30-Oct-2018

Global Payments, Inc. (GPN)

Q3 2018 Earnings Call

CORPORATE PARTICIPANTS

Winnie Smith
Vice President-Investor Relations, Global Payments, Inc.

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

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

OTHER PARTICIPANTS

George Mihalos
Analyst, Cowen & Co. LLC

Darrin Peller
Analyst, Wolfe Research LLC

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

Glenn Greene
Analyst, Oppenheimer & Co., Inc.

Thomas McCrohan
Analyst, Mizuho Securities USA LLC

Ashwin Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Jason Kupferberg
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

James Eric Friedman
Analyst, Susquehanna Financial Group LLLP

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to Global Payments 2018 Third 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, Winnie Smith. Please go ahead.

Winnie Smith
Vice President-Investor Relations, Global Payments, Inc.

Good morning and welcome to Global Payments third 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 obligations to update them.

Some of the comments made 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; 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, Winnie. We are delighted to report that the strong momentum we saw in the first half of this year continued through the third quarter. We again delivered double-digit organic growth across our markets at the high end of both our expectations and our raised cycle guidance set in March 2018. We expanded adjusted operating margin by 120 basis points and delivered adjusted earnings per share growth of 25% in the quarter, highlighting ongoing outstanding execution globally.

We also made a significant progress in all three components of our growth strategy. First, we expanded our own open software portfolio with the acquisitions of AdvancedMD and SICOM as we continue to successfully deploy our capital to build out our technology capabilities in attractive vertical markets. As a result, our business mix is shifting further toward technology enablement, which we expect to be nearly 45% of our total revenue in 2019, up from 40% in 2017 and 30% in 2015.

We are pleased to announce that we recently closed our acquisition of SICOM, a leading worldwide cloud-based, enterprise software provider for the restaurant and food service management vertical markets. SICOM's solutions are highly synergistic with our existing Xenial platform and the two combined provide us with end-to-end offerings for small, medium-sized, and enterprise-level restaurant customers globally, one of the largest vertical markets that we currently serve. More specifically, SICOM adds middle-of-house and back-of-house software and other technology capabilities to Xenial's front-of-house platform.

The combination creates a leading solution that includes point-of-sales systems, kitchen and drive-through management, data and analytics, as well as payroll scheduling and procurement capabilities.

Our ability to now deliver a complete solution to the entire restaurant vertical uniquely positions us as a one-stop shop for software and payment services for customers in this $4 billion target addressable market or TAM. Through Xenial, we currently provide services to over 25,000 quick-service restaurants in the United States. SICOM adds a worldwide footprint to our QSR markets with enterprise solutions that double our restaurant base across 60-plus countries in the Americas, Europe, and Asia.

The acquisition of SICOM also provides entry into the food service management vertical market, a $2.5 billion account. SICOM is already leading this market by providing solutions for customers like Compass Group and Sodexo. We are very excited about the potential for accelerated growth in this new owned software vertical.

We also closed the acquisition of AdvancedMD in early September. We're off to a great start with AMD seeing strong bookings momentum in the most recent period, and we are beginning to leverage Global Payments' corporate capabilities as well as our leading distribution network to penetrate the 80% of AMD's $3 billion payment opportunity we do not capture today.

In addition, we see immediate opportunities across payroll and enhanced position referrals from our Heartland business.

Finally, ACTIVE achieved record bookings last quarter as it continues to acquire new logos and expand business with existing strategic partners. Including ACTIVE, we have successfully executed three software acquisitions over the last 14 months just as we said we would do.

In the aggregate, our own software businesses now have exposure to vertical markets, representing roughly 25% of U.S. GDP, the largest economy in the world.

Further, our global pipeline of opportunities to invest in businesses that will enhance our tech-enabled, software-driven payments capabilities remains full. The vertical markets we target are sizable, distinctive, defensible and relatively insulated from disintermediation. These businesses tend to be less susceptible to broad-based macroeconomic concerns and have resilient, predictable and highly recurring revenue characteristics. We remain confident our differentiated approach will enable us to continue to gain market share by widening the competitive gap with our legacy competitors.

Moving to the second leg of our strategy, we are pleased to report that we now expect our ecommerce and omni-channel solutions business to generate approximately $520 million in adjusted net revenue plus network fees in 2018. This represents high-teens organic growth in constant currency, ahead of the mid-teens target we discussed in March.

As a reminder, this business produced $250 million in 2015 and $450 million in 2017, so we have more than doubled these lines in three years with performance consistent with many of the fastest-growing companies in the online technology space and ahead of the card networks. We are well represented in this rapidly growing channel and on track to achieve a 20% share of total revenue target we set for 2020.

We believe we are overweight ecomm/omni across Continental Europe and Asia-Pacific relative to the markets that we are in, and that we are more than proportionately represented in this channel in the United States. On a global basis, we are already a market leader today.

How do we achieve these results? First, the market is segmented by customer size so we are distinctive and that we stick to our knitting with our value proposition by focusing on small- to medium-sized or F&B customers looking to go ecomm or omni within a given domestic market or cross-border.

Second, the market is further segmented by geography and we also serve larger customers, like multinational corporations looking for cross-border acceptance in hard-to-serve markets like Taiwan, Singapore and Malaysia, as well as across Continental Europe.

Third, we provide not just local sales offices, but also operational and support resources with local and multinational expertise in 31 countries, and domestic licenses and processing capabilities in nearly 60 countries. Our localized solutions produce higher acceptance rates and lower fees for some of the most complex, demanding and technology-savvy customers worldwide, a list that includes preeminent global brands like ZARA, Swatch, [indiscernible] (00:09:50) and LVMH, and some of the largest payments facilitators globally.

Fourth, we're also fortunate to have distinctive partnerships across our geographies with leading institutions, including CaixaBank, HSBC, Erste Bank, CIBC, National Bank of Canada and Bank of the Philippine Islands.

