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Global Payments, Inc. (GPN)

RBC Capital Markets Financial Technology Investor Day

CORPORATE PARTICIPANTS

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

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

MANAGEMENT DISCUSSION SECTION

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Well, thank you all for being here. Again, just briefly, for those of you who I might not had the chance to meet, my name is Dan Perlin. I cover basically broadly FinTech here at RBC. So, welcome again; and thank you for being here today.

We have Global Payments next, which has been a very exciting process, in fact, probably, the company I've covered the longest, which meets back to your days when you came public, which is embarrassing, but it also explains why I have so much gray hair.

And from the company, we have Cameron Bready, who's the company's Chief Financial Officer. I'm sure, many of you know him. So, thank you so much for being here.

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

Thanks for having us. We're delighted to be here today. And thanks, everyone, for joining us this morning.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Really appreciate it.

QUESTION AND ANSWER SECTION

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Well, I thought I would start with just at a high level, will kind of funnel down, is thinking about this strategic evolution that you guys have made from technology-enabled solutions to really ultimately going into owning the software. So maybe if you could take us through that evolution and kind of where we are today and why it's so important to Global Payments?

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

A

Sure. And maybe not to split hairs too much, but I wouldn't necessarily characterize it as a shift from technology-enabled towards owning software. I think our strategy of owning software in specific vertical markets and obviously integrating payment technology into software is really an extension of our technology-enabled strategy.

So as we think about the business, maybe rewinding a few years, we set off on a strategy to try to expand what we would view as technology-enabled distribution capabilities. And the strategy behind that is really premised around the idea that when we're selling technology, when we're weaving with technology, we're obviously competing on a basis other than primarily price. We're competing based on the strength of our solutions, the strength of our technology, the strength of our capabilities, less so on pure price, which obviously pure payment processing is very much a commoditized business and price often leads the way when you have nothing distinctive other than the pure processing service to sell.

So our idea, starting back – and really this dates back to 2012 with the acquisition of APT that really created the foundation of our integrated business today, the idea was to drive more technology-enabled distribution. So back in 2015, that probably represented 30% of our business, maybe a little bit less. As of today, it's about 40% of our business. And if we fast-forward and look to the 2020 time horizon, we would anticipate that our technology-enabled businesses will represent about 60% of our business.

And, obviously, over the course of the last few years, we've moved away from a pure partnership model for integrated payments, where we partner with software providers and we integrate our technology into their environments and we collectively go to market, to owning more software ourselves in vertical markets that we find attractive.

And as I think about what's going to drive us to that 60% target over the course of time, clearly, owning more software in attractive vertical markets is a core element, I think, of what will drive that growth and, certainly, a strategy that we think is distinctive relative to our peers and one that we feel can continue execute on well. And it's going to be a meaningful portion of our business over the course of time.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Yes. Are there channel conflicts you have to deal with as you start to kind of step into the software ownership model?

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

I would say that's a little bit of a red herring. We hear that often.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC
Q

I hear it all the time.

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

Yeah. I hear it all the time as well. And really we look at the world through a vertical-by-vertical lens. And what I like about our model is we have the opportunity to both partner or own in each vertical market that we choose, but we wouldn't do the same in one, if that makes sense. So I like to have the optionality. We can look at a vertical market and say, that vertical market has the kind of characteristics that we think are better for partnership. Maybe they're already highly penetrated from a software standpoint, maybe it lacks sort of the international applicability that we'd like to see in a vertical market, maybe it doesn't have quite the strength of nexus between software and payments that we would like to see to actually own the underlying software in a particular vertical market.

And in contrast, there's vertical markets where we would say, wow, it has all the attributes that we find attractive for owning software, highly fragmented from a software standpoint, not particularly well-penetrated from a software standpoint, still displacing a lot of Excel and paper. We have the opportunity to acquire the number one, number two, or number three guy in a highly fragmented market, great nexus between software and payments, broad international applicability, large TAM. That feels like a market where we would want to own software as opposed to just partner with a particular software vendor.

