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# Global Payments, Inc. (GPN)

Deutsche Bank Technology Conference

### CORPORATE PARTICIPANTS

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Cameron M. Bready

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

### MANAGEMENT DISCUSSION SECTION

### Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

We'll get started. My name is Bryan Keane, I am the Senior Payments Analyst here at Deutsche Bank and we're excited to have Cameron Brady, the SEVP and CFO and I guess, now with Dave leaving, you're taking on even more responsibility.

### Cameron M. Bready

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

[ph] A few (00:00:14) here and there.

### Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Hopefully you're getting a bigger paycheck for all that.

#### Cameron M. Bready

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

They didn't mention anything about that unfortunately.

#### Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

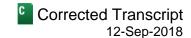
So anyway, I just wanted to start maybe, Cameron, just kind of big picture, because I've been amazed at what you guys have done over the last five years, especially with you and Jeff coming along and kind of repositioning the company. So, maybe you can just take us through kind of where you were five years ago and kind of where we're going.

#### Cameron M. Bready

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

Yeah, it's a great way to frame up, I think, the conversation today. And first of all, thank you, everyone for joining us. We really appreciate the interest in Global Payments. So, several years ago, we set out and endeavored on a strategy that was really built on four fundamental pillars.

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One was, we wanted to grow and control our own direct distribution and particularly distribution that had an element of technology enablement associated with it and I'll talk more about that in a moment.

Secondly, we wanted to position ourselves to deliver new innovative products and solutions to our customers that aligns with where we are today in terms of wanting to wrap more value around the transaction, wanting to be able to deliver our customers a richer experience in their engagement with us outside of being a commoditized payment processor to them.

Third, we endeavor to build a common operating environment, a common technology environment that we could leverage globally to position the business for better scale, to position the business to deliver solutions globally with local expertise which is really how we tried to put forth our business strategy today.

And then lastly, we've taken a very disciplined approach to capital allocation and when I think we've used our capital wisely to support these initiatives and support these strategies over the course of the last several years.

So, where does that leave us today? Well, today, roughly 40% of our business comes from distribution channels that our technology enables. That's the combination of our integrated and vertical markets business where we're integrating our payment technology into either our own software solutions that we're selling to customers in specific vertical markets or where we're partnering with software providers in vertical markets, deliver our payment capabilities or through our e-comm and omni solutions business, again, where we are bundling the card present, card not present experience for our customers in leveraging technology to be able to do that. And over the course of the next several years, we expect to drive that portion of the business to be roughly 60% of the company. So 60% of our revenues will be coming from technology-enabled [ph] businesses (00:02:47)

Today, our business is really based around three primary strategies for growth. We want to continue to grow our software-driven payments thesis, again, our integrated and vertical markets businesses. We want to continue to expand and grow our e-comm and omni solutions businesses. Again, as the lines between card present, card not present payments blur, I think we're well-positioned to continue to deliver innovative solutions to our customers in that arena. And we want to continue to grow our exposure to faster growth markets.

One of the unique elements of Global Payments relative to many of our peers is our exposure to faster growth markets around the globe where we're benefiting from the secular trends in those markets that are unique relative to more mature markets like the US and we're able to drive, again, faster rates of growth by virtue of those secular trends, as well as bringing our innovative solutions to those markets that I think, again, is differentiated for us.

So, we have a business today that I think is poised to continue to grow very nicely top line, as well as bottom line over the next several years. And we couldn't be more delighted with the progress we've made.

### QUESTION AND ANSWER SECTION

#### Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

So I want to drill down on a couple of those points, the move going from roughly 40% to 60%, I think, you've laid out at the Analyst Day [ph] to (00:04:01) move that tech-enabled business by 2020. Well, that – is there a way to think about, like will that be half organic, half acquisition? Will you need to make acquisitions to get to that kind of a position?

#### Cameron M. Bready

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



Yeah. I think, certainly, our vision for evolving the business mix to be 60% technology enabled by the end of 2020 involves inorganic growth, as well as organic growth. Our technology-enabled businesses are growing organically at a minimum in the low-double digit range and in some cases, higher than that, but organic growth alone won't allow us to get to that target by that point in time. So we do envision utilizing our capital to continue to invest in more businesses that have an element of technology enablement associated with them, in particular, acquiring more software businesses in attractive vertical markets like AdvancedMD, for example, as well as continuing to find those opportunities to drive more technology enablement in the business through M&A.