These partnerships provide us leverage to access to faster-growth markets, enabling us to catalyze penetration by delivering market-leading technologies to scaling digital economies.

Fifth, we have made substantial technology investments in these businesses to expand our competitive moat. We expect to continue to differentiate our omni-channel offerings over the next 12 months by making additional enhancements to our next-generation omni-channel platform and further developing our cloud-based SaaS modular systems, which are already in production. When combined seamlessly with our ability to support processing in nearly 60 countries, we expect our unified technology offerings to continue to lead the market over the coming years.

The third and final element of our strategy is to expand our industry-leading footprint and technologies into faster-growing markets, where strong secular trends, distinctive partnerships, and our innovative software and services are driving substantial and sustained revenue momentum. The organic revenue growth rates we achieved in key markets like Spain, Central Europe, Hong Kong, Singapore, and the Philippines this quarter were again well into the double digits. We look forward to entering Mexico in the near term as we continue to extend and expand our relationship with HSBC globally.

The unique combination of our market-leading software, partnered and owned, ecomm and omni businesses, and faster growth geographies has enabled us to meaningfully outgrow our legacy peers in 2018. And we have achieved record margin expansion in free cash flow, while continuing to make investments today to provide for future growth. We're on a trajectory to accelerate our transformation to 2019 and beyond as we continue to transform our business to more closely align with our high-technology and pure ecommerce peers.

With that, 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. We're very pleased to have delivered another quarter of exceptional financial performance, driven by continued strength in organic growth across our key channels and consistent execution of our growth strategies.

Total company adjusted net revenue plus network fees for the third quarter was $1.025 billion, an increase of 12% versus the prior year's. Adjusted operating margin expanded 120 basis points to 33%, and adjusted earnings per share increased 25% to $1.44. We achieved these results while also successfully closing two strategic acquisitions, AdvancedMD and SICOM, meaningfully expanding our software-driven payment strategy and vertical market footprint.

Our ability to consistently execute and deliver organic top-line growth, margin expansion and earnings growth at the high end or above our cycle guidance, while also investing in the business for future growth, remains a hallmark of our success over the past several years.

Turning to our segment performance, adjusted net revenue plus network fees for North America grew in excess of 13% to $756 million for the third quarter, which includes an approximately 100-basis-point headwind from adverse foreign currency exchange rates. Adjusted operating margin expanded 180 basis points to 34.3%, despite the negative impact of foreign currency and modest pressure from the acquisition of AdvancedMD. North America margins continue to benefit from growth in our technology-enabled portfolio and increased scale in our business.

We successfully closed the AdvancedMD transaction on September 4, which contributed adjusted net revenue in line with the forecast we provided at that time. As a reminder, we also anniversaried the ACTIVE Network closing on September 1. ACTIVE Network contributed adjusted net revenues of approximately $50 million in the third quarter.

Our U.S. direct distribution business again delivered low-double-digit normalized organic growth at the high end of our targeted range, as it has each quarter this year. Our wholesale business revenue declined at the high teens rate this quarter, in line with our expectations and guidance as we continue to emphasize our direct distribution businesses and actively pivot away from this channel.

Our Canadian business grew low-single-digits in local currency, although that was more than offset by adverse foreign currency exchange rates. This resulted in Canada declining low-single-digits in U.S. dollars.

Moving to Europe, adjusted net revenue plus network fees grew 10% or approximately 12% on a constant-currency basis. The UK grew in the high-single-digits as good execution and share gains once again drove solid performance. Our faster growth markets in Europe continue to contribute meaningfully to top-line growth in the region.

Spain grew in the mid-teens in local currency, driven by a stable underlying economy and the strength of our partnership with CaixaBank. Likewise, our Erste joint venture also delivered mid-teens growth, reflecting favorable secular trends and benefits from the introduction of new products and services in our Central European markets.

Lastly, our ecommerce and omni-channel solutions business grew in the high teens as we continue to scale in the pan-European market, leveraging our unique ability to combine our online and physical brick-and-mortar capabilities.

Adjusted operating margin in Europe expanded 60 basis points to 47.6%, driven primarily by the strong top line performance partially offset by the impacts of foreign currency translation and continued reinvestment in the business.

Finally, in Asia-Pacific, we reported adjusted net revenue plus network fees growth of 10% or approximately 13% on a constant-currency basis. Local currency growth in the region was driven by broad-based strength across our key markets, including Hong Kong, Malaysia, Singapore and the Philippines. Ezidebit and eWAY continued to see good momentum and once again delivered strong double-digit growth in local currency.

Adjusted operating margins in Asia expanded 140 basis points to 33.7%, primarily as a result of strong organic growth despite the negative impact of adverse foreign currency exchange rates.

Our ability to consistently drive core top line growth and deliver margin expansion across our businesses allowed us to generate strong adjusted free cash flow in the quarter of approximately $260 million, excluding acquisition and integration costs. This reflects continued disciplined capital investment in the business, which totaled $53 million for the third quarter.

Our highest priority from a capital deployment standpoint remains reinvestment in the business to support our growth initiatives, including M&A. As we highlighted, we closed the $700 million acquisition of AdvancedMD in September and the $415 million acquisition of SICOM earlier this month. We financed these transactions using a combination of cash on hand and our existing revolving credit facility.

As a result of these acquisitions, our pro forma leverage currently stands at approximately 3.8 times, a comfortable level that provides a clear line of sight to our targeted 3 to 3.5 times range given the strong cash flow generation profile of the business. We also maintain sufficient dry powder to continue to pursue our organic and inorganic strategic initiatives going forward.

To that end, we improved our liquidity position in October with the execution of a $500 million term loan B. The proceeds of which were used to pay down outstanding balances on our revolving credit facility. Once again, we were able to execute this term loan B offering at LIBOR plus 175 basis points, a best-in-class rate for our current credit rating.

