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Global Payments, Inc. (GPN)

Q1 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to Global Payments 2018 First 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, Director, Investor Relations, Heather Ross. Please go ahead.

Heather Ross

Director-Investor Relations, Global Payments, Inc.

Good morning, and welcome to Global Payments first quarter 2018 conference call. Before we begin, I'd like to remind you that some of the comments made by management during today's conference call contain forward-looking statements, which are subject to risks and uncertainties discussed in our SEC filings, including our most recent 10-K and any subsequent filings. These risks and uncertainties could cause actual results to differ materially. We caution you not to place undue reliance on these statements. Forward-looking statements during this call speak only as of the date of this call and we undertake no obligation to update them.

Some of the comments made on this call refer to non-GAAP measures, such as adjusted net revenue, adjusted net revenue plus network fees, adjusted operating margin and adjusted earnings per share, which we believe are more reflective of our ongoing performance. For a full reconciliation of these and other non-GAAP financial measures to the most comparable GAAP measure in accordance with SEC regulations, please see our press release furnished as an exhibit to our Form 8-K filed this morning and our trended financial highlights, both of which are available in the Investor Relations area of our website at www.globalpaymentsinc.com.

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, Heather, and thanks, everyone, for joining us this morning. Building on our momentum from 2017, the first quarter of 2018 was one of the strongest quarters we have ever produced. We accelerated growth across our markets, delivering double-digit organic growth in each region, 140 basis points of margin expansion, and adjusted earnings per share growth of 33%. 2018 is off to a fantastic start. These results compare favorably not only to our legacy direct peers, but also to the card networks, ecommerce providers, and other high-tech software and SaaS companies. We are immensely grateful to our customers, partners, and employees for helping us produce market-leading growth.

As we discussed at our Investor Conference in March, we are winning every day in the marketplace with the uniqueness of our model, and our evolving business mix toward technology enablement again fueled our results. Our integrated and vertical markets and ecom and omni solutions businesses continued to grow at double-digit rates in the first quarter, highlighting ongoing consistent execution.

Our technology-enabled businesses are distinct because of their distribution diversity, both by vertical market and geography, as well as through our ownership of software assets and partnership with leading software providers.

In selected vertical markets, we control the full technology value stack, the entire means of production, creating deeper, richer and more value-added relationships with our customers.

We also offer a broad range of card-not-present solutions with concurrent face-to-face products in many of the most important markets worldwide with local sales, operational and technical support. As a result, we are more diverse than our peers. The results of this past quarter and really of the past five years reflect ongoing sustained share gains across our markets from these investments. No peer has a business at this scale globally with this mix of distribution and technology.

We are also pleased to announce that we have reached an agreement with Aspira, a Vista Equity Partners portfolio company to be its new payments technology partner. This is the third Vista portfolio company to select Global Payments as its partner in as many quarters. As we discussed in our February call, we continue to invest in leading-edge technologies to accelerate growth of product distribution and to provide seamless connectivity to our customers and partners in an increasingly complex world.

We are gratified that we have been able to deliver market-leading growth, while making significant investments across our infrastructure to provide for further scale in the future. We were also investing in partnerships to provide further growth by utilizing leading cloud platform-as-a-service providers to enrich our solutions with machine learning and artificial intelligence capabilities. We are making substantial progress on our vision of cloud-based SaaS distribution of our technologies globally, providing further competitive differentiation of our businesses.

At the same time, we are further investing in our people, while giving back to the communities in which we live and work. To that end, I am very excited that Global Payments will host our fourth biannual Worldwide Day of Service on May 9. On that day, our 10,000 employees will serve others in need worldwide and raise awareness and funds for deserving organizations. These efforts provide an opportunity to build new partnerships with needworthy organizations and causes, and reinforces our common culture and teamwork around the globe.

We live at the intersection of technology and payments. Our outstanding first quarter results reflect the wisdom of our strategy to grow our tech-enabled businesses with software focus and sales leadership. We are doing exactly what we said we would do in October of 2015 and March of 2018.

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

Cameron M. Bready

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

Thanks, Jeff, and good morning, everyone. As the results indicate, 2018 is indeed off to a terrific start. Our first quarter performance was exceptional, exceeding our expectations across our markets. And we achieved these results, while also continuing to meaningfully invest in our businesses, technologies, people and communities. Consolidated adjusted net revenue plus network fees for the first quarter was $924 million, a 17% increase over 2017. Adjusted earnings per share was $1.13, reflecting growth of 33% and adjusted operating margin expanded 140 basis points to 30.4%.

North American adjusted net revenue plus network fees was $677 million, reflecting growth of 17%. In the U.S., our direct distribution business delivered low double-digit normalized organic growth, accelerating sequentially from the previous quarter, while we saw a high single-digit decline in our wholesale business, consistent with our expectations. Adjusted operating margin in North America expanded 190 basis points to 31.6%. Margin expansion was driven by strong organic growth across our U.S. direct channels, in particular, our higher-margin technology-enabled businesses.

We again saw strong performance in Europe in the first quarter with adjusted net revenues plus network fees growing 22% or high-single digits on a constant currency basis. Local currency growth was driven by our business in Spain, reflecting ongoing strength in execution in share gains. Likewise, our ecommerce and omnichannel solutions business again grew double digits, as we continue to win in the market with our differentiated offerings. European adjusted operating margins were 45.5% for the quarter, roughly flat as compared against 2017.

Our Asia-Pacific business accelerated this quarter, reporting adjusted net revenue plus network fees growth of 15%. We saw solid trends across our key markets in Asia, including Hong Kong, Singapore, and the Philippines. Our technology-enabled businesses in Australia, once again, contributed meaningfully to growth in the region, collectively generating approximately 20% organic growth in the quarter. Adjusted operating margins in Asia expanded 240 basis points as a result of strong adjusted net revenue plus network fees performance, which served to further improve our scale across the region.

Excluding acquisition and integration costs, we generated free cash flow of approximately $177 million this quarter. We define free cash flows as net operating cash flows, excluding the impact of settlement assets and obligations, less capital expenditures and distributions to noncontrolling interests. Capital expenditures totaled $44 million for the quarter. In addition, since the beginning of the year, we have reduced outstanding debt by nearly $400 million and our leverage as of the end of the quarter was approximately 3.4 times.