So that's clearly a part of the strategy to get us to that overall target. I wouldn't put a hard number on how much contribution is going to come from each. But certainly, we would expect more or expect to continue to deploy more capital towards those types of opportunities over the next few years, which will help us get to that target.

#### Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.



But as this mix shift takes place, with tech-enabled growing faster, does that naturally then going to push the overall organic growth of the company a little bit higher?

#### Cameron M. Bready

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



Sure. And I think that's reflected in the targets that we established at the investor conference as well, we raised our growth targets for the business at that point in time. We expect to generate organic rates of growth in that high-single digit to low-double digit pace over the next several years. And largely that's going to be led by our technology-enabled businesses and the continued mix shift towards more technology enablement will continue to be a nice tailwind to organic revenue growth in the business over that timeframe.

#### Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.



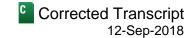
So, you guys were one of the first to get into integrated business. And then now, you guys have kind of pushed this strategy a little bit further to go verticalized software. Why do you think that's an important attribute? Why go after that market?

### Cameron M. Bready

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



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Yeah. I would say a couple of things as an opening matter. Our overall thesis is the market is becoming more verticalized. We see our customers demanding more vertically [ph] proven (00:06:18) solutions, less and less are they looking for simple horizontal one-size-fits-all answers to serve their business needs. They want vertical capability. They want vertical fluency in their solutions. And we believe, as opposed to hardware, software is really the right way to deliver those capabilities to our customers. [ph] So, (00:06:36) you ask why software? I think there's a few attributes about software that we find particularly attractive.

First of all, software has faster rates of growth than our traditional sort of core payments businesses are going to have. And again, the ability to deliver our software through – our payment functionality through software, we think will allow us to drive faster rates of growth in the business going forward. I think secondly, software [ph] is distinct to (00:07:00) distribution. You're selling technology. You're not leading with price. And it's differentiated in the sense that it's vertical [ph] focus (00:07:07) and the ability to deliver it through the cloud as a software-as-aservice platform, creates a very distinctive distribution capability relative to how our competitors traditionally go to market to provide payment solution.

Third, I would say, the retention rates are very high. It's highly predictable. The recurring revenue aspects of software businesses are very attractive, continuing to shift the revenue mix. Roughly 15% of our revenues today are now software-driven, pure software-driven as opposed to being pure payments oriented and continuing to drive that mix towards more software is going to help to demonstrate higher rates of predictability for the business that we think is valuable long term.

And then lastly, again, we're very focused on vertical market software in those vertical markets where there's a strong nexus between payment functionality and software that's being used to run businesses. So, the fact that we're focused on vertical market software aligns with the overall thesis that we have about the verticalization of the market going forward.

#### Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Does this also protect you a little bit – there's some thought that residuals on integrated payments continue to go up a little bit. So now, owning the actual software will kind of defend you guys away from rising residuals?

#### Cameron M. Bready

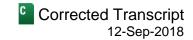
Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.

Yeah. I think it's clearly a bit of a hedge to that. I don't necessarily subscribe to the theory that the economics of the partnership model are going to become unattractive over time. I think it's natural to assume that residuals or rev shares, however, you want to characterize them, are going to creep up over the course of time with your partners. And typically, you're able to compensate that by driving more volume through the business and continuing to grow through what may be a slightly higher residual rate with those customers.

So, we still very strongly believe in the partnership model. Our OpenEdge business has, I think, over 2,000 software partners today across 60, 70 different vertical markets. So, I think we feel as if the partnership model and the ownership model can co-exist for a long period of time. But I think your point is fair in that by owning our own software, we do somewhat protect against that risk to some degree. I think the other aspect of owning our own software is we control our own destiny as it relates to how to internationalize or globalize our solutions [ph] over time (00:09:26).

So, as opposed to having to rely on a partner to decide, hey, I want to go to the UK market because I see a great market opportunity, to the extent we own our own solution [Technical Difficulty] (00:09:36) part of why where we

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gravitate towards those vertical markets that have some broad-based [indiscernible] (00:09:41) control our own destiny long term and the ability to export those solutions to other markets to continue to offer differentiated solutions to our customers in the 30 markets outside of the U.S. that we operate in today.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Q

So in the software side, you've added recently AdvancedMD and then ACTIVE before that. Are those the types of size of deals that you think you'll do and should we think about one or two a year of this kind of size going forward?