In addition, we recently entered into a new $250 million notional amount interest rate swap to further hedge our exposure to floating rates. As we continue to implement our interest rate hedging strategy, we expect roughly 40% of our debt portfolio to be hedged by the end of 2018 and nearly 50% by the end of 2019.

Looking ahead, the momentum we see in our business, coupled with our consistent execution, has us on track to yet again deliver strong financial performance in the fourth quarter despite pressure from foreign currency exchange rates.

For 2018, we're delighted to raise our adjusted net revenue plus network fees expectation to a range of $3.96 billion to $3.98 billion, reflecting growth of 15% over 2017. We expect AdvancedMD and SICOM to contribute adjusted net revenues of $45 million to $50 million for the fourth quarter, which essentially offsets foreign currency headwinds for the back half of the year relative to our original expectations.

Further, for the fourth quarter specifically, we expect FX to be a year-over-year headwind to adjusted net revenues plus network fees of approximately 100 to 200 basis points. In addition, we expect our U.S. direct business to again achieve double-digit organic growth, while we anticipate our North American wholesale business will decline at a – similar to Q3, which is in line with our expectations for this channel.

For the full year, we continue to expect adjusted operating margin to expand by up to 120 basis points, unchanged from our prior outlook, despite the significant impacts of unfavorable foreign currency translation and the modest pressure in the quarter we expect from our recent acquisitions.

Pro forma for M&A financing, we now expect net interest expense to increase sequentially in the fourth quarter, bringing our forecast to approximately $180 million for the full year. Further, we anticipate our effective tax rate for 2018 will be 20% to 21%.

Putting it all together, we now expect adjusted earnings per share for 2018 in the range of $5.12 to $5.22, reflecting growth of 28% to 30% over 2017.

We cannot be more proud of our performance in the third quarter and year-to-date period. As we close out 2018, we're pleased to be in a position to exceed the expectations we had at the start of the year. Likewise, as we look forward to 2019 and beyond, we remain excited about the momentum in the business as we advance our technology-enabled software-driven strategy worldwide and our ability to meet or exceed the increased cycle guidance targets we established in March.

With that, I'll now turn the call back over to Jeff.

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

Thanks, Cameron. As we said in March, let's look at the facts. We have delivered compound annual growth of 25%-plus and reported adjusted EPS over the last three years, while expanding margins and delivering record free cash flow annually and all the while, generating sustained and in many cases accelerating revenue growth. This was all done without financial engineering as revenue and margin flow through to operating income and free cash flow, and 2018 is no exception.

The proof of any model is in the consistency of the results. You don't have to take it on faith that we will deliver on our commitments that revenue will one day accelerate, that margins will one day expand, that synergies will one day materialize, that our partnerships will be durable, that we will be good stewards of capital, or that our technologies will one day be market-leading, rather we are already there today and we are now building on those achievements. The momentum across our businesses plainly continued through the third quarter and now persists into the fourth quarter, which we expect will round out an outstanding 2018.

We could not be more excited about our trajectory heading into 2019, 2020 and beyond. The best is yet to come.

I will now turn the call back to Winnie.

Winnie Smith
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 to accommodate everyone in the queue. Thank you. Operator, we will now go to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from George Mihalos with Cowen. Your line is open.

George Mihalos
Analyst, Cowen & Co. LLC

Q

Great. Good morning, guys. Just wanted to ask, Jeff, you spent a lot of time talking about the restaurant vertical and obviously, we've got the SICOM acquisition in there. Can you just maybe refresh for us again what is sort of the big competitive advantage now that Global has in that vertical given all the competition that's coming from some of your peers focusing more aggressively on it?

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

A

Yeah. Thanks, George. I appreciate the question. So, I think the primary advantage that we have is we have an end-to-end enterprise-level cloud-based technology solution across the entire spectrum of the restaurant vertical market. So I think it's very consistent with our technology-enabled software-driven payment strategy.

If you think about the combination of Xenial and SICOM, we have front-of-house solutions; we're interacting with customers at the point-of-sale; we have middle-of-house solutions like order management and drive-through; and then we have back-of-house solutions, so like data and analytics for franchisors and franchisees. A lot of this, of course, is on a Software-as-a-Service or on a SaaS basis, and we're in the market and in production today.

The other thing we have, as you know, given our footprint is a multinational perspective on the restaurant business. As we announced in our prepared remarks, we're now present with those enterprise solutions in 60 countries around the globe in the Americas, Europe and Asia-Pacific. So, if you take a step back, it's the breadth and depth of the technology solutions that we're selling primarily on a Software-as-a-Service recurring basis, and it's also the breadth and depth I think of the geographic coverage and scope that we're delivering in all the markets that I just described.

We were delighted to see a number of our competitors announce that they intended to going into these types of markets. But these are businesses, George, as you know, that we were already in with Xenial and Heartland Commerce, and now have gone deeper into with SICOM and are in production today. So I think it's gratifying to see that folks think that vertical market software is an attractive place to be in restaurants, but really we're already there today.

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

Hey, George. It's Cameron. The only thing I would add to that is we also have solutions that's geared to everything from enterprise-level customers, so some of the largest quick-service restaurant names you can think of, all the way down to small single-shop or multi-shop units all SaaS-driven. Again, all of that can be tailored to the specific needs of the specific segment of the market that we're targeting whether it's a small customer needing customer, medium-sized customer, all the way again up to that enterprise-level customers.

So we have a breadth and depth of solutions across front, middle and back as well segmented by size of merchant from enterprise down to the small single-shop operator.

George Mihalos
Analyst, Cowen & Co. LLC Q

That's great, thanks. And just as a quick follow-up, Cameron, if you could just size for us on an annual basis what the contribution, both from a revenue perspective and margin perspective for SICOM will be.

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

Yeah. Sure, George. So, SICOM on a revenue basis for 2019 we expect to be around $100 million, growing in the low-double-digits. From a margin standpoint, given that we're able to combine this business with our existing Xenial operations, we expect margins in 2019 to be roughly consistent with overall corporate margins and then accretive to margins thereafter as we realize synergies from combining the two existing businesses and platforms.