During the first quarter, we also completed a refinancing of our term loan B, which reduced the interest rate spread on the facility by 25 basis points. The refinancing will generate interest savings of approximately $2.8 million annually, which will help to offset some of the impact of rising underlying rates in 2018.

As a result of our strong performance in the first quarter, we are raising our outlook for 2018. We now expect adjusted net revenue plus network fees to range from $3.9 billion to $3.975 billion, reflecting growth of 13% to 15% over 2017. Adjusted operating margin is now expected to expand by up to 120 basis points.

Lastly, we now expect adjusted earnings per share to range from $5 to $5.20, reflecting growth of 25% to 30% over 2017.

We're extremely pleased with our first quarter results, which sets the stage for another year of strong operational and financial performance. Our unique strategy and relentless focus on execution positions us well for continued superior growth and value creation going forward.

I will now turn the call back over to Jeff.

Jeffrey Steven Sloan

Chief Executive Officer & Director, Global Payments, Inc.

Thanks, Cameron. At our recent Investor Conference in Atlanta, we explained how our software-driven payments, both owned and partnered, global omnichannel capabilities, and exposure to faster growth markets create a differentiated model for Global Payments.

The first quarter of 2018 and our expectations to the next decade highlight the ongoing successes of our strategies and our vision for the future.

I'll now turn the call back to Heather.

Heather Ross
Director-Investor Relations, Global Payments, Inc.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Thank you. And our first question will come from Andrew Jeffrey with SunTrust. Your line is open.

Andrew Jeffrey
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Hi. Good morning, guys.

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

A

Morning, Andrew.

Andrew Jeffrey
Analyst, SunTrust Robinson Humphrey, Inc.

Q

I wonder, as you think about the long-term growth strategy for the business, are there any thoughts about building a common app ecosystem? You've seen a couple of your competitors at least in the U.S. stand up alongside their vertically integrated solutions, that kind of SMB ERP offering, and I realize you have it in specific verticals. Is there any thought about maybe pulling that all together to more deeply embed yourself with your customers?

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

A

Yeah, Andrew. It's Jeff. Thanks for the question. I'll start and I'll ask David to comment as well.

So the answer is absolutely. If you think about how we go to market, for example, with our omnichannel solutions and our ecom solutions, a lot of that is driven, as you would expect today, by way of API. Those APIs are obviously exposed to our developer partners in our markets, and they do whatever coding that they would ultimately like. So we allow them to code into us, but we release those APIs in the form of software development kits that they can utilize. That's kind of one point.

Second, we obviously have our own software markets as we do in the case of Xenial, where clearly we've developed our own ecosystem, both completely owned as well as integrated with other software-related partners where that's appropriate.

So I would say the answer is yes in the sense that both the technology investments we've made, how we go to market today, PSD2 which, is coming, of course, this year, all encourages us to be an API-centric, SDK-centric source for our partners and software developers.

Now, if you back up for a second, though, what I would say, going back to another thrust of your question is, are we going to be consumer-centric in the way, for example, the Apple Store is, where you can go to Apple? The answer is our customer is really the merchant. Our customer is really not the consumer.

So if you think about how we go to market in our integrated and vertical markets businesses, we either own the software outright as you know, or we partner with people at the enterprise level.

As we talked about in our Investor Day, where we're different from a model, for example, like Square is that we get the benefit of deep integrations and rich integrations with our partners, which results in high retention. But we also get the benefit of catalyzed sales in the sense that our partner is selling and referring to us, and we're selling on top of that.

That is something that if you went back to Square's model or go to the Apple Store analogy, you really don't get because there isn't a lot of sales, you're just downloading it from the App Store. So I think the answer to the thrust of your question is yes. There obviously are differences in how we go to market that we laid out in March.

David, do you want to add any...

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

A

Yeah, I'll add a little bit of color, Andrew. It's not as sexy, but we've been investing in what you might think of as abstraction or what would back in the day have been called middleware layers throughout the infrastructure to make it easier to plug into our infrastructure at any level, whether you're a customer, a partner, or another software provider.

So we're building what I would call mini ecosystems throughout the multiple layers, whether you're talking about the gateway level, the authorization level, the communication level, the service bus that allows and exposes all of our information to analytic partners. But I think I'd go back to what Jeff said as well. We are building the app-based infrastructures vertical by vertical as well, rather than maybe just a pure sort of generic app infrastructure.

For example, if you want to go look at our Xenial software, you can download that from an App Store and in 90 seconds you're up and running your restaurant. Now if you want to plug into that some additional functionality, feel free to do that with an app as well.

But we really believe, I think what Jeff said a moment ago, that the deep integration is incredibly powerful. So if you go to our OpenEdge business where one might think you really would have this App Store type functionality available, remember a lot of our competitive advantage there is that the payment app is in the point-of-sale system, it's fully omnichannel.

We have the dedicated support and the dedicated integration, making it all work seamlessly for the customer. We don't have a lot of partners asking us to just toss out their many apps and make them available and expose them to customers. They prefer the integration.

So we'll take that same deep integration approach whether we own the vertical or partner the vertical. Having said all that, the answer to your question fundamentally, as Jeff said, is yes, we're doing just that.

Andrew Jeffrey
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. That's very helpful. I appreciate the detail. And as a quick follow-up, when you look at expanding your ecom business globally, how do you think about acquisitions like – recent acquisition of Weebly by Square?

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

Hey, I lost you at the end there, Andrew, but I think you're asking about expanding ecommerce globally and acquisitions and the like.

So as you know, our model is to grow organically as well as through inorganic growth. We're very pleased with the acquisitions that we've done. We actually have a very full pipeline. We generally look at a number of criteria in how we do deals. First is the strategic fit, second is the cultural fit, and lastly is the financial returns that we can generate to our shareholders from doing transactional work. We look at ecommerce and omni acquisitions and partnerships all the time.

And the most recent one that was done without commenting on that specifically really would not have brought any added functionality to kind of what we have. For example, we have already got web store development in our core systems and have had for some time. We're already omnichannel in many markets around the globe. I think in March, we talked about 30 countries physically and doing business in a lot more than that by way of a cross border.

So, going back to where we started as a strategic matter, it really needs to advance our strategy of additional functionality we don't already have and/or additional markets that we're not already in. And that certainly strategically is very important to us. But we're out there all the time. As Cameron mentioned in his prepared remarks, our balance sheet is in a very good position. We did exactly what we said we would do around our capital structure, going back a number of years, so we're certainly on the lookout for more ways to accelerate growth.