So we're very careful in terms of managing our view around owning software in a vertical versus partnering. We can keep those worlds, I think, separate and I think they can co-exist very long period of time. And we've yet to come across a situation where we have a partner say, we really don't like that you own software in a totally different vertical market than that partner operates in today. So I think the channel conflict is a bit of red herring. We're paid to manage complexity, and I think we do that pretty well.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC
Q

Yeah. We do hear that question all the time. When you think about the model itself, when you buy a software company, are you envisioning getting from 40 to 60? I mean, how much of your business do you think is going to be software-driven as opposed to monetized by a payment stream? Like, are we going to look at you guys as a SaaS model five years from now? And how much of the company do you think is going to be tied to that kind of business?

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

Yeah, it's a great question. If you look at our business today, we already have a fairly meaningful portion of our revenue that's software-oriented, either SaaS or traditional perpetual license with maintenance, converting to SaaS over some period of time. And, clearly, as we acquire more software businesses in vertical markets, the proportion of our business that's really going to be more SaaS-driven versus pure payments-oriented is continuing to grow.

I wouldn't say, as we get to 2020, that I would expect to be predominantly SaaS versus payments. We're still a payments company. But, clearly, the portion of the business that is SaaS-oriented, the revenue stream that is SaaS-oriented that has all the characteristics of a SaaS-oriented software business, that's going to grow. And I expect it to become a much more meaningful component of the revenue base of the company over the next few years.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC
Q

Okay. One of the distinctions that you brought up at the Analyst Day was kind of this notion of fully integrated versus semi-integrated and kind of the competitive subset. So maybe can you just flush that out a little bit more for us in terms of what you guys see is truly, a fully, integrated stack versus what your competitors are doing?

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

Sure. So I think we view the sort of integrated world through kind of three lenses. The first is what we would characterize as semi-integrated, and that's where there's the most competition in the space. That's where we see the most of our competitors really emphasizing these solutions. That's where really the payment application rests on the point of sale system. So we have our own semi-integrated [indiscernible] (00:06:57) that we sell through our own sales channel. We also integrate with other third-party point of sale systems, like MICROS or NCR [indiscernible] (00:07:06), for example.

So very good solution, if card-present only, but it really lacks the deep level of integration in the feature-rich functionality that we're able to create when we integrate our payment applications and our payment software into enterprise software solutions that are being used to run small business, as opposed to simply integrating them at the point of sale solution. So, the semi-integrated, most of our competitors have solutions in that market. I think many of them refer to that as "integrated." We don't think about that as integrated in the way that we view sort of integrated, and I'll get to that more in a moment.

Payment solution there's a market for it, I don't think that's where the world is going. I think the world is going towards more integrated solutions in the way that we define them. But obviously, I think we compete very well in that space today, have good solutions, have good integrations with third-party vendors. And that's a business that if you look at our Heartland sales channel today, about 50% of what they sell is semi-integrated at a minimum. So, we're moving away more and more from selling just traditional bricks on counters and merchant acquiring services. At a minimum, we're selling semi-integrated solutions even through our relationship-led distribution channel.

If you move on from there, we think of integrated solutions through the partnership model, that's the core of our integrated business today, that's what our OpenEdge business does. We've been in that business now since 2012 with APT, as I mentioned previously. That business, today, we integrate our payment technology into third-party software providers, enterprise software solutions...

Daniel R. Perlin
Analyst, RBC Capital Markets LLC
Q

It's embedded in there.

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

...and then we collectively go. It's embedded in, it's deeply integrated, it's connected to every module within that enterprise solution. So, I'd like to use the dental office, as an example. It's connected to the patient record, the insurance billing, the scheduling system. It eliminates a lot of the back-office reconciliation work that used to have to be done by an individual, by a person within a business office. So, it's feature-rich, deeply integrated, very vertically fluent. Obviously it's connected very much to the idiosyncrasies of the vertical market software to which it's integrated. So, it's a very compelling solution and one that obviously we've had a lot of success in selling and growing as a part of business over the last six years that we've been really in that space.