George Mihalos
Analyst, Cowen & Co. LLC Q

Thanks, guys. Congrats on the quarter.

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

Thanks, George.

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

Thanks, George.

Operator: Our next question comes from Darrin Peller with Wolfe Research. Your line is open.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Thanks, guys. Nice job on the quarter. I just want to start off first if you can help us...

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

Thanks, Darrin.

Darrin Peller
Analyst, Wolfe Research LLC
Q

Yeah, thanks. I mean, just more granularity on the direct business. Obviously, [indiscernible] (00:27:57) were down on the high teens, which I know you guys expected. But outside of that, it seems like the core direct keeps going extremely well. And I'd just be curious to hear a little more granularity in – whether it's by vertical, what happened with other underneath in terms of education and gaming. Maybe a little more color will be great.

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

Yeah. Sure. Darrin, it's Cameron. And first of all, thanks for the comments. So, I would say U.S. direct growth in this quarter, very consistent with what we saw in Q2. And like that strong Q2, as you recall, it's probably one of the best quarters we've seen in the business. So, I would say fairly close to Q2, better than Q1 quite frankly from an organic growth standpoint.

So if you break it down into its constituent parts, integrated and vertical markets again grew in the low-double-digits, continues to provide obviously a nice tailwind for growth in the U.S. business. That's a combination of our partnership model obviously with OpenEdge, as well as our owned software assets and the distinctive vertical markets that we're in today. We do target low-double-digit growth for that business we've seen through the course of this year and we're obviously delighted with the momentum we have in that channel.

If you look at our U.S. direct more traditional relationship-led distribution platform, it grew again high-single-digit again, consistent with the level we saw in Q1 and Q2. So again, you combine those two channels and I think U.S. direct growth in the third quarter was around [ph] $10.6 billion, $10.7 billion (00:29:20) in that ballpark versus [ph] $11 billion (00:29:22) in Q2. So right in the same area that we saw in Q2 and again at the high end of our expectations for that channel. As you know, we target high-single-digit to the low-double-digit for the U.S. direct channels.

ACTIVE contributed about $50 million for the quarter. It grew low-double-digits relative to its number from Q3 of last year. And as Jeff – or as I noted in my prepared remarks, Jeff noted in his prepared remarks, AdvancedMD had a good strong month consistent with the expectation we provided at close. So, I think when you break it down without getting into any individual channel, every business in the U.S. really performing kind of at the higher end of our expectations for those channels in the third quarter. Again, good consistent momentum as we've seen throughout the course of 2018, which we think positions us very nicely going into the fourth quarter, and of course 2019 is right around the corner as well.

Darrin Peller
Analyst, Wolfe Research LLC

Q

All right. That's great detail. And then, just a quick follow-up on margins. They came in better than our model. And I think it's still, to some degree, the mix, right? I mean, your ISOs being down obviously is helpful to your margin. What else is in there in terms of mix that's driving the margin expansion being particularly better than I think even you guys may have expected?

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

A

Yeah, it's a great question, Darrin. So, I think you're on the exact right point. The mix is really the biggest thing that we're seeing from a margin standpoint as well as I think good execution and obviously disciplined expense management in the business. But I would say, mix is the biggest driver. You're right in pointing out the ISO business declining, the wholesale business declining in the high-teens, that's obviously a benefit to margins in the quarter. And again, our integrated and vertical margins markets business being higher-margin portfolios for us, those growing more quickly than the rest of the business also create a nice tailwind from a margin standpoint as well.

I would say that the really nice thing about margins particularly in North America this quarter is we delivered 180 basis points of margin expansion, notwithstanding currency and notwithstanding the investments that we're making back into the business from the benefits we've seen now from tax reform. So, I think if there's one thing I would call out specifically this quarter that we're particularly delighted about, it's the margin expansion that we experienced despite those two headwinds.

Darrin Peller
Analyst, Wolfe Research LLC

Q

All right. That's great, guys. Thank you.

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

A

Thanks, Darrin.

Operator: Our next question comes from Steven Kwok with KBW. Your line is open.

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

Q

Great. Thanks for taking my questions. Jeff, could you elaborate on your comments around making enhancements to the omni-channel offerings? Would this be done all in-house or would you look to supplement that with perhaps a good acquisition or a tuck-in one? Thanks.

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

A

Yes. Thanks, Steven. So, of course, this quarter is the one that we traditionally give kind of an update on our ecommerce and omni business. As I said in my prepared remarks, we're delighted with the growth in that business, which is high-teens for the quarter and we expect high-teens for the year as the guidance implies. So, the first thing I'd say is we have a complete solution today and we're obviously in market that generates the results that we've been describing both for the quarter as well for the year. The enhancement we're looking at is making it even simpler to go into more markets with Global Payments around the world with a single omni-channel API interface no matter where you are globally, a single terminal API no matter where you are globally. Those are all being done in-house and those will be rolled out on a rolling basis and being rolled out really now, but on a rolling basis throughout 2019. So, we've been able to generate the results that we've reported to-date as well as our expectations for the year through our enterprise hub and the other technologies that we have today. Those are being further enhanced and are already in the run rate that we've been describing. So, expect to continue to gain share as we have been as we head into 2019.

I would tell you it's a competitive matter. And we're now pitching for new business for some very large and sophisticated potential counterparties. I think we're already market leading today. I think this is going to put us really – when these things roll out throughout 2019 internally really put us in the driver's seat in terms of growing this business going forward.

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

Thanks. And this actually fits right into my next question. Just around – if you could talk about the competitive landscape both on the offline and ecommerce space. One of your ecommerce peers has announced this morning that they are looking to expand into Canada and signed up a number of merchants. Thanks.