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

Hey, Andrew, it's Cameron. The only thing I'll add to that comment and I think I made some of these remarks at our Investor Conference back in March is, as we think about ecom globally, we believe we have market-leading, at a minimum market-competitive capabilities from an ecom point of view with what you would view as best of breed. So, as we think about M&A, it's not through the lens of we need some enhancement to our existing capabilities because we have what we believe we need to be very competitive in the marketplace today. So, it's really a function of expanding geographies, expanding scale, and enhancing scale in that ecom business as opposed to buying capability, buying functionality that for some reason we don't have today.

Andrew Jeffrey
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Awesome. Thanks.

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

Thanks, Andrew.

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

Thanks, Andrew.

Operator: Thank you. Our next question comes from Dave Koning with Baird. Your line is open.

David J. Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah, hey, guys. Thanks. Good job.

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

A

Thanks, Dave.

David J. Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah, my first question, it was pretty impressive, the incremental margin in North America was the strongest in quite some time. And you touched on the mix shift towards a higher value. I'm wondering, is there any way to kind of think about like you have that benefit and how much left are you still getting from the Heartland synergies? It feels like we're probably past the heaviest part of that, so it's actually like core, very strong, like high incremental margin stuff driving that right now. Maybe just talk a little bit about the mix of those two drivers.

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

A

Yeah, so, Dave, it's a good question and thanks for asking it. There are really three drivers as I think about it impacting margins in North America in the first quarter. The first is what you just described. The mix shift benefits we see in the business by virtue of the growth we're getting in our integrated and vertical markets channels, how that's driving obviously top line, but at a higher margin than our traditional sort of merchant acquiring businesses themselves.

That mix shift is clearly benefiting margins. That's a big part of what drives, as I think about it, the organic margin expansion that we guide to as a cycle matter, the up to 75 basis points annually. As we talked about before, if North America is not growing at or above that level, the total company is not going to get there. So, clearly that's an important driver.

The second is there are incremental synergies obviously as we continued to execute in 2017 against our synergy plans. As we get into 2018, we're getting the full annual benefit of that. So, there was a little bit of tailwind to margins clearly in the first quarter in North America as it relates to synergy execution and the annualization of synergies realized in 2017. And then lastly, there is a little bit of benefit associated with ASC 606. I talked about this in the February call. That is offset by investments that we're making back into the business as we talked about really as a function of tax reform and the benefits we're seeing from tax reform.

Obviously, the tax reform benefit is below the line. The investments we're making are above the line. So, that's offsetting some of the ASC 606 benefit. But those investments, as we mentioned in our prepared remarks, are obviously towards continuing to invest in our technology environment, continuing to invest in our people, our communities, our facilities, et cetera. So, those are offsetting some of the 606 benefits in the quarter as well. So, if you roll all that together, obviously, we're very pleased with the overall margin expansion for North America, 190 basis points. Obviously, positions us well relative to our overall objectives for margin expansion for the full year and obviously part of what gives us the confidence to raise that guidance on our call today from the up to 110 that we previously guided to, to up to 120 for the total company.

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

Yeah, Dave, it's Jeff. I would just add to what Cameron said that at the end of the day as we said in March, the further we get into technology enablement in software, those are inherently higher-margin businesses. So, yes, the growth is better. That's obviously going to drive the mix on the revenue side that you're alluding to, but those are inherently more scalable, better operating margin type businesses and you should continue to see those benefits the way Cameron outlined.

David J. Koning
Analyst, Robert W. Baird & Co., Inc.
Q

Great. Thank you. And just one quick follow-up just on UK, how is the UK market looking? And is that something – do you start hitting easier comps or growth gets better later this year as that market maybe just gets a little easier?

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

Yeah, Dave. It's Cameron. I'll maybe jump in there and I'll ask Jeff to comment as well. I don't know that I would agree with the thesis that there is easier comps as we get further into the year. I actually think it's the converse of that. You saw GDP in the UK was zero for the first quarter. Obviously, that's not a great macro backdrop for the business. Our business performed very well in the quarter, notwithstanding the overall GDP environment. But we've been saying now for a couple years, obviously, we're cautious around the impacts of Brexit. I don't know if Q1 sort of reflects some of the concerns that I think we've had as it relates to what will happen as the UK works to extract itself from the EU further and it becomes more of a reality.

But certainly, I think the macro backdrop in the UK we continue to be very cautious about as we go into the back half of the year. Very pleased with our ability to grow through that as we did in the back part of 2017 and now again in Q1 of 2018. And I would note in a particularly tough comp given that we saw Visa and MasterCard rate increases going last year, so we grew over those as well as we got into Q1 of 2018. But I think as we look at the back part of the year, we remain cautious around sort of the macro environment in the UK. I think we're confident in our ability to continue to gain share and grow that business at our high single-digit target as we have. But again, I would note that again the overall GDP environment remains a little bit of a concern.

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

I think Cameron hit the nail on the head there, Dave. The share gains continue in – across our markets, but in particular for the point of your question, the United Kingdom, certainly to deliver the results we just delivered, as Cameron described, across Europe in the United Kingdom against the backdrop of GDP being flat would do nothing other than to suggest that we continue to take share which I believe to be the case. That's part of the positioning of our business in the United Kingdom.

The small to mid-sized business coupled with technology, particularly ecom and omni which is where a lot of it is, as well as integrated and vertical markets. That strategy around the rest of world is really bearing fruit, notwithstanding what Cameron said correctly about the macro environment in the United Kingdom. So, I think the story there, Dave, is ongoing share gains and you probably have seen that, Cameron, for the last six or eight quarters...

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

A

Yeah.

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

A

...in the United Kingdom. That's really more the story there, Dave, than anything else.

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

A

Yeah. The only other point I would add to that is as you look at Europe holistically, the diversity of markets that we have in Europe is a nice distinctive attribute of our business. We have exposure to faster growth markets. Obviously, our business in Spain continues to grow very, very nicely. We're very pleased with our results in Central Europe through our partnership with Erste Bank in the Czech Republic, Romania and Slovakia. Those businesses are growing very nicely. So, notwithstanding the UK, obviously the GDP environment is what it is. I think we feel good about the rest of Europe, and the mix of businesses and diversity of businesses we have in that market gives us confidence around our overall European outlook for the balance of the year.