And then lastly, we have sort of fully vertically owned solutions, where we own the software ourselves, we integrate obviously our payment functionality into our own software solutions, and we sell that collective offering into the marketplace through our own distribution channels, through our own direct sales force. So, as we think about the evolution of integrated solutions, it starts with semi-integrated all the way up to fully vertically integrated stacks of software, where we own the software ourselves.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC
Q

Yeah. And these were areas that are growing faster and have higher margins, I would say, because of lower attrition obviously?

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

Yeah. I mean, there's tremendous value to the merchant customer in the integrated solution. So, it allows for obviously economics that are better for us in terms of the services we're providing to them; they're paying for the value of the integration; and it obviously creates a stickier customer relationship to the extent that you're integrated into their enterprise software solution that they used to running their business, day-in and day-out, very hard to whip you out.

So, the attrition rates are lower, the spreads on our solutions are better. And naturally where we own the software obviously, the margins are that much better, and the opportunity for us to deliver value to the merchant is that much better, because we control the entirety of the software stack.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC
Q

Yeah. So, very positive mix shift to the story.

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

Absolutely.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC
Q

So, let's funnel this down to some growth, all right. Let's start with North America. I think last quarter, it was growing 10% organically, ex wholesale.

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

A

Correct.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Maybe we can walk through the components. I think there's five. And since we're a Canadian company, let's start with Canada.

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

A

So let's start with Canada.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

That's the most excited, so let's just knock that right out and then we'll just go through integrated e-com, Heartland, and so on and so forth, if you could. Okay.

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

A

Yeah. So, our Canadian business has performed really well. Unfortunately, Canada's a relatively slow-growth market. We target low single-digit growth in that market. And we've been successfully delivering on that now for probably the last 2 1/2, 3 years, that I can recall. So, we've had really constantly good performance in that market. We have drifted up in some quarters at in mid-single digit, which is a little bit above our expectation in that market.

And I think that's really due to very good execution by our team there; as well as efforts we've made to introduce new products, new solutions into that market, including our integrated capabilities through OpenEdge and bringing OpenEdge to Canada, which on the margin has been helpful to growth; as well as introducing Realex, our e-com gateway into that market, where you can drive more omni sales on a domestic basis and more pure e-com sales on a domestic basis in Canada.

So, both kind of relatively early in their lifecycle contributing marginally to growth. But again, our story in Canada has been very good performance, very good execution, consistent growth, not at the level that we obviously desire from the business in totality, but Canada generates a lot of cash that we can then utilize to find growth opportunities in the business elsewhere. So, it's a very healthy business for us.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Yes. So, if we keep working through the pinwheel, let's just talk about integrated and vertical solutions.

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

A

Yeah. So, that's a double-digit growing market for us, and that's our targeted growth rate. If we look at the vertical market businesses that we're in today where we're own the software and our integrated channel where we partner with other software providers, we expect those businesses collectively to grow in the low double-digits. They have been now for quite some time and that's our targeted growth rate for those businesses going forward, certainly did in the first quarter.

And as I think about, again, our technology-enabled distribution, the combination of our integrated and vertical markets business and our e-com and omni business, those are the tip of the spear for growth for our company globally. So, those businesses we both expect to grow into the double digits, and in some cases, well into the double-digits. And they will be obviously important growth drivers for the business over time.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

And that includes e-com and omni in that same vein?

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

A

In technology-enabled distribution, yeah, we include both our integrated and vertical markets business, and our e-com, and omni solutions businesses globally. And those, again, collectively, we expect to grow into the double-digits.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Any nuances between those two in terms of...

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

A

Not significantly. Market by market, you're going to have different rates of growth. But by and large, when we aggregate those businesses around the globe, that's our targeted growth rate for each of them – is low double digit.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Okay. You know the Heartland channel, how's that...