Cameron M. Bready

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



Yeah, I think – I mean, I think they're good-sized businesses. I think the reality of managing a business that's \$20 billion of market cap and \$4 billion of revenue, it takes a little more the needle than it used to.

So it used to be a couple of hundred million acquisition could move the needle for us and now, it needs to be something a little bit larger than that. So I think they're both representative of the types of businesses that are worth our time, from a size standpoint, I would focus more on the fit, strategically. The attractiveness of the vertical markets in which they operate and obviously, how well they match up against the criteria that we've established for vertical markets where we want to own software versus those vertical markets where we're quite happy to partner with someone.

But certainly, something in that \$500 million to a couple of billion dollar range is what I would view as roughly a bolt-on transaction for us now, just given the size and scale and scope of business that we're operating today versus where we were several years ago.

As it relates to the number that we would do in any given year, I never like to put a specific target on that, because to me, that sort of implies you're going to do a deal just to meet a target as to the number of deals you want to do in a period as opposed to deals that make sense strategically, economically and obviously, culturally.

So we're far more focused on finding the right opportunities. And when we do, we execute against them. And if we don't, then we're very good stewards of capital. And if there aren't good opportunities to put capital to work in the business through M&A, then we'd like to return capital to the shareholders and we'll continue to work for the right fit as opposed to just feeling like we need to [ph] do (00:11:48) something.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

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I want to ask about the analytics solutions you guys are rolling out across the countries, including Xenial, are you charging separately for that product and how does that fit into the overall strategy?

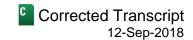
Cameron M. Bready

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



Yeah. So it's a great question and we're really excited about these capabilities. So we rolled out what we call our Xenial analytics platform in the U.S., Canada and the UK now and effectively what it is, is a premium analytics product that we're able to sell to our customers and it's really softwares delivered through the cloud. It is enhanced capability relative to the traditional merchant reporting and analytics that are what I would characterize as table stakes. So it's a premium model, customers opt in and subscribe to it and effectively, it provides them

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enhanced customer analytics, sales trends, the ability to do social media reputation management, the ability to run e-mail marketing campaigns and it is a subscription-based model, customers sign up for it, they utilize it, it's a monthly subscription fee. So it's very much aligned with our strategy of, again, wrapping more value around the transaction solutions that we're delivering to customers, doing as much of that as possible through software and again, with revenue streams that are predictable and less tied to volumes of transactions processed.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Q

So I wanted to move on to another growth area, you mentioned the e-comm omnichannel area. Obviously, that's been growing almost high teens, I think, for you guys. It doesn't get maybe as much press as some of your other areas do. So just want to understand that business and where is it positioned today and where do you expand into U.S. or Asia or how do the growth rates going to look going forward?

Cameron M. Bready

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



Yeah. I think we're pretty excited about the opportunity to continue to grow and expand that business going forward. It roughly represents 12% probably at Global Payments today, but growing at certainly a faster pace than the overall rate of revenue growth for the company. As we think about the e-comm, omni space and we tried to lay this out in our investor conference as well, we really try to stick to our knitting to a large degree in that arena. We're very focused as a company.

And I think our entire business model is really built around servicing small to medium-sized customers predominantly. That's not to mean we can't service large customers, we have them in every market around the globe, but we really target and we're really focused on growing that small to medium-sized customer base in every market around the globe that we operate and e-comm [ph] and (00:14:20) omni is no different.

We're focused on delivering that true omnichannel experience to the customers either on a domestic or regional basis, and in some cases, a worldwide basis, but usually, at that small to medium sized customer level.

We do go upmarket to larger multinational corporations and typically, we do that when we're able to serve a particular need that they have that's somewhat distinctive and often that involves a geographic location that others can't serve particularly well.

So we like how we're positioned in e-comm and omni space. We're not fighting for the large e-comm only customers like Netflix where it's tons of volume and very thin spreads. We're not paying for customers like eBay to come into our platform. We're focused on delivering solutions small to medium-sized merchants where the economics of doing so are attractive to us and we think our solutions set is geared toward their needs.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

You mentioned fast growth markets. Can you talk a little bit about some of those markets in Europe, I guess, first, Spain and Central Europe? And even the UK for you guys has done a lot better than most other players.