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

Yeah, sure. So, of course, all of our businesses are intensely competitive, not just in an ecommerce anatomy, but in any created vertical markets and in all the geographies that we're in around to the world. If you go back, Steven, to kind of my prepared remarks, we really compete in a number of distinctive ways. First, we're primarily focused on small to midsized businesses or SMBs within a domestic market or those SMBs looking to go omni-channel cross border. Great example is Canada where it made very attractive headway in ecomm and omni over the last several years and it's a meaningful part of the growth really in our business in Canada. You can see in some of the materials we posted today on our website that we believe we're over-represented in North America, including in Canada relative to the size of those ecommerce and the omni-channel markets.

The second thing I'd say is we look to go global with multinational corporates in markets that are harder to serve. I gave a list of those in my prepared comments. In many cases, there's only one or two folks including us who can really provide those services in the markets that we're looking to compete in. We also have a very healthy payment facilitator business globally. A great example of that is a recent renewal we've had with PayPal globally in our business, and I think it's really a testament to the quality of our ecommerce and omni businesses globally much of what they're doing around the world outside of North America where they do it themselves, particularity in Europe and Asia, and to my point, Steven, the harder served markets, it's really with Global Payments. So, I think it's a tribute to the quality of our technology and really the extensibility of our geographic markets.

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

Right. Thanks for taking my questions.

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

A

Thank you.

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

Glenn Greene
Analyst, Oppenheimer & Co., Inc.

Q

Thanks. Good morning. So, just...

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

A

Hey, Glenn.

Glenn Greene
Analyst, Oppenheimer & Co., Inc.

Q

...want to go back to the SICOM acquisition. I know you sort of talked about the low double-digit sort of organic growth, but could you talk about more broadly over time the cross sale or revenue synergy potential and if there's any sort or cross synergy potential we should be thinking about?

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

A

Yeah. Hey, Glenn, this is Jeff. I'll start and I'm sure Cameron will add to this. So, if you think about where Xenial really is which is the Heartland Commerce business in the restaurant vertical market, Xenial offers a lot of really good things, but particularly in royalty customer management, gift cards, mobile application. So, ordering your hamburger on your phone, paying with your thumb and going to pick it up. Those are things generally that SICOM is really not in in terms of by way of product offering. So, I think the most obvious cross sell initially is to cross sell the Xenial solutions into the SICOM base and to cross sell the SICOM solutions which I described at the beginning of the call with George are primarily front of house, middle of house, and back of house delivering those into the Xenial customer base, that's probably number one.

Number two would be bringing the Xenial solutions globally. So, SICOM, as I mentioned in my prepared remarks, is present in 60 markets, essentially doubles our restaurant base by another 25,000 locations. The ability to catalyze Xenial growth outside the United States and bring that into those existing markets where SICOM is already present is another real attraction by way of cross sell, Glenn, in revenue.

And then, lastly, I would say that while Xenial and Global Payments are among other things payments-related businesses, historically SICOM was much more pure software and a lot less payments. Our ability to go into large chains and SICOM has four of the top 10 QSRs in the United States and some outside the United States like Tim Horton's for example in Canada but in the U.S. Burger King, Jamba Juice, et cetera, our ability to cross sell payments are kind of the core part of Global Payments into the SICOM base is another revenue synergy that we're very excited about very similar to what announced, Glenn, as part of AdvancedMD. So, those are the three that we're most focused on in the near term.

Glenn Greene
Analyst, Oppenheimer & Co., Inc.

Q

Okay, great. And then, Cameron, just a clarification on the forward full-year guidance and it's sort of in the context of I think you made a comment about the acquisitions adding $45 million to $50 million of revenue in the fourth quarter being offset by incremental FX. Can you just sort of go through that? What I'm trying to get at, has the constant currency organic growth expectations changed at all?

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

A

Yeah, Glenn, that's a great question. So, I think the constant currency organic growth expectations have increased. So, if you look at the, call it, roughly a point. So, if you look at the guide that we've provided today, the new acquisitions we expect to contribute $45 million to $50 million in the fourth quarter, that roughly offsets the FX headwind that we expect now in the back half of the year relative to what we originally anticipated coming into the year. So, if you look at – stripping out the acquisition and adding back sort of the FX headwind, you kind of get to a number that I would say puts you towards the high end of the original guidance that we've set forth at the beginning of the year, which again I would say suggests organic growth at about a point better than we would have anticipated kind of coming into the year from the original guide.

Glenn Greene
Analyst, Oppenheimer & Co., Inc.

Q

Okay, great. Thanks.

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: Our next question comes from Tom McCrohan with Mizuho. Your line is open.

Thomas McCrohan
Analyst, Mizuho Securities USA LLC

Q

Hi, guys. To get to the 60% revenue target for software enabled, do you have to get into other verticals and if so what other verticals might they be?

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

A

So, I'll start, Tom, and Cameron can comment as well. I don't think we have to get into other vertical markets, but clearly if you go back to some of my prepared comments, Tom, the way we think about attractiveness of vertical markets is across a number of criteria. The first thing is what's the target addressable market? How big is the opportunity? In the case, for example, restaurants, we think it's $4 billion of revenue a year. In the case of the food service vertical market where we try to [indiscernible] (40:02) Compass and Sodexo, coming of the SICOM acquisition, we think that's $2.5 billion a year. In the case of AdvancedMD in the healthcare side, we think that number is growing to the billions as well.

So, if you step back and you look at my prepared comments, Tom, we have exposure now post the deals that we've done to about a quarter of U.S GDP. We don't need to do more deals in terms of more vertical markets to get to the 60%, but clearly there are other markets that we've looked at that are sizable in the United States that we're are not directly in as an own software managed. Two most obvious ones that I think we've talked about before are real estate, for example, and government business and we're already in a little bit of the government businesses. But paying your taxes or your fees online, paying your condo association and property fees and insurance fees online are both attractive opportunities, as we see it, I think generally follow many of the characteristics that we've enumerated before.