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

A

So, that channel's growing high single digit. It's been a great distribution channel for us, very steady growth, very good new sales performance and execution, very steady rates of attrition, and same-stores sales have been very stable. So, if you think about the calculus of what drives growth in that business, kind of starts with new sales, obviously, same-store sales and rates of attrition.

After closing the Heartland transaction back in 2016, we successfully reduced attrition in that channel by a probably a couple of 100 basis points on average. That helped drive slightly stronger rates of growth in that channel for some period of time until we really anniversaried that. But we view that business as kind of a high-single-digit grower, which is what they've produced in the first quarter. That's our expectation for the full year for that channel, and they're very much on track to deliver that.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC
Q

There was a lot of talk about pricing, adding value. I know you don't raise price for pricing sake, right. You guys have been very consistent at saying. But you have had this for a while, and I'm just wondering are they still incremental opportunities, or is it share gains that you're getting in that market?

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

So, as we think about the channel, we're growing that channel very nicely without having to really meaningfully address price. And that's always been our objective, and I think we've been able to consistently do that since we acquired Heartland back in April 2016. Naturally, over the course of time, we believe we're delivering Cadillac service to customers. And right now, I would say, pricing is more at the sort of Honda Civic level. So, at some point we want to drive pricing up in a way that reflects the value that we think we are delivering to customers.

The easiest way to do that is to make sure you're selling new, what you think is an appropriate, obviously, margin and spread relative to the services that they're taking from us and the service that we're delivering to them. And then, over the course of time, naturally, the book will move in the right direction from a pricing standpoint. But when the channels are already growing at our targeted growth rate, there's no real reason for us to lean too heavily on price or being more aggressive in terms of trying to move the portfolio to what we view to be a market rate of price.

We can allow that to more gradually happen over the course of a longer period of time to help drive more sustainable growth for a longer period of time in the business, which would be my objective, as opposed to being too heavy-handed and then just leaving myself with a difficult grow-over in the next period for no real benefit.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC
Q

Understood, understood. Now, you also have a pretty purposeful strategy on the wholesale side to kind of shrink that. So can you kind of articulate that point?

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

So our wholesale business is very much a legacy business for us. And I would say, we have grown and scaled our direct distribution business to a point today where we're perfectly comfortable allowing that wholesale business to roll off naturally over time. We started to move away from – we'll renew some of our wholesale relationships, depending on circumstances to pretty much, our stance today is we're not likely to renew – I would not say, we would never renew, but our general stance is we're not going to renew. And as those wholesale contracts come up, we'll allow those to roll off. And for those customers that have the ability under their contract to move from a direct wholesale relationship with us to an indirect relationship, we naturally support that as well.

So that business will trite over the course of time. And the resources that we have supporting that business today, as that happens, we can redirect towards supporting our higher growth market businesses. So part of the reason we're comfortable in allowing that happen is the sooner we can move away from the wholesale business, which we think is a legacy, obviously, structurally challenged wholesale or distribution model. The sooner we can do that, the sooner we can redeploy resources to higher margin businesses, which I think is better for us long term.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC
Q

Well, remind us where we stand in terms of North American margin promises and opportunities, because on one hand you're reducing the wholesale business, which is obviously good for mix. And on another hand, you're driving a lot more growth to higher margin business. So part of it is how much you throttle in and out of investment, I suspect. So to the lens of the possible, where are we in that margin...

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

Yeah. So what we target total company is up to 75 basis points of margin expansion annually. And if you think about our business mix today, 75% of our company is here in North America. So if we're not expanding North America margins out or above that level, then we're not going to get total company margin expansion to 75 basis points or better. So that's generally how I think about the margin.

A lot of the investments we are making are going here into North America. The mix shift benefits that we have here in North America are obviously nice tailwind for margin expansion. New products and solutions that we're delivering to customers, in particular software, but also analytics engagement capabilities, those types of solutions, payroll. Those are better margin products than traditional sort of merchant acquiring.

