieve that particular outcome. So I think we have good momentum. Obviously, our businesses are executing extraordinarily well around the world, that doesn't mean everything's going perfectly well in every individual market that we operate in, but by and large the businesses is firing on all cylinders today.

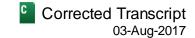
Q2 2017 Earnings Call



And I think that obviously positions us well to increase our guidance today, to raise our outlook for the year and feel confident in our ability to achieve that expectation for the full year. Darrin Peller Analyst, Barclays Capital, Inc. Okay. It makes sense, guys. Thanks. Jeffrey Steven Sloan Chief Executive Officer & Director, Global Payments, Inc. Thanks, Darrin. Operator: Thank you. Our next question comes from the line of David Togut with Evercore ISI. Your line is open. David Mark Togut Analyst, Evercore ISI Thanks. Good morning. Congrats on the strong results. Jeffrey Steven Sloan Chief Executive Officer & Director, Global Payments, Inc. Thanks. David Mark Togut Analyst, Evercore ISI Jeff, I'd like to ask about Europe. You've had a lot of success there. You're an early mover there both through acquisition and bank partnerships. I'm curious how you think about Europe over the next few years both in terms of potentially adding more bank partnerships like successful ones you have with Erste and la Caixa versus doing tactical or strategic deals? Jeffrey Steven Sloan Chief Executive Officer & Director, Global Payments, Inc. Yeah. David, I am pretty optimistic about our ability to continue to grow the European business both organically, but also through additional partnerships. I would say that while banks across the continent of Europe are certainly much healthier today than they have been financially in some time and that's mostly true although not universally true. Nonetheless, we still have a very full pipeline of dialogue going on about partnerships in those markets. So, our classic model David that you know very well of, finding good distribution partnerships in new markets and then layering our technology like e-com and omni into those markets still remains a very good source of additional opportunities for us. So, I'm fairly optimistic on that. I would tell you something you've asked a lot about which I think is very much related to your question is PSD2. So, PSD2 is rolling out across Europe in various forms in calendar 2018. I would tell you as PSD2 drives more traditional financial institutions to think about opening up

their access to their bank accounts and non-bank providers like Global Payments when it makes sense, think about opening up their systems into new APIs that are more open, which is really the mode of competition for us. Coming out of Realex, I think that's only going to stimulate more discussion from traditional financial institutions into partnering with people like us and those are getting effective throughout calendar 2018. I think the fact that they're complicated, because every member of the EU has to adopt its own form of PSD2, really plays to our

Q2 2017 Earnings Call



advantages given our footprint in those markets in the first place. So, we sat down with our bank partners, David and I in particular, in Spain, in Austria, and talked about, well, what this means for them.

I can tell you one of the things that they're most interested in is, what new technologies can you bring to me to enhance the rate of revenue growth I can't otherwise do myself, and I think that plays right into the traditional strength of Global Payments.

David Mark Togut

Analyst, Evercore ISI

Q

Yeah. I'm glad you brought that up, because is there an opportunity for you to actually generate significant revenue, helping the banks, as opposed to historically the merchants?

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Д

Yeah. I would say David, I view our relationships in all of our markets, but especially Europe, since the focal point of your question has really been our partnership. So, obviously our core is to focus on merchants, the vast, vast majority of the company as you know today, pre and particularly post ACTIVE is directed right at the merchant base. But of course we go to market with partners like Caixa and Erste and HSBC and CIBC and Bank of Philippines Islands in Asia et cetera. We go to market with a lot of our partners.

So, I don't think about it so much as is it any different than our merchant focus. I think about it as what's the most effective way to catalyze our continued market share gains in those markets and finding the best ways to distribute our technologies most efficiently. That's worked very well in Spain, very well across Continental Europe, and I think of course, we'll follow that playbook as we look at additional markets.

David Mark Togut

Analyst, Evercore ISI

Understood. Thank you very much.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Δ

Thanks, David.

Operator: And our last question comes from the line of Bryan Keane with Deutsche Bank. Your line is open.

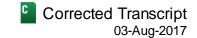
This is Cory on for Bryan. I was just curious, if you could maybe just go back to the quarter in terms of the margins, in particular in North America, very strong margins there. Can you maybe help us parse out sort of the drivers there in terms of synergies versus core operating leverage. And then on Asia-Pacific, those margins obviously came in very strong. But what are sort of the core drivers there and is that kind of sustainable going forward?