David J. Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thanks, guys. Good job.

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

A

Thanks, Dave.

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

A

Thanks, Dave.

Operator: Thank you. Our next question comes from Ashwin Shirvaikar with Citi. Your line is open.

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

A

Ashwin, are you on mute? Operator, maybe we should move.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Can you hear me?

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

A

Oh, Ashwin, are you there?

Ashwin Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Yeah. Yeah, can you hear me?

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

A

Yes, we can now.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Oh, sorry about that. I was just saying good results and congratulations.

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

A

Thank you.

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

A

Thank you.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Let me start with a clarification on North America growth since that's always a topic of interest. But normalized double digit, that strips out ISOs which you said shrinking upper single and just to check about, what, $45 million, $50 million of ACTIVE and $17 million accounting, is that the right way to think of it?

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

A

Yeah, Ashwin, I think you're on the right point. So, the ASC 606 impact in Q1 was about $17 million, roughly the same as what it was last year. If you think about ACTIVE, ACTIVE contributed about $47 million in the quarter; so in that range that we had provided kind of the mid to high $40 million level. So, again, growing normalized organic growth for ACTIVE being in that low double-digit range year-over-year.

So, our direct businesses grew kind of low-double digit organically on a normalized basis year-over-year. Wholesale was down, as I mentioned before, high-single digit, again in line with the expectations we had and provided back in February for that business for 2018. Canada grew as we expected it to in local currency and we had a little bit of Canadian dollar tailwind that drove Canadian performance on a USD basis in the mid to high single-digit range.

You roll that all together, and obviously North America had a good quarter overall. Normalized organic growth in total for North America, we have at that 9% range for Q1 of 2018, obviously with a worse sort of wholesale result relative to what we saw in Q4 2017. So, we accelerated off of Q4 2017, notwithstanding wholesale being more of a drag than it was in the last quarter.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Okay. And Aspira, that's another Vista portfolio company that you picked up, as you said, looked quickly, reservations management for campgrounds, seems like a fairly attractive niche market. Can you comment on sort of the process that you're going through as you kind of sign up more and more of these? And also, perhaps, on the performance to date of what you've picked up from Vista in terms of acceptance ramps and so on and so forth.

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

A

So, Ashwin, this is David. I think we're really happy with the Vista relationship. It's been everything we hoped it would be. We're happy with the ACTIVE asset, as Cameron said earlier in his prepared remarks. ACTIVE is off to a very good start, doing just fine as we go through March and beyond that. More deeply with Vista, as we've said before, I mean there's nothing better for a salesperson than a warm lead and a warm relationship on which to work.

So, what you've seen with Cameron, with the guys in the business as well are ongoing negotiations unit by unit to find the right partnership opportunity, in this case with Aspira it's payments to help them with the campgrounds and some other cases with DealerSocket with Gather. It's our classic integrated payments where we're going to integrate with the software themselves that runs those – the car dealers in the DealerSocket example, you recall, from two weeks ago. So, we've got a very integrated sales process and kind of deal process with Vista where we're leading it one by one, deal by deal. Then we integrate, then we drive volume.

I think what's pretty exciting about where we are now is they're not contributing volume right now. These are all setups for future growth and enhancing future growth and some level locking in future growth for either our integrated payments business or our pure payments businesses, depending on what's the right solution for the software technology that Vista portfolio company has. So, as I said before and in previous calls – and we like nothing better than having a warm lead and a great intro, begin to figure out the right solution, the right technology solution for a partner, and that's going frankly just great for us.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Great. That's great to hear. Thank you.

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

A

Thanks, Ashwin.

Operator: Thank you. And our next question comes from Paul Condra. Your line is now open.

Paul Condra
Analyst, Credit Suisse Securities (USA) LLC

Q

Oh, hey, guys. Thanks. Good morning. Thanks for taking the question. I guess I just wanted to return to a little bit of the integrated POS and some of the discussion there. And I feel like there's maybe some data assets there that become available to you. And I wonder if you could talk about that opportunity a little bit.

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

A

Yeah, sure, happy to. So, this is David, Paul. I think you're absolutely right. The deeper you go into the technology stack, the more data is available to you. So, what you actually will find over the course of 2018, we're rolling out deep analytics products that already exist in the United States, wherein, for example, and if you go back a few months ago, you'll find an announcement about our Xenial analytics products that go deeply into restaurant daily sales, daypart sales, customer integration rewards programs, mobile wallet, all the things that come together to drive customer engagement, all based on the data we and the customer collectively capture at the point of sale and beyond.

That same set of solutions is rolling out to Canada and the UK over the course of 2018. And with each of these – the beauty of, I guess, our vertically tailored strategy is with each of these verticals, we have the same opportunity. We sell information and analytic products in our K through 12 business, in our higher ed business. Each software business is the opportunity for payments, for integration, for advice, for consulting, for analytics, and then, fundamentally, for the software that helps our customers run their business.

So you're on exactly the right point. Our strategy, as you'll recall from the Analyst Day, accelerate sales, enrich our solutions, and put analytics on top of those enriched solutions. You've captured it exactly right in your question.

Paul Condra
Analyst, Credit Suisse Securities (USA) LLC

Q

I guess in addition to analytics, I mean, you have big vertical penetration and you've got SKU-level data. And I'm curious if there's other opportunities kind of maybe more on the marketing side, like from an aggregated data perspective.

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

A

Yeah, I think that's a great point, so I'd go back to what I said about customer engagement. We have the ability to go to our customers and say, let's pull your data, let's pull our data. And if you have third-party sources, we can patch – package that into one marketing module that we sell that drives campaign management, targeting and then measures the results of that campaign. So when I talk about engagement, you and I are on exactly the right theme, Paul, which is the same theme, which is how do we help our customers grow the overall pie.

We've got a great restaurant sitting over in this location, a great retailer over here. How do we help them compete with larger competitors, target folks, drive offers, drive traffic, drive a very visible return on the investment of the marketing service we offer? All that comes from that vertical specialization married to what could be this treasure trove of data we're sitting on. When Jeff and I were describing open APIs and architecture earlier in an answer to Andrew's question, that whole strategy enables our ability to go-to-market and offer marketing and analytic solutions to the same customers who are actually just doing payments fundamentally with Global Payments.