Those are all nice tailwinds to margin expansion over the course of time. And then, naturally, it's a scale business. We're operating at scale in really every market around the globe. So the marginal margin of every new sale is pretty good. So, obviously, the faster we're driving top line race of revenue growth, the better margin expansion we're going to see in the business.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC
Q

The mix shift away from kind of legacy ISO, not so much your strategy to get out of wholesale, but the actual mix shift in the industry. As you go down these vertically specific areas, it does seem like there's a pretty big market share opportunity to take away from the legacy space. And I'm just wondering, because when we kind of add all of that volume up, it looks like ISO still have 15%, 18% or more of the volume in the United States. So where do you think we are in that process?

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

I think we still have a long runway. And I really think about it through the lens of where is our integrated business going over the course of time, because if you look at integrated today and our most penetrated vertical, we're probably 25% penetrated. On average, we're probably 10% penetrated, which to me suggests that the integrated business, which again is higher margin, higher value business for us, that's in its early stages, early inning so to speak here in the U.S. market.

So I think we have a long runway to continue to grow that business nicely, gain share through our technology enabled distribution channels, while at the same time continuing to grow the Heartland more relationship-oriented channel in that high-single digit pace, because there's plenty of fertile ground for them to continue to sell solutions to customers, whether they're semi-integrated or not, I think at a pretty good pace, gaining market share from other bank-based distribution competitors or ISO competitors in the marketplace.

So I think in terms of our ability to gain share, I think we have a long runway and a lot of confidence that we have the right distribution, and we have the diversity of distribution certainly in the U.S. market to continue to do that for the foreseeable future.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Okay. So let's shift gears and go to Europe, if we could, and maybe let's, as a jumping off point, start in the UK, since they seem to get all the questions right now about lack of growth. So what do you see in that market? I mean, you really punched above your way consistently there. And so, I'm trying to understand why that's sustainable?

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

A

Yeah. I think it's a great question. So, first of all, we've pretty cautious on UK for a while. We've been fairly forthcoming about out caution around Brexit and the short-term or near-term implications of Brexit in the UK market. And I think you saw a little bit of that in the first quarter, at least as it relates to the macro data.

Notwithstanding that, I think one of the things we probably underestimated over the course of time is our ability to continue to gain share and notwithstanding what's been a little bit of a softer macro environment in the UK. And our ability to continue to grow that market at a pretty attractive pace, in line with our targets for that market, notwithstanding a little bit of macro weakness. So I feel fairly confident sitting here today that we'll continue to execute well in that market, and we're going to continue to grow well above the rate of market growth in the UK in the near to medium-term.

And I think it's really a function of having a very differentiated offering in that market, our focus on the SMB merchant in that market like we do in all markets really around the globe, the products and distinctive solutions we've been able to bring to market. And again, I've already said this, but I'll emphasize it again, just really good execution by our team there.

So notwithstanding our caution around the UK in the near term, I think we're still very bullish, Europe in the medium to long-term. We have a fantastic collection of businesses in Europe. We have a terrific e-com omni strategy on a pan-European basis. We have wonderful bank partners in Spain, in Central Europe, Czech Republic, Romania, Slovakia with Erste Bank and, obviously, CaixaBank in Spain.

So I think in terms of how we're strategically positioned in Europe, we're very bullish kind of the long-term prospects or medium term prospects for that market. And then, part of that's driven by a regulatory environment that I think continues to trend towards being favorable for a business like ours.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Okay. I do want to touch on Spain just for a second because it has been off the charts for so long now. And then the concern is that you have this kind of diminishing return curve in that market. And so, what else can this partnership that you have with Caixa bring to you guys? I mean, you seem like you've got good visibility there?

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

A

Yeah. I think, we have a great visibility there. And I think Spain is a good example of our faster growth market strategy as I think about it. So over the last couple years and I think for – we still have several years in front of us, we're going to benefit from just the natural secular tailwinds in that market.