Cameron M. Bready

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

Δ

Q2 2017 Earnings Call



Yeah, Cory, it's Cameron. Thanks for the question. So for North America again, our direct distribution channels continue to be the tip of the spear for growth for us in the North American business. But our integrated and vertical market solutions business, as well as our Heartland direct sales channels grew double-digit this quarter. We're seeing a very good growth obviously across not only OpenEdge, but campus solutions, school solutions in particular as well as Heartland Commerce continues to perform exceptionally well. We've been delighted I think with the execution of the strategy, the product rollout, and how that business has been able to help accelerate growth in our integrated and vertical markets business over the last six months in particular.

On the Heartland sales channel side, again, we continue to see very high levels of new merchant adds. We've seen very stable trends for the first six months of the year, as it relates to same-store sales growth. It's been very consistent. It's not 3%, 4% that it might have been a couple years ago. But it's certainly kind of 1.5%, 2% in that range. And perhaps more importantly in that channel, we continue to see attrition rates that are trending at the levels they were or had been for the last six months, I should say. So, near record low levels of attrition in that business continue kind of going forward.

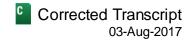
The other thing I'd say about North America in particular, we're delivering all that without any really incremental pricing edge to the Heartland portfolio. So, the results that we've achieved for the first six months of the year are really without any pricing for the Heartland portfolio. And frankly, our perspective is, we're growing double-digits in our direct distribution channels without having to do anything from a pricing standpoint. So, it's not perhaps realistic to expect. We're going to put more fuel on the fire on top of what we view is very attractive growth already by looking to do so.

Our Canadian business had a terrific quarter again, mid single-digit growth in local currency, certainly above our expectations. Economic growth in Canada has actually been a little bit better. I think they printed 2.7% in Q1, something along those lines, and I'm expecting something similar in Q2, when they ultimately release those numbers. So, the economic backdrop in Canada has been a little bit better. I think on the margin as well we're benefiting from some of the actions we've taken strategically over the course of time to bring OpenEdge to that market, to introduce Realex to that market. Again, these aren't huge, but on the margin, they're certainly helpful and obviously give us confidence in our ability to continue to drive our targeted growth in Canada over a sustainable period of time.

And then, lastly, our wholesale business in the North American segment was relatively flat for the quarter. As it relates to Asia in particular, again, we saw a very good strength this quarter coming out of Ezidebit not surprisingly. We continue to highlight that, that is a significant driver of growth in our Asia-Pacific region, again, producing over 20% organic growth in local currency for the quarter, three years after or nearly three years after, I should say, closing that transaction, we continue to grow at 20%-plus, which is above the rate of growth that we bought when we made that transaction, so we are delighted with the performance there.

In our more traditional Asian markets, those also grew double-digits, in aggregate we saw particular strength in the Hong Kong market, in Malaysia, Singapore and China as well. So, again good operating performance in Asia. I would particularly highlight in addition to the net revenue growth in that market, the margin expansion in that market was terrific, again, driven by Ezidebit growing top-line at 20% which comes at a higher margin the rest of our Asian markets does. But also obviously I think it reflects the investments we've made over the course of the last several years in Asia to improve scale, and I think we continue to execute well in that region.

Q2 2017 Earnings Call



Thanks very much. Appreciate the color. And I know we're running out of time here, so just a quick follow-up. I appreciate the color on sort of the revenue guidance by segment. Any kind of change to the margin guidance by segment going forward?

Cameron M. Bready

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

Cory, we can't hear you at all. I apologize.

Q

No, the question was really just, you guys gave good color on the segment revenue growth, but just curious going forward in the second half. Any change to the margin guidance by segment?

Cameron M. Bready

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

A

So, I would go back to my earlier comments. We've increased our margin expectations for the full year by 10 basis points. So, we now expect margins to expand by up to 120 basis points for the full year. I'll remind you in the first half of the year, we've expanded by 110 basis points, so that influenced obviously some increase in the second half of the year to get the full year average up to approaching 120 basis points. So, again I think margin expansion for the balance of the year I would expect to be reasonably consistent with what we produced in the first half of the year, obviously driving towards that overall expectation we've said.

Thanks, guys.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Α

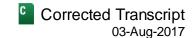
Thank you very much.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

On behalf of Global Payments, thank you all for joining us this morning.

**Operator**: Ladies and gentlemen, this does conclude the program. You may now disconnect. Everyone have a great day.



#### Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, Factset Calistreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2017 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.