Paul Condra
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thanks. And I guess just lastly, Cameron, any lumpiness on 606 impact this year that we should be aware of, just in terms from a modeling perspective?

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

A

No. It's going to be relatively consistent at around that $17 million-ish, $17.5 million a quarter, Paul. It should be right in that range.

Paul Condra
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you.

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

A

Thanks, Paul.

Operator: Thank you. Our next question comes from Glenn Greene with Oppenheimer. Your line is now open.

Glenn Greene
Analyst, Oppenheimer & Co., Inc.

Q

Thank you. Good morning. Nice results.

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

A

Thanks, Glenn.

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

A

Thanks, Glenn.

Glenn Greene
Analyst, Oppenheimer & Co., Inc.

Q

I just wanted to go back to North America a little bit. I mean it was nice to see the – it looks like an acceleration in growth, the organic a 9%, despite wholesale, I think, getting somewhat worse.

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

A

Correct.

Glenn Greene
Analyst, Oppenheimer & Co., Inc.

Q

So could you maybe just talk a little bit more about what accelerated, what exceeded your expectations? Maybe talk about across the channels, I'm thinking OpenEdge direct specifically, probably both accelerated, but just some color on what you saw there.

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

A

Yeah, I think if you compare it sequentially relative to Q4, Glenn, I think you're on the right point. So our integrated and vertical markets business accelerated relative to what we did in Q4 of 2017. Our direct relationship led, our Heartland sales channel accelerated relative to what we did in Q4 of 2017. Those are really the drivers of the acceleration relative to what we saw obviously last quarter.

Canada was pretty consistent, again low single-digit growth in local currency with a little bit of Canadian dollar tailwind. That added less than 50 basis points to North America in totality.

And obviously as you highlighted in your opening comments, ISO was a little bit worse, down high-single digit as we expected it to be in the first quarter, so trending in line with the overall expectation we provided back in February for that business for the full year. So again, pleased with the overall acceleration.

The way I look at it honestly, Glenn, is if you strip out wholesale, we grew North America 10%. That's very much in line obviously with the cycle guidance we provided in March and the outlook for the business going forward, which, we think ex-wholesale, obviously we can grow North America in that high-single digit to low-double digit range. So very much in that range, we're very pleased with that result and, obviously, we're driving the business to produce that type of performance as we go forward in time.

Glenn Greene
Analyst, Oppenheimer & Co., Inc.

Q

All right. And maybe for Jeff, maybe just a little bit of an update on the M&A activity. I guess it's been a while actually since the ACTIVE deal. You talked about it a lot at the Analyst Day. I guess I'm surprised we haven't seen something. And is it just valuations out in the market? Or it just takes some time to get some deals over the goal line?

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

A

Yeah, I would say our pipeline's pretty full, Glenn. And we announced – we closed on ACTIVE in September. We did announce the JV with HSBC in Mexico, a new market for us, in February.

So our folks are hard at work. I wouldn't say it's so much valuations. If you go back to what I said, I think it was in response to Andrew's question, we look at strategic fit, cultural fit, and financial returns. Valuations kind of are what they are. So certainly, it's something to consider.

I would say it's more like we look at deals all the time and probably, as David and I said six or seven years ago, we may look at 100 deals and do 3.

So at the end of the day, I think our standards are pretty high. We know where the market is in terms of valuation, so to a certain extent that kind of is what it is. We're a strategic buyer, not a financial buyer, so we're really relying on what we can do pro forma rather than where the capital markets will kind of bear.

So certainly, it's one of the three constraints, but I don't view that as by itself kind of the limiting factor. Instead, what I view it as is what is the strategic fit, what's the cultural fit, and to be honest, what's the diligence telling us.

So we look at deals all the time; that pipeline remains full. Certainly, we view $1.2 billion in ACTIVE in September and then the JV with HSBC in Mexico in February as being healthy in terms of our portfolio execution. More to come as we've talked about. So we're optimistic about M&A, but obviously time will tell.

Glenn Greene
Analyst, Oppenheimer & Co., Inc.

Q

All right. Thank you very much.

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

A

Thanks, Glenn.

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

A

Thanks, Glenn.

Operator: Thank you. Our next question comes from Bryan Keane with Deutsche Bank. Your line is open.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.

Q

Hi, guys. Would love to hear a little bit more about the ecom business, how it performed. Some of the metrics we heard throughout the quarter was 20-plus-percent growth rate. And then I know we talked about it at the Analyst Day, but could you remind us on ecom, how it's doing in the U.S. as you cross-sell that product through there? Thanks.

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

A

Yeah, hey, Bryan, it's Jeff. And I'll start and I'll ask Cameron to comment on some of the financial metrics that you alluded to.

So listen, as we said in our prepared remarks, we're very pleased with where our ecom and omni solutions business is. Just as a reminder going back to what we said in the Investor Conference, as the rest of our business we're primarily focused on, first, SMB enablement, really in a given domestic market and really playing toward omnichannel, both the online experience as well as the offline experience. And there we think we're one of only two or three people in the world who really can do that in the markets we're in. That's kind of point number one.

Point number two, I would say, is we're very focused on cross-border enablement. Here, it's SMB, but also beyond SMB in markets where we can provide a lot of value add where there aren't a lot of other people. I think the example I used in the Investor Day was for a very large multinational in the country of Taiwan. We're doing both the online store as well as the physical store. I think as I mentioned in the Investor Day for that RFP, there were two people bidding, right, us and a local national bank. That's a very good example of where we kind of pick our places in terms of where we can add value.

So, that strategy continues as we roll through the first quarter of 2018 into the rest of the calendar year and into 2020, we expect as we described in the Investor Day. So, it really is a very, I think, sensible, defensible and distinctive strategy relative to our peers who in many markets are largely competing over a commoditized pricing which is really as you know not kind of what we like to do in our model.

Cameron, you want to comment on some of the metrics?

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

Yeah, Bryan, I think as we look at the ecom and omnichannel business in the first quarter, the trends we saw were very consistent with what we've seen over the last couple years in our markets around the globe. Each individual market and each region is going to have its own growth rate around that line of business. But by and large, obviously, it's well into the double digits in each of our markets globally and I think pretty consistent with what we saw in 2017 along those lines. So, feel good about where we're positioned globally with the strategy, as Jeff highlighted, and I think the financial performance, obviously, is part of what's driving an acceleration of growth in the business certainly relative to what we saw in the fourth quarter of 2017.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. And then just as a follow-up, just getting ecom into the West market, how are those plans going?