Spanish GDP has been pretty good. It was little better couple of years ago, but still in probably that 2.5%, 3% range this year. So underlying GDP growth has been pretty good. The secular tailwinds continue to be very good. Card penetration in Spain is still relatively low, believe it or not. I think the opportunity to continue to benefit from the secular tailwinds still has a long runway to play out over the next several years.

But the other thing we're doing in Spain, and this is how we think about just the faster growth markets in general is as those secular tailwind start to wane a little bit which is natural. We can augment growth by bringing more technology-enabled distribution strategies to that market. And it ties back into our overall thesis around owning our own software in vertical markets that we find attractive.

The more that we own, the more we can control how we globalize those solutions. We're going to determine when and how we bring those to new markets outside of the U.S. And we can use those tools to drive longer-term rates of growth in these markets, because the faster growth markets will begin to mature; and as they do, we'll continue to introduce more technology-enabled solutions into those markets to help sustain higher rates of growth for longer period of time.

So the faster growth market strategy is interesting and probably one that's under-appreciated, I think, in the context of Global Payments more broadly. You get the benefit of the nice secular tailwinds in the near to medium term, and they become obviously right markets for more technology-enabled solutions longer term that again generate an ability to continue to sustain growth for the total company at higher levels for longer periods of time.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

What about Asia? So we didn't talk about that one yet. So what's the dynamic there, it feels like it's a little bit of dichotomy.

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

A

Well, I think, Asia's actually been pretty stable now for probably the second year, where we've seen good stability in that market.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

Q

Margins have been fantastic there.

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

A

We've grown double-digits in that market. I think, in Asia, we're really benefiting from a lot of the investments we've made to have more scale across the region over the past couple of years. I think, we've grown our revenue base in Asia by almost 100% since I've joined the company. So, naturally, we're seeing a lot of scale benefits flow through as a result of that, which is part of what's been obviously, contributing to the margin expansion over the course of the past two years in particular.

So I think, we're on a steady course to continue to generate low double-digit growth in that market. That is our target. We've obviously demonstrated we can grow a little bit better than that from time-to-time, but our target is low double-digit in growth in Asia. It's a story of really faster growth market opportunities we see, as well as further ability to expand technology-enabled distribution capabilities, particularly in Australia, and start to bring more of those solutions into other Asian markets over the course of time.

So, again, it's another market where I think execution has been very good. Not all 13 markets are great every single day. But on average, I think we have enough diversity across that region and enough obviously growth tailwinds where we feel confident in our ability to continue to grow that market at a low double-digit pace going forward.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC
Q

Okay. Talk a little bit about this new JV you've got with HSBC in Mexico.

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

Yeah. Again, clearly, Mexico falls into the faster growth market category. Another unique opportunity for us to partner with a large financial institution, a very credible financial institution, one that we have a long history with in many markets around the globe. And I think it's a testament to sort of Global Payments' ability to partner effectively that HSBC keeps coming back to us, notwithstanding the fact they have choices, of course. They keep coming back to us to form these joint ventures.

We're excited about the Mexican market. The secular tailwinds for growth in that market are very attractive. GDP growth is solid. And I think HSBC is very well-positioned as a distribution matter across the Mexican market. They're in all 32 states in Mexico. They have particularly strong presences in the major financial centers, so, Mexico City, Monterrey, Guadalajara. They have 970 some-odd branches throughout the Mexican market [indiscernible] (00:27:24) distribution matter. I think they're very well-positioned.

We bring technology, we bring capability in the merchant acquiring space to that market. So, we're excited about our partnership to get that up and running, hopefully as we go into 2019. And it's another example again of us kind of leveraging partnerships to gain distribution in a new market and our ability to bring technology to that market to drive, again, faster rates of growth for the business overall.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC
Q

Yeah. HSBC has been a fantastic partner for you guys.

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

They've been really great partner for us for a very long time.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC
Q

I wanted to talk about M&A for a moment. We'll be remiss if we didn't touch on that topic. So, where do we stand today in terms of kind of your comfort level in terms of dry power and how you are thinking about putting capital at risk? Where are we in that process?