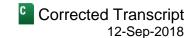
Cameron M. Bready

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

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Yeah, I think that's fair. We've been delighted with the success we've had in the UK. We don't think of that as a faster growth market per se. It's a relatively mature market from a card standpoint, but we've been very pleased

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with our ability to gain share and we've certainly been pleased with the level of volume and transaction trends that we've seen in the business over the course of time, despite what's been obviously a bit of a choppy macroeconomic environment. So putting the UK aside for a second, I'll focus on the other markets that we do more characterize or consider to be faster growth markets. Spain continues to be a terrific business for us. We have a wonderful partner in CaxiaBank, first and foremost.

The market rates of growth continue to be quite strong. The underlying GDP is reasonably good, still close to 3% this year and the market rate of growth is probably still going to be in the high-single digit range, and we're growing well into the mid-teens in that market. So Spain continues to be a terrific market where we have a terrific partner and execution wise, things there could really not be going better.

We've been delighted with the partnership with Erste Bank (sic) [Erste Group Bank] (00:16:30) in Central Europe. That's really proven to be, I think, far more successful than even I expected it to be going into it. We see good market rates of growth in the Czech Republic, [ph] Spain (00:16:41), Romania and Slovakia, where we have businesses today. Erste has been a very good partner and I think our ability to bring new technology, new solutions to those markets now that they are operating on our platforms has been a very effective way to grow those businesses at a much faster rate than the market rate of growth and to continue to drive overall growth for our European business.

Our other exposure to faster growth markets, of course, is in Asia.

#### Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Asia, yeah.

#### Cameron M. Bready

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

Yeah. And we've had, I think, great success in Asia over the last few years in doing a couple of things. One is, diversifying our business away from the Greater China market. So we're less susceptible to what may be happening with the Chinese economy from one quarter to the next.

Two, we've invested heavily in technology enablement, largely in Australia, and are now looking to bring those solutions to bear in the rest of Asia proper. And then three, we've invested in good partnerships, again, with BPI in particular in the Philippines, where, again, through that partnership we've been able to drive faster rates of growth for our business.

So we've been able to move Asia sustainably into a low-double digit growth rate over the last couple of years and feel good about how we're poised to continue to grow at that level going forward between a combination of obviously, the investments we've made and the secular trends that exist in those markets.

### Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

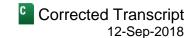
I was just thinking about this, Ezidebit has got to be one of the better acquisitions you guys have made.

#### Cameron M. Bready

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

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I mean, pound for pound returns from that transaction are probably – Heartland is the close second, if it's not, right up there next to it, but pound for pound the returns from that transaction are probably as good as [ph] anything (00:18:10) we've done.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Yeah.

Cameron M. Bready

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

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[ph] I just wish we're (00:18:13)10 times bigger.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Yeah. Yeah. I wanted to ask about the HSBC JV within Mexico. Where do we stand on that and what does that mean for you guys getting into that market?

Cameron M. Bready

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



Yes. So I would say strategically, it's very important to us. First of all, HSBC is a longstanding partner and I always think it's good news when a longstanding partner chooses you yet again in a new market where they're looking to replicate, I think, what we've been able to successfully do with them in other markets over the course of time. So number one, I'd say, it's pretty strategically important to us, particularly in light of the relationship and history we have with HSBC.

Secondly, financially, it's not that impactful I would say, at least, in the near-term. First of all, it's a 50/50 joint venture. We won't consolidate the joint venture to flow through our financial statements as other income. Over the course of time, I think it has the potential to be more meaningful certainly as a financial matter as we expect to be able to grow that business very nicely and we expect to be able to gain share in the Mexican market, which as a market we find very attractive and one, again, that fits nicely into that faster growth market thesis and strategy that we're looking to execute against. So we're excited to close that hopefully before the end of the year. I think we're on pace to do that. Again, a very strategically important opportunity for us to be less impactful in terms of what investors see from a financial performance standpoint, but over time, I expect it to be more meaningful.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.



And then, can you talk about your guys' success in Brazil and any other Latin American opportunities you guys are looking to expand into?