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

Yeah, so, Bryan, it's David. Ecom is in the U.S. market. The solution that we sell in the U.S. market is a best-of-breed series of technologies that combine the best of Global Payments and Heartland into what we just call U.S. ecom solutions at this point without any sort of specific brand name. A core part of the numbers Cameron is describing where we're outpacing market growth, whether it's U.S. or Spain or UK is these ecom solutions, are these ecom solutions, whatever the right phrasing is. So, core part of the growth in the United States which is well into the double digits as it has been for several quarters in the U.S. is continued ecom sales.

Our ability to sell ecom continues to get better and better in and amongst that large 1,600-person person sales force. We're selling, of course, omnichannel solutions across all the vertical markets as well, so don't miss the idea that an OpenEdge sale is an omnichannel, but includes some ecom as does our TouchNet sales in the university software business. But fundamentally, the same trends Cameron described where we're beating market around the world apply to the U.S. as well. We're beating market with a combination of face-to-face in app and ecom sales that is omnichannel itself.

Bryan C. Keane
Analyst, Deutsche Bank Securities, Inc.
Q

Okay, helpful. Thanks for the color, guys.

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

Thanks, Bryan.

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

Thanks, Bryan.

Operator: Thank you. And our next question is from Bob Napoli with William Blair. Your line is open.

Robert Paul Napoli
Analyst, William Blair & Co. LLC

Q

Thank you, and good morning. The industry, Jeff, has obviously been changing pretty radically with software companies being payments companies and integrated payments. And I mean, are you seeing – how are you seeing the competitive environment adjust? Whether it's a spa that becomes a payments company, a big spa software shop or the website building companies doing payments, how is that affecting your outlook globally? And I mean, I know you've been on that track for a while, but it's getting a lot more vertical and I think you're competing against a lot of new players that may have not been in the payments business in the past.

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

A

Yeah, it's a good question, Bob. What I would say is that our business has always been intensely competitive. And as you've seen from our results recently, including today as well as our guidance, our results are accelerating. So, I would say certainly we feel like we're taking share relative to where the market is generally, we wouldn't be able to do that if we had to make those investments in the technology-related assets that we've been describing. So, to parse what you said in a few different ways, so on the comment about a spa or a software provider or someone like that, so when we bought APT in October of 2012, we worried a lot about the advent of the VAR ISO, meaning an ISV or a VAR becoming more of a payments facilitator, if you will, at the gateway level and where that put us relative to the value chain.

To be honest, we haven't seen that. What I would say is that most companies go deeper into their vertical markets as you're describing. They stick kind of with their knitting, at what they're best at. And even among the largest VARs and ISVs, we really have not seen a trend toward, okay, now I want to be a more proper payments company. That's where I think our value add really is. We're also very careful in not competing with our customer base. So, when we go deeper into software, we tend to differentiate that based on geography and vertical market in our OpenEdge model in terms of where we're competing. So, I think what I would say, Bob, is factually while we worry a lot about disintermediation and commoditization, we haven't really seen the advent of the VAR ISO that we've been describing.

Now, I'd say if you step back for a second, nonetheless it's something we think about, hence are pushing to owning more of the vertical stack in software in the first place where it doesn't compete or conflict with our partners as you know and as we articulated back in March. I think we're nicely balanced there in terms of where our investments have gone, but as a matter of fact, we certainly haven't seen it.

If you step back further and you say, well, what about an Amazon, for example, and some of the stuff they've announced, including yesterday and more recently, what I would tell you is I think that validates our push deeper into software and deeper into owning more of the vertical markets and the value stack. I think as much as anything, we're very focused, particularly in the United States which is really three-quarters of the company and markets that are primarily face-to-face like dental and veterinary where those are very hard to disintermediate or commoditize.

I'd also say, at the end of the day, I think as much as anything, that's a reaction to the Secure Remote Commerce that Visa and MasterCard announced at the ETA a couple weeks ago, more so than anything else. I say that because it shows you where the playing field sits relative to our value proposition. So, yes, the industry is changing. I think to be honest, I hope – I like to believe that we're leading that changing industry. But I think it's a validation of the investments that we've made and where we're heading and I think contrary to maybe where we were as a company 10 years ago, we're very balanced really and sober in our view of distribution strategies.

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

And, Bob, this is Dave. Maybe a little more color. I'll point you back to the Investor Day, as well as we've done a few times here. I think that if you think about our sales strategy, you're exactly right. This is becoming a more complex technology sale. That's why we've customized sales and distribution strategies for each market, so we can tailor solutions and the sales effect vertically, locally as well as globally and then marry it to excellent customer service.

I think if you look at some of the tech competitors around the world, that's the missing element here and there's almost always a face-to-face element as well as an omnichannel and ecom element that requires service. Something is going to go wrong, whether it's a phone line or something else and it sure does stink when you have no one to ask for help at that moment. So, vertically, locally, globally, marrying great service to great technology, we think we're very well positioned, just as Jeff described.

Robert Paul Napoli
Analyst, William Blair & Co. LLC
Q

Thank you. And just as it relates to that, the ACTIVE acquisition kind of as a test case, have you moved – has it – are you getting the synergies integrating that software with the Global Payments' payments network? And have you – I mean, is Global Payments processing their payments at this point? And I mean talk about synergies, I mean I expect we're going to see more acquisitions like that.

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

Yeah, sure, happy to talk. We're right on track with the synergies. Did a lot of things in December/January to set the business up for success in 2018. We're not as of yet processing payments. That will take a little bit longer. Recall that's not an enormous synergy in our plan. So, I think Cameron talked about that two quarters ago.

I can tell you something that's pretty exciting for us though. We'll be doing customer service for that business in our Philippines Global Service Center next month. So, you can see we're making really nice progress with the infrastructure. On the sales side, where we think we have really long-term benefit, we're beta-testing two or three different referral techniques in and around our school solutions, K through 12 business, as well as our broader U.S. sales force as we speak. So, a lot more to come on that front. Great question.

Robert Paul Napoli
Analyst, William Blair & Co. LLC
Q

Thank you.