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

A

Yeah. So, I would sound very comfortable with where we are form a leverage standpoint. We have tremendous amount of capacity, I think, in the business pursue M&A, if the right opportunities present themselves. So, our leverage as of the end of Q1 was 3.4 times, very much in my sweet spot for leverage for the company. We target 3 times to 3.5 times.

So, I feel like we have a lot of capacity to put capital to work to continue to advance our strategies, to augment what we're trying to accomplish around the globe, enter new vertical markets, enter new geographies, find new partnerships and acquisitions that allow us to grow and expand our business.

So I think, as we say consistently, our priority is to invest, to grow the business. That being said, I think we're very disciplined buyers of asset, I think we're very good stewards of capital. And I think we've shown a great ability to put capital work in a way that generates a lot of value for shareholders over a long period of time.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

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No doubt.

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

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Our M&A pipeline today is as full as it's probably been, since I've been at the company. That doesn't necessarily mean that any of those opportunities are going to come to fruition, but we aren't at a loss for good opportunities to look at that advance our strategy in different ways. So, that continues to be our priority. To the extent M&A doesn't materialize, we're not going to sit on delays in capital. So, with the balance sheet in a healthy place, to the extent we don't see near-term opportunities to put capital work in the business, and our objective is to return capital to shareholders in as efficient manner as possible. And traditionally, that's been buying back our stocks as we think it's very good value where it is today.

Daniel R. Perlin
Analyst, RBC Capital Markets LLC

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Yeah. And then, for sake of time, kind of the last question I wanted to talk about is the relationship really you have with Vista Equity Partners, another unique attribute that's really to Global Payments. I think a lot of businesses inside of that portfolio. You've partnered with few of them thus far, acquired one out of it. I tend to think of it a little bit as a feeder pool. I think you guys kind of walked me off that a little bit, but maybe you could enlighten us about how you envision that long-term?

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

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Yeah. Well, I do think you're right. It is a very unique relationship that we have with Vista and I think it's a very fruitful partnership already. And I think it has a lot more opportunity over the course of time. So, the relationship we have with Vista is we really have a strategic partnership to provide payment solutions to their portfolio of software companies. Our objective and their objective is for us to do that on a company-by-company basis, which is what we've been doing today.

And I want to emphasize that we don't expect to be given that business. The relationship isn't that we can come in there and be non-commercial and we're going to win the business regardless. We have to be commercial, we have to be able to provide the solutions and capabilities that their businesses are looking for. But I think we're three-for-three in terms of the first three quarters of that partnership. We've signed three partnerships with their portfolio of companies. So, I feel pretty good about how the pipeline is developing.

But again, part of the strategy is to obviously work directly with those portfolio of companies. By definition, Vista is a transient owner of businesses, so we want long-term relationships with these portfolio companies, so we work with them directly. It's nice to have Vista's finger on the scale, so to speak, as we enter into these transactions, but that's not to say, we don't have to earn the business. And we work very hard to earn the business from the portfolio of companies.

To your other point, obviously, we have acquired an asset from Vista in the past. I think we've been delighted with how that has gone. I think it's proven to be good value for us, good value for them. So, I certainly wouldn't rule out the opportunity to do that in the future. And they do have assets in their portfolio that we do believe align with our software-driven payments thesis, where there's a very strong nexus between vertical market software and payments. But again, nothing in our relationship would suggest that, that more likely to happen than us acquiring an asset from another third-party.

Daniel R. Perlin

Analyst, RBC Capital Markets LLC

Understood. That's a great story. So, keep the momentum up. We all appreciate it. And Cameron, it's always a pleasure to see you. So, thanks...

Cameron M. Bready

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

It's great to be here. Thanks very much for having us.

Daniel R. Perlin

Analyst, RBC Capital Markets LLC

Thank you. Thank you.

Cameron M. Bready

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

Yeah. Thanks. Good to see you.