Thomas McCrohan
Analyst, Mizuho Securities USA LLC

Q

Great and just as a follow-up – and thanks for giving us the update on ecommerce and omni. Is there a way to break out how much of the revenue today from that ecommerce and omni channel is going over mobile devices.

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

A

We don't have that level of detail today, Tom. It's Cameron. So, I can't give you a specific amount that's coming directly from mobile devices. So, as we think about our omni-channel business, it's going to be the combination of where we provide both online capabilities to our merchant customers, that's going to be a combination of traditional Web based ecomm – ecomm or mobile offerings with the brick-and-mortar capabilities as well. We don't further disaggregate it between mobile and what's coming through more traditional ecomm portals.

Thomas McCrohan
Analyst, Mizuho Securities USA LLC

Q

Okay. Thank you.

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

A

Thanks, Tom.

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

A

Thanks Tom.

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

Ashwin Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Thanks. Hi, Jeff. Hi, Cameron. Congratulations on the quarter.

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

A

Thanks, Ashwin.

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

A

Thanks, Ashwin.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

So far, the three larger software ownership acquisition that you've made, they kind of make sense. The common question I get from investors though is not so much about your ability to make the acquisitions work in the short term which very few people doubt I think, but it's about the ability to evolve and run multiple software stacks over time. So, could you comment on that and maybe sort of talk to some of the things that you may have learned from a year of running ACTIVE?

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

A

Sure. So, I'm certainly happy to start, Ashwin. And I know Cameron will join in. So, at the end of the day, whether it's software business like the three that we've acquired over the last 14 months or whether it's an ecommerce or omni-channel business like Realex or Ezidebit or eWAY, that we acquired over the years, I think the most important metric on how we're doing is the ability to produce over a period of years sustained and accelerated revenue growth.

So, I think the most important thing is not, to your point, can you make a number one quarter, what does it look 12 months' out. It's what does it look a few years out in terms of building out a better business that has permanently changed upward, revenue acceleration margin and earnings contribution. I think we've been able to do that, to be honest.

If you look at our ecommerce acquisitions in Europe and in Asia-Pacific, if you go back and look at our integrated acquisitions with APT and PayPros, all those date from six years ago to three years ago to four years ago, and that's what we've been able to deliver. We're only a year and year and half in to ACTIVE in some of these more recent deals. But as I mentioned in my prepared remarks, the bookings numbers coming out of ACTIVE, a year and a couple of months after that transaction closed, are at record levels which I think is a testament to our view of our ability to maintain and accelerate revenue growth.

It's early days, but I also mentioned that in AdvancedMD in a limited period of time since we closed that transaction booking there running at very high rates. So, of course, time will tell. But I think if you look at that metric which I view as the primary criteria on how we're doing in these partnerships, those numbers look really good and retention customers and retention of those personnel is really high.

At the end of the day, if you step back further and you put aside metrics and productivity, and you just look at what I think we're good at and what I think we're not good at, what I think we're particularly good at is providing an environment where technologist can flourish. What does that mean? It means we're good at things like infrastructure, compliance, regulatory, accelerating sales, not just in the United States by way of channel, but outside of the United States. And that's what you're seeing with some of the benefit on the deals that we've done.

What do I think we're not particularly good at? Well, we like to leave the management and the technologist, and the software folks in place because that's the expertise that they're providing. A great example of that, I went to the closing town hall at AdvancedMD in Salt Lake a couple of months ago and what I said to the folks there is, listen, I don't know all that much about the healthcare, I'm not starting now. That's what you guys do. You know healthcare by way of vertical market, that's a lot of where the value lies. And what you're doing, I think, we can help you get there more quickly.

In the case of AdvancedMD to follow up on what – for example, Glenn was asking in terms of revenue enhancements and what we can bring. AdvancedMD is very excited about our ability to bring to Heartland payroll solutions, our ability to bring more physician residences by knowledge of local markets in which we operate and our ability to get the close rate up in 80% of payments that we don't own. Those things are generally really good news to the partner businesses that we're acquiring and the stuff that software people and sales people like to hear because we're growing the pie. And that's where I think, Ashwin, that points of demarcation are. But you have to believe me, you can just look at our track record over the last six years and see how that's gone.

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

A

Ashwin, it's Cameron. I would just maybe add just a couple of comments to that as well. So, if you think about our entire M&A approach, we're very deliberate in terms of the type of businesses we buy. We buy quality management team. We buy assets where we think the cultural fit is very strong largely for the reasons Jeff just described. We want those management teams to continue to run the businesses as they've been running successfully, leading us to our acquisitions.

So, we run our businesses more on a core and edge strategy where the edge businesses continue to develop in the core software platforms that they had developed and they continue to invest in those to keep them contemporary and ensure that they meet the needs of the market going forward and remain market leading in whatever specific verticals that they're in today.

So, that's a big part of how we approach the business to begin with. We look to get scale out of these assets through traditional corporate support services, technology infrastructure as Jeff just described, compliance activities, et cetera. And we're also looking at other areas where it can drive more scale including leveraging ACTIVE's offshore R&D capability to provide services to other software businesses as well. So, we're doing more of the development through our own in-house resources as opposed to either outsourcing that to third parties or having to do it each individually within the businesses themselves. So, we do find those opportunities create scale in the business, but largely what we provided the software businesses themselves is the right environment in which the [indiscernible] (47:37) described and the investment to continue to build the products set and the solutions to drive that top line revenue growth.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Got it. No, that's very comprehensive. I guess one other question, the follow-up, is with regards to lot of strength underlying here. Is there any reason why we should not carry this into 2019?

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

A

No, I would say absolutely not. As we sit here today and I think I covered some of this in my prepared comments, I feel very good. We're sitting here at the end of October, certainly feel very good about the momentum we have going into Q4. And I think quite frankly, our guidance for the full year reflects we have a tremendous amount of confidence in the momentum we have in the business in terms of where we think we'll end up for a full 2018 basis. And as we look forward to 2019, it sort of foreshadowed where we thought we would be earlier in the year for 2019 and beyond very consistent with the cycle guidance we've provided back in March, but still feel very good about how we're positioned to meet or exceed those expectations heading into 2019 and beyond.