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

And, Bob, it's Cameron. Let me just maybe add one more comment to that. When we talked about ACTIVE in the context of synergies we expected to realize, there was more on the revenue side really than it was on the expense side of the equation. As David highlighted, there are things we can do on the expense side to improve the overall scale of that business, we think, by leveraging Global Payments' capabilities in the area of payments as well as other support functions.

But as David described, where we really see the value in the synergy opportunity is really on the revenue side of the business, being able to scale that business more effectively, globally cross-sell it through our existing channels. And one last area of synergy opportunity we saw was really leveraging some of ACTIVE's offshore development capabilities to benefit our existing businesses and we're doing that today to some degree as well. So, I think we're very much on track realizing the synergies that we expected to see coming out of that transaction.

Robert Paul Napoli
Analyst, William Blair & Co. LLC

Q

Thank you.

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

A

Thanks, Bob.

Operator: Thank you. Our next question comes from Dan Perlin with RBC Capital Markets. Your line is open.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Thanks, guys. Good results. I had a question around maybe the long-term potential M&A strategy coming out of Vista. So, the question that I have is as you sign up these partnerships, as you've done recently, like you said three in as many quarters, is there a strategy potentially where you'll act as processor for them for some time, but then over the course of 9, 12 months or whatever it may be, you want to actively own the software and therefore you'd be willing to buy that in? Or is that just not part of the long-term M&A strategy for you guys?

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

A

Dan, it's Cameron. What I would say on that front is it's certainly always an option. As we think about the portfolio Vista company that they have today and the ones that we're engaged with already, as David described, and the ones obviously that we have in the pipeline in conversations, it's certainly an option longer term. I think our view, and this is really irrespective of the relationship with Vista, is we tend to look at the market on a vertical-by-vertical basis and we make decisions around whether or not we want to own or partner in the vertical really based on the attributes of that underlying vertical market.

So, there may be situations where we start with a partnership with a Vista portfolio company that may lead to an acquisition because the attributes of the vertical market itself we find attractive and we think we can better penetrate that market, drive faster rates of growth, scale the business more effectively by owning the underlying software as well as providing the payment capability. But that's not again unique to the relationship with Vista. That's really how we think about the vertical market landscape itself and how we want to position ourselves around the vertical market.

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

A

Dan, it's Jeff. I would just add to what Cameron said that while those two strategies aren't necessarily linked, the truth is the better you know something, the more you have an opinion of what you'd like to do as a strategy matter. So, everything that Cameron said is exactly right. It starts out with the target addressable market, et cetera, the verticals we want to be in. But there's no doubt that knowledge of how a partner works, the operating engagement, seeing it over a period of time, that's just another data point that you take in and everything else when you assess the quality of a counterparty. So, it's kind of a necessary thing, but really not sufficient by itself.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Yeah, it just seems to be a lower risk capital, I guess, equation.

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

A

Well, as I say, more information in these decisions is always a better thing. So, I agree with your thesis there. But I wouldn't look into, gee, we have three relationships in the last three quarters and that means those are three deals that we're doing. Vista's going to do what's best for Vista and their companies, and their companies will too and so will we.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Understood. Can you guys just talk about Asia's demand and where all that's coming from? You've hit the other kind of geos up to this point, but if you could do that, that kind of pinwheel, that'd be great. Thank you.

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

A

Hey, Dan. It's Jeff. So, I would say Cameron will keep me honest here in terms of the number of quarters, but it's probably been eight – maybe six or eight quarters of sustained macroeconomic growth around pretty much all of Asia. For the last number of quarters, the Philippines has probably posted one of the best, if not the best GDP rates of growth throughout our Asian markets. Cameron, I think in his prepared remarks, highlighted some of the markets where we're particularly pleased, including in the Philippines with our partnership with Bank of the Philippine Islands.

So what I would say in Asia is we're very pleased with the acceleration of the growth in the first quarter of 2018 versus the fourth quarter of 2017, but we're also pleased with our ability to grow our businesses in a very healthy manner as we did in Australia, even though GDP there is pretty muted and has been sometime. I think Australia has the notoriety of having gone – again, Cameron will keep me honest – more than a decade without GDP contracting in that market, yet our business continues to grow now for a number of years there right around 20% organically in terms of revenue.

So we continue to see a very benign macro environment around most of the parts of Asia that we care about. We haven't spent a lot of time on this because it's not a big piece of our company financially. But as a strategic matter, Mainland China, and we view China again as a sum of the parts of Mainland China, Hong Kong, Taiwan and Macau. We've actually seen pretty good stability improvement in China proper over the last number of quarters.

So feels pretty good where we are in Asia, but I would say it's probably continuation of a trend that we've seen probably for the last eight quarters.

Daniel Perlin
Analyst, RBC Capital Markets LLC

Q

Thank you.

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

Yeah.

Operator: Thank you. Our next question is from Brett Huff with Stephens. Your line is open.

Brett Huff
Analyst, Stephens, Inc.
Q

Good morning, Jeff, Cameron and David. I hope you're well. Couple questions from me. Can you talk a little bit more about margins or unpack those in North America? You mentioned them before, but I'm curious what the puts and takes might have been from any drag from ACTIVE and what the drag from wholesale declining more is. My point is, is there a way to get visibility into more of the underlying core kind of tech-enabled and direct margins that might be useful for us to think about?

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

So I think we've given a decent amount of granularity as to what we view as the drivers of margin expansion in North America, certainly for the first quarter as well as what we foresee being drivers of margin expansion going forward in the totality of our business, including what is happening in North America. I think we gave a lot of color on that at the Investor Conference back in March.

As we think about ACTIVE, ACTIVE does contribute to margin expansion in 2018. ACTIVE is a little more seasonal than some of our other businesses, so Q1, Q4, it's sort of weaker, for lack of better term, quarters from a revenue seasonality standpoint. Q2 and Q3 are better. So, Q2, Q3 is where we would see in the margin expansion pulling through from ACTIVE perhaps more and to a lesser degree in Q1 and Q4. So just bear that in mind as you're thinking about the relative components.

Obviously, the wholesale business is a lower-margin business, so the quicker it declines, the more that is a benefit from a mix standpoint and the more obviously we're going to be positioned to continue to drive margin expansion in the business organically. And as Jeff highlighted earlier, the tech businesses are inherently higher-margin businesses. So the more software we're selling through those channels, the more we're linking obviously payment capabilities with deep integrated software capabilities, the more value-added proposition we have for our customers. Obviously, the pricing associated with that is better and the margins associated with that are better.