Cameron M. Bready

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

Yeah, I think Brazil is a bit of a unique situation for us. It's the first time that we've really gone into a market and tried to build a merchant-acquiring business from scratch. Typically, we go in and will acquire or partner to gain immediate scale. And in Brazil, there just weren't really particularly good opportunities to do that and we chose to go into that market organically with our partner [indiscernible] (00:20:08), because it was obviously strategically important to them as well.

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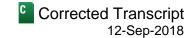
So, I think our success there has been quite good for someone trying to build a merchant-acquiring business from scratch. I think, I can't remember the exact merchant count we're up to today. It's probably something in the neighborhood of 38,000 merchants. The business is profitable, it's cash flow positive. It still needs to scale and hopefully, that will continue to come over the course of time. So, we're well positioned in the market.

Thankfully, given the market challenges we've seen in Brazil, we're not particularly large there, but our business continues to perform well despite what's been a challenging, I think, overall market environment in Brazil. So, if you look at the business today, we're in Brazil, we're in Mexico. From our standpoint, just given the size and scale company we are today, there's not a lot of other markets in Latin America that are probably large enough to warrant our [ph] time (00:21:01). And I would say more of our investment opportunity is really going to be focused on our core businesses in North America, Europe and Asia-Pacific going forward.

Bryan C. Keane Analyst, Deutsche Bank Securities, Inc.	Q		
And then, on the flip side, you guys have a couple of businesses that don't grow quite as fast as all these growth markets we've been talking about so far. And in particular, I'm thinking about the North America wholesale business in Canada in general.			
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.  Yeah.	A		
Bryan C. Keane  Analyst, Deutsche Bank Securities, Inc.  What are the rates of growth look like for those businesses as some of them kind of wind down	really?		
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.  Yeah. Well, the North America wholesale business is a business that we're purposely winding of the control of the co	Adown.		
Bryan C. Keane  Analyst, Deutsche Bank Securities, Inc.  Yeah.	Q		
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.	А		

That's a business that is declining and that's because we're not signing any new [indiscernible] (00:21:37) and haven't been for quite a while and we're really not renewing any [indiscernible] (00:21:41) as their contracts come up for renewal. That's a business that we've been working to pivot away from for the last five years. We want to move all of our focus towards our direct distribution channels away from our wholesale channel. And we – as far as I'm concerned, the quicker we can move away from that channel and focus all of our resources on our direct channels, the better. So, that business will continue to decline and roll off over the next few years and we can absorb that given the size of business we are today and again, that's part of our strategy.

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Canada is very different. Canada is a very important market to us. We have a large business in Canada where we're, I think, performing very well. The reality is the market is just not a market that's going to grow given the dynamics of the market at the same pace as we have for the overall company. Now, the nice aspect in Canada is it generates a lot of cash that we're able to use and invest in other businesses that do generate higher rates of growth for us. And our position in Canada is one that we're very proud of. Our execution in Canada is one we're very proud of. The reality is that business will never grow at the same pace as some of the other businesses we have or the overall target for the company, [ph] but (00:22:49) it's valuable to us in many other ways.

#### Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Wanted to shift over to operating margins. I think the guidance now is up to maybe 120 basis points in fiscal year 2018. Where are you seeing the leverage and is there more leverage to come on just even mix shift, plus some of the cost take-outs?

#### Cameron M. Bready

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



Yeah. I think there's really three primary drivers of margin expansion for us organically in the business. One is, what you just described. The business mix shift that we're seeing and the contribution it has, the margin expansion is pretty attractive. Our highest growth businesses are technology-enabled businesses. They also happen to be our higher margin businesses as well. So, the more those are growing quicker than the rest of the portfolio, that natural mix shift benefits margin expansion going forward. Secondly, new product solution capabilities that we roll out, whether it's software or the Xenial analytics products we were describing earlier, all of those are coming in at higher margins in our traditional core payments businesses. And the reality is, the more of those solutions we roll out, the better and the more they're going to benefit margin expansion over the course of time.

And then, third, I would say we continue to see the benefits of the strategy we endeavored to pursue a few years ago around operating on a common technology environment, common operating environment globally. What that allows us to do is, generate higher incremental margins in the business than we used to. And we're still obviously in the process of finalizing some of that move towards a global operating environment. And all of that allows us to again generate better margin expansion in the business than I think we've been able to do historically as a company.