Ashwin Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Great. Good to hear. See you in a couple weeks.

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

A

Great. Thanks, Ashwin.

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

A

Thanks, Ashwin.

Operator: Our next question comes from Jason Kupferberg with Bank of America Merrill Lynch. Your line is open.

Jason Kupferberg
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Hey, good morning, guys. Thanks. I just wanted to ask a follow-up question on the acquisitions as we start to project the 2019 contribution here. I think you said SICOM about $100 million in revs. We're thinking AMD, I guess, in the $140-ish million range? And then, any color perhaps on EPS accretion, how we should start thinking about modeling that for 2019 on an adjusted EPS basis?

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

A

Sure, Jason. It's Cameron. So, one quick correction and then a little bit of color. So, as it relates to AdvancedMD, and I think we said this on our Q2 call, we expect them to contribute $125 million next year...

Jason Kupferberg
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Oh, next year?

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

A

...under ASC 606.

Jason Kupferberg
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Okay. Sorry. I think that was...

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

A

So...

Jason Kupferberg
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.
Q

Okay.

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

[ph] If it wouldn't have been of (49:33) ASC 606 impact on their business which they had not yet adopted when we acquired them, so around $125 million for AdvancedMD. You're right that SICOM at around $100 million.

Just a little bit of color around margins. As I mentioned before, we expect SICOM to come in at or around corporate margins in 2019. And again, as we begin to merge our existing Xenial business with SICOM, we expect to realize synergies. And as we scale that business heading into 2020, we expect it to be accretive to margin.

AdvancedMD, we expect to be – to modestly pressure margins in 2019, so it will be a little bit of a headwind to margin in 2019 and we expect it to be kind of at corporate margins or above corporate margins kind of 2020 and beyond as we scale that business.

From an earnings standpoint, the combination we expect to be accretive to 2019 EPS estimates for our business based on our own kind of internal expectations. Both would be kind of modestly accretive kind of heading into 2019 and obviously more expansive thereafter.

Jason Kupferberg
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.
Q

Okay. And do you have kind of a clean specific number for a constant currency organic growth across the whole North America business in Q3 as well as what it was in Q2? I had a number in kind of the low 9%s for Q2, so just wanted to check on that if we include the entirety of the North America business.

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

Yeah, sure. So, constant currency normalized organic growth for North America in total was around 9% for Q2, and it's around 8.6% for Q3 in that ballpark, so very similar. The difference largely being wholesale was a bigger drag in Q3 than it was in Q2.

Jason Kupferberg
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.
Q

Exactly. Okay.

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

If you exclude wholesale, North American grew on a constant-currency basis roughly 10% in Q3 and a pretty consistent amount in Q2, a little north of 10%, so right in that ballpark.

Jason Kupferberg
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.
Q

Okay. That's great. Thank you.

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

A

Thanks, Jason.

Operator: Our next question comes from James Friedman with Susquehanna. Your line is open.

James Eric Friedman
Analyst, Susquehanna Financial Group LLLP

Q

Hi. Good morning. It's Jamie at Susquehanna.

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

A

Hello.

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

A

Good morning, Jamie.

James Eric Friedman
Analyst, Susquehanna Financial Group LLLP

Q

I'll just ask my two upfront, one for you Jeff and one for you Cameron. Jeff, in your prepared remarks, you had commented on markets where you characterize yourself as over-indexed ecommerce. I'm just wondering what advantages you like command when you're over-indexed, that's one question.

And then, Cameron, I want to ask about cross border. And thank you for the slides, they're helpful. But with regard to cross border being that you typically but not exclusively are heavier in SMB, how would you characterize if they're cross-border opportunity for SMBs? So, one on the index and the other on the cross border. Thank you.

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

A

Yeah, Jamie, it's Jeff. I'll start on the relative share of the market. So, I think if you look at those slides, we think we're overweight ecomm/omni in all three of our regions, such that – one of the points we really wanted to get out there because we do get asked what our footprint is. So, I would say, in every one of our markets – you can see on the slides, all three of our reporting regions, we have a greater share of our business in ecomm/omni than the market implies for itself, that's kind of one point.

The second point I'd make though is if you break it down further, we're particularly overweight ecomm/omni in Asia-Pacific and Europe, and we think that's a really good thing. Now, why is that the case? And I think it's because of the breadth of our geographic franchise. If you think about the 13 markets we're in in Asia-Pacific, in some of those markets I had listed some, Jamie, in my prepared remarks like Malaysia and Singapore, the Philippines, those markets are always competitive. But there is not a tremendous number of commodity based providers provide the quality of services that we are in each one of those markets. I also mentioned it's not just providing processing, Jamie, but it's providing on-site support in all the things that we do globally. So, for example, I won't mention who it is, but a very large multinational, one of the largest in the world, did an RFP a couple of years ago in Taiwan. The people who bid on that and ended up winning it were us and one other entity, and that was a bank that was native to Taiwan. Now, why would that be? Because that's a really hard service in a really hard market to provide. So, it doesn't mean that our businesses aren't competitive. It doesn't mean that we don't have to be very good in what we do, but it does mean that we like our odds when we're one and two in a market that's really hard to service. That will be a very have good reason why we think we're overweight ecomm/omni in Asia-Pacific and the markets that we're in because the markets that we're in are hard to service multi-nationally.

And of course, I also mentioned the PayPal renewal. And in some of those markets, that's a very good example as to why we feel that we've got an in-depth relationship with one of the largest payment facilitators in the world. The same thing would be true in the context of Europe. If you think about SEPA and the conversations we've had, Jamie, over the years, our view of a single market and provide not just ecomm solutions but also physical acceptance on an omni-channel basis, our footprint, our physical presence in 31 markets in particular in Continental Europe for these purposes is really helping to drive a double-digit growth that Cameron described in Central Europe. There were not a lot of people who are in those markets doing that, which is why we think we're overweight in the EU and in – by way of SEPA in those markets. Cameron, you want to comment on the second part, the cross border?