So beyond that I would say those are really the core drivers and, as I mentioned in response to I think Ashwin's question earlier, there's obviously some synergy benefit flowing through in 2018 as well, as we annualize a lot of the actions we took in 2017. There's a little bit of incremental synergy around actions we're taking in 2018, but the vast majority of the work around Heartland is done at this point.

And really, what you're seeing in 2018 is just the annualization of actions taken in 2017. So I think that's about as granular as we can really get at this stage, but hopefully that gives you a decent road map as to what the drivers are.

Brett Huff
Analyst, Stephens, Inc.
Q

That's really helpful. And then cross-border is a question I had, both the networks had really good cross-border volume. Wondering if you guys saw that in your business. And also related, any action on India as you guys think about international or maybe additional cross-border asset expansion? Thank you.

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

Yeah, hey, Brett. It's Jeff. I'll start and I'll ask Cameron to provide additional color. But I would say our cross-border activity is very good. If you think about Europe, which Cameron talked about in his prepared remarks, yet another high single-digit constant currency kind of organic number in Europe. Obviously, we're diverse across Europe as we've talked about, not just in the United Kingdom, but in Spain, in Continental Europe, et cetera. Not surprisingly, because of SEPA, because of the coming of PSD2 and everything else, that's where a lot of our cross-border activity resides.

I don't think it's that different from the network space, my reading of their KPIs to be candid, really either. There's a little bit of that for us in Asia-Pacific. Cameron described how that growth accelerated to 15% organic constant currency in – well, actually U.S. dollar in the first quarter relative to the fourth quarter. So clearly, many of the trends I think you're seeing in the card networks, you're seeing in our European results and you're seeing in our Asian results flow through.

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

And you had a question about India that I didn't quite pick up. So do you mind repeating that?

Brett Huff
Analyst, Stephens, Inc.
Q

Yeah, just curious, there's a lot going on in India in payments. And I know as you guys – Jeff, you mentioned that one way you guys think about ecommerce assets is via cross-border acquisitions like you've done in the past, and wonder if India is a potential source for one of those.

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

Yeah, listen, Brett, absolutely. Of course, our business in Asia really has been a tale of organic growth supplemented by technology enablement as we've done.

We are in India today. We think we're subscale in India, meaning we'd like to be bigger really in India, so we've looked at a bunch of assets in India over time. I would say our strategy is a little bit different than Alipay and Paytm, because we're not driven by consumer wallet points of adoption, so you're not likely to see us as an M&A strategy or otherwise go after kind of the wallet the way someone like an Alipay would. But you are very likely to see us go after additional technologies that enable acceptance like QR codes and things that we've talked about in Asia, including in India in the past.

You're also likely to see us go deeper into nativization of our technologies in India. So a good example of that is RuPay, which is the Indian payment scheme domestically in India which we enable. And it doesn't reside just in India, we have similar schemes like that around the world.

So yes, India is a market, along with Mainland China that we'd like to be bigger in. We recognize that that's probably going to take a mix of organic and inorganic things, a little bit different than what you might see from Ali, but it remains high on our list of priorities.

Brett Huff
Analyst, Stephens, Inc.

Q

Thank you.

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

A

Thanks, Brett.

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

A

Thanks, Brett.

Operator: Thank you. And our last question will come from Tien-Tsin Huang with JPMorgan. Your line is open.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Thank you. Thank you. Good balanced results here. Just wanted to ask about spreads and if you're seeing that benefit from a favorable mix in channels, and I'm just wondering if the macro conditions are also making it easier to drive better spreads.

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

A

Yeah, sure, Tien-Tsin. It's Jeff. So, I would say spreads as they have been for probably a period of years now are very stable. I think as David and Cameron described, for us it's really monetizing the technology investments we've made, selling more software along with payments as well as data analytics. So, I view that less as a spread question for us, Tien-Tsin, and more of a cross-sell and value-added products and services. And as I think David described in March, wrapping more value around that transaction rather than changing the price of the transaction itself. So, I would say more of the same. It's a continuation of stability on the pricing environment which is nice to see, but as you know, our strategy is to really add more value added around each transaction rather than really just change price.

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

A

Yeah. And, Tien-Tsin, it's Cameron. As I look at spreads in the individual channels of the business, obviously our overall spread is improving by virtue of the mix of businesses that we're growing, as we talked about before. So, the more we grow the integrated and vertical markets businesses, obviously the mix is improving, the spreads are better in that business. So, our overall spread is improving. As you look at the overall market, in general, to Jeff's earlier comments, I think spreads are pretty stable. And they're stable also in sort of each of the individual channels that we would look at as a business matter. So, I think the overall market is relatively benign, I would say, around spread compression and, obviously, our mix of businesses and the attributes of those businesses allowing us to obviously reap more value as we continue to provide more value-added services to customers.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

All right. Great. That's clear and encouraging. Thanks for that. Just a quick follow-up on the cross-border piece, I asked MasterCard this last night, so yesterday, so I'll ask you guys, too. The proposed changes to the euro cross-border and the DCC, the dynamic currency conversion, any potential impact for Global Payments? Any new thinking there?

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

A

Yeah, Tien-Tsin, it's Cameron. Certainly on the cross-border piece itself, we don't really see an impact. That's really non-card sort of cross-border activity from a money flow standpoint. Around the DCC, I would say relatively the same thing. We don't see much impact on our business going forward. The DCC aspects of those new regulations are really designed to drive more transparency at the point of sale, so consumers have a better understanding of the cost of DCC versus the cost of their issuing bank converting that euro-based payment into whatever their local currency would be. We obviously already provide great transparency at the point of sale.

To be clear, those actions or that product is governed by the networks already, and there's already a great deal of regulation around the level of transparency that has to be provided from a DCC product standpoint. So, the impact is really more on the issuers to be able to provide that same level of transparency to the consumer at the point of sale, so they can make an important decision about which path to pursue from a currency standpoint. And I think we feel very good about how we stack up and how our DCC product stacks up relative to the alternative consumers have. As a result, I don't think we see really much impact on our business going forward at all.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

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Great. Good to know. Nice quarter, guys. Thank you.

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

A

Thanks, Tien-Tsin.

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

A

Thanks, Tien-Tsin.

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

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

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