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

A

Yeah, Jamie. And I think it's a good question. It really depends on the region in which we're operating. So, naturally here in the U.S. the small to medium-sized merchant space, there is not going to be a tremendous amount of cross border. There will be some, but predominantly small to medium-sized merchants who were using our omni-channel capabilities today want to sell it online in the brick-and-mortar location and kind of in the U.S. market. As you begin to move towards Europe, you do see obviously an increase in the level of cross-border activity particularly even at the small to medium-sized merchant levels, because frankly that's what partially the EU is designed to accomplish and SEPA is designed to accomplish. It's lowering the barriers for commerce around the EU market. So you do have more smaller to medium-sized merchants selling on a cross-border basis on a Pan-European basis, and obviously we do see higher levels of cross border volume with our small to medium-sized omni-channel merchants in those markets as well.

Asia is a little bit of a mixed bag. You do see between certain markets, particularly the, call it, Chinese-centric markets, more cross border activity. So, whether it's between Mainland China, Hong Kong, Taiwan, and Macao, you're going to see more cross border activities. Whereas within other markets where we're serving small to medium-sized merchants on an omni-channel basis, it's going to be more domestically oriented as well. So, hopefully that gives you a little bit of color as we think about it around the globe. It's a little bit of a mixed bag just given the different geographies we're operating in. As Jeff noted, obviously at the multinational level, it's all about cross border. It's our ability to provide a seamless solutions in up to 60 markets around the globe where we can blur the lines between obviously the physical brick and mortar, point of sale acceptance and ecomm and omni for those customers.

James Eric Friedman
Analyst, Susquehanna Financial Group LLLP

Q

Great. Cameron, Jeff, thank you very much.

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

A

Thank you, Jamie.

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

A

Thanks, Jamie. Great to see you.

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

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Thanks, guys. I just wanted to ask a bit more on Europe for a moment. I didn't hear a lot on the UK and just kind of given all the kind of up and down rhetoric around that market. I'm wondering what you're seeing. And then, secondly in and around Europe, is this more a function of market share gains? You talked a little bit about this just a second ago, but I'm trying to make sure I can fully reconcile kind of what's underlying demand versus share gains, and how sustainable that is as we think about kind of 2019.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Hey, Dan. It's Jeff. I'll start and I'm sure Cameron will jump in. So, I think it depends on the market that you're in in Europe, but let me just start with United Kingdom. Point blank, it's share gains. If you look at our consistent growth in Cameron's copy, at least the three quarters of this year and probably going back through next year, if you look at any metric, Dan, Visa, Mastercard numbers in the UK, if you look at GDP in the UK, if you look at same store sales growth in the UK, those numbers tend to be zero or one or whatever the numbers are on a given day. And so, I think Cameron said in his prepared remarks, it's another high single-digit quarter growth for us. So, there is no doubt in my mind it's share gains. I would say, that's augmented by our focus on the small to midsize business and leading with technology.

UK, in particular, is a big place for us to have our ecomm and omni business. That's been true for a number of years, so there's no doubt leading with technology there as well as with integrated and semi-integrated solutions has been very beneficial to us. But that's just another way of describing why we're taking share in that market relative to the size of the market.

I think if you back up and look more broadly across Europe, and now I'm thinking Spain, our Erste JV in the Czech Republic and across four markets in Continental Europe, that is a bunch of things. First, I'd say, there is a no better partner thank I think you could have in Spain and across Europe than CaixaBank. As Cameron called out in his commentary, that business for the – probably for the eight years now nearly that we've been in partnership with Caixa, continues to grow 50% to 100% north of what the market reported rates of growth are. I really chalk that up to how good a partner Caixa is in that business and across Europe.

I think the same thing is prudent to be true with Erste Bank in Continental Europe. Of course, in Continental Europe, [indiscernible] (59:28) better demographics in terms of rising middle class, better receptivity to newer technologies because ecomm and omni and DCC just have an existence there. Until more recently, Spain is obviously further down the path technologically than perhaps some of our other markets in Continental Europe. Nonetheless, however you slice it, Dan, when you look at the UK, you look at Spain or you look at the Czech Republic, our businesses in those markets are all growing faster than the rate of market growth. And again, I chalked that up to share gains.

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

A

Yeah. Not a lot of color to add there, I think that covers it pretty well. Just a couple of other data points I would mention. On UK, in particular the market growth you're actually seeing is largely debit contactless.

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

A

Yes.

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

A

There is not that much market growth in the UK. So, if you look at the performance we've been able to achieve, I think it's pretty clearly attributable to share gains in that market. And obviously, as Jeff highlighted, the continued expansion of our ecomm and omni capabilities in that domestic market as well as on a Pan-European basis.

The other thing I would call out is Spain. Spain, again, mid-teens growth this quarter off of the summer where tourism was not nearly as strong as it was last summer quite frankly. So, what we saw in Spain this quarter is even better domestic trends than we've seen quite a while. Tourism was down year-over-year relative to 2017, so very impressive kind of domestically oriented performance quarter in Spain this year. And I think that summed up Central Europe really well. I think we're starting to see not only the revenue growth coming from our ability to bring new products and services into end markets that has better secular trends, but also to scale benefits with now having that operating on our technology platforms now that the migrations are complete in our joint venture. So, again, positioned very well, I think as we head into 2019 for Europe. Obviously, time will tell what manifests from the Brexit activities, but I think we feel very good about how we're positioned in that market.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Great. Thank you.

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

A

Thanks, Dan.

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

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

Operator: Ladies and gentlemen, this concludes today's conference, thanks for your participation. Have a wonderful day.