So those are the three levers that we're really leaning on as we look forward in time and continue to drive margins up. We're now well into the 30-plus percent range and hope to drive them into the mid-30s plus over the course of the next few years.

#### Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

And so, what does that mean by region then? Should we see margin expansion in all regions or obviously, North America and Asia, Europe obviously, already has high margins.

#### Cameron M. Bready

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

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Yeah.

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Analyst, Deutsche Bank Securities, Inc.

So, how do we think about it by region?

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#### Cameron M. Bready

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

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Yeah, I think, in general, we're looking to see margin expansion in North America and Asia predominantly. And if you think about the business mix today, 75% of the business, probably, now more with AdvancedMD is North American based. So if we're not expanding margins in North America, we're not going to be expanding them for the total company.

Asia I think still has opportunities to continue to scale. We've taken margins in Asia up from probably the low 20% few years ago, up into the 30%, but I still think we have more opportunity to scale in Asia and improve margin expansion over the course of time.

Europe, as you correctly highlighted already, just by the nature of the characteristics of that business has higher margins. So, I would say Europe is more of a strategy to kind of preserve those rates of – or that level of margin in the business as opposed to looking to expand much beyond where we're operating today which is kind of mid to high-40s.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Okay. A question we often get is about FX and how FX impacts Global Payments model.

Cameron M. Bready

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

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Sure.

Bryan C. Keane

Can you talk a little bit about the fluctuations in FX and how it translates to revenue and earnings for you guys?

Cameron M. Bready

Analyst, Deutsche Bank Securities, Inc.

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

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Yes. Sure. So I thought this was going to be my first year of having to deal with FX headwinds, but the reality is [ph] that lasted (00:26:01) two quarters. So...

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Or tailwinds.

Cameron M. Bready

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

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Tailwinds. Sorry, yeah, than managing headwinds a year, so I thought I was going to get, at least, a – I thought I was going to [indiscernible] (00:26:09) at least, a year of tailwinds.

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#### Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

But yeah.

Cameron M. Bready

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



We've seen – obviously, the first half of the year, we did see some tailwind from an FX standpoint. Obviously, the dollar strengthened appreciably as we got into the May-June timeframe. As we look towards the back half of the year, we now expect FX to be a headwind for the business. And certainly, that was not the expectation kind of going into the year as I described before.

I'd say a couple of things. One is, far less of our business today is exposed to FX than it used to be. So when I joined the company, it was probably upwards of 55%, 60% of the business was probably exposed to FX. And now, with that number is down to about a third, so – or even less than a third now on the heels of the AdvancedMD transaction. So [ph] we're (00:26:51) far less exposed than we used to be. And I think as a management team, we've done a very good job in managing through FX over the course of the last several years in particular.

I was looking at a chart the other day around how FX has evolved since 2014 and the amount of headwind we [ph] look forward (00:27:07) from FX in that timeframe. And it's pretty, pretty stunning. Something like 25% degradation in [Technical Difficulty] (00:27:14) pound, euro, Aussie dollar, the major currencies to which we have exposure globally, Canadian dollar as well.

So I think our ability to manage through that and continue to grow the business has been impressive. And I have no doubt that we'll continue to manage through it as well. As we look towards the back half of the year, I think we talked about this on the second quarter call, it's probably going to be north now of, given a little bit further [ph] strength in (00:27:38) the U.S. dollar, \$40 million, \$45 million headwind on revenue and probably \$0.10 to \$0.15 of impact on EPS and that's reflected in our guide for the rest of the year, and we'll absorb it and manage through it.

Bryan C. Keane  Analyst, Deutsche Bank Securities, Inc.	Q			
Is – \$40 million to \$45 million and \$0.10 to \$0.15, is that from where you originally guided to? Or is that just n the change				
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.	A			
Yeah. That's relative to where we started.				
Bryan C. Keane Analyst, Deutsche Bank Securities, Inc.	Q			
Where you started.				
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.	A			

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Yeah, yeah. And it's gotten a little worse since probably our Q2, but I think in Q2, we talked about being roughly \$35 million top line [ph] in a dime (00:28:09) of earnings. And maybe it's now a little bit more than that, but it's in that same general ballpark. That's relative to what our expectations were coming into the [Technical Difficulty] (00:28:17).

#### Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. We have a mic for any questions. So, please, just raise your hand and we can get to your questions. I want to ask about the second quarter results. They were obviously stronger than expected. Where was the surprise? Because like, if I remember correctly, it was about 11% organic growth ex wholesale, which – where was the surprise for the increase in the growth rate?

#### Cameron M. Bready

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



Yeah. So, we saw acceleration in integrated and vertical markets business. So, that strategy continues to, I think, prove out as it relates to organic revenue growth we're able to generate in the business and those businesses performed better certainly than we expected, kind of going into the quarter, probably 1 point or so better than Q1. I think we also saw strength in Europe. Europe grew double digits organically on a constant currency basis. That's not what we expect out of that business typically and we would expect it to grow in kind of the high-single digit rate, but in the second quarter, it was in the low-double digits.

Asia was pretty consistent with our expectations, pretty consistent with Q1. So, I would say the strength we saw in Q2, particularly relative to Q1, which was also a great quarter was really in the integrated and vertical markets business in Europe. So, we saw good performance across Europe. The UK was better than we anticipated in light of the macro environment. We talked about Spain, we talked about the Erste JV, both of those obviously were nice tailwinds to growth in the second quarter as well.

#### Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.



And then as we move into the third quarter and the fourth quarter, can we see an acceleration of growth from those second-quarter level?

#### Cameron M. Bready

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



Yeah. Look, the business continues to perform extraordinarily well. The momentum we have going into the third quarter, I think, is great. The reality is, those growth rates are at the high end or above our targeted rates of growth for the business. We're not going to produce the best quarter we ever produced every quarter. That's, I think, probably, not a realistic expectation for the business.

That said, the momentum we have, I think, this year and our execution is terrific. So I think we feel very good about how we're positioned to grow going into Q3 and Q4 and the business performance, I think, will reflect that.

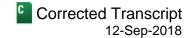
#### Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.



Any questions? Then, let me ask about the long term kind of cycle guidance that you guys have set up. I think it's high single, low-double digits organic ex the wholesale business. It's up to 75 basis points of margin expansion

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and mid-to-high teens EPS. I guess, I'm curious about any – what are the risks to the guide and then what could potentially drive some upside to those numbers?

Cameron M. Bready

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

Yeah. So I think it starts with organic rates of revenue growth and how we are executing sort of globally from an organic sales standpoint. Obviously, that all then flows through to both margin expansion and earnings per share.

So I think from our standpoint, those aspirations for the business are all increased, or were increased in March relative to what we were expecting prior to that point in time. So I think they're fairly lofty expectations for the business and to some degree, industry-leading relative to our peers from an organic growth standpoint and an ability to compound earnings per share at the levels that we're targeting.

We've obviously done better than that over the course of the last couple of years from an EPS standpoint in particular. But I think the business is well-positioned to execute and achieve or exceed those targets as we look forward in time.

But it really starts with, again, our ability to drive continued mix shift towards technology enablement, continuing to execute against our strategy, deploying more capital to building out our technology capabilities in attractive vertical markets, continue to grow and expand our e-comm business. The better we're able to do with that, the more organic revenue growth we're going to be able to drive in the business and all that's going to flow straight through to better margin performance and better earnings performance.

But I would say sitting here today, if we look back three years from now on our performance, if we achieve those targets, I think we're going to feel very good about the overall business performance.

Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

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And then finally, let me get you [ph] out of (00:32:19) here on capital allocation. I know you guys obviously are targeting M&A. But what about, particularly about buying back stock?

Cameron M. Bready

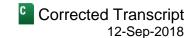
Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.

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Yeah. I think, look, buying back stock is something we're very happy to do to the extent there's not meaningful opportunities near-term to put capital work in growing and expanding the business at returns that we find attractive. So we're very – as I said before, we're very disciplined as it relates to capital allocation in the business. And I think we're very good stewards of capital.

So we are – we do prioritize investing in to grow the business. And our priority is expanding our business and trying to do that through M&A. But that presupposes that there's going to be businesses that fit strategically, fit culturally and for which the financial returns are going to be attractive. But to the extent that we don't see near-term opportunities, that we'd like to buy back our stock, we'd like to invest in ourselves and perhaps more importantly, we're not going to sit on a lot of [ph] lazy (00:33:14) capital. We think that we're better served to return that capital to the shareholders. And we'll continue to execute on M&A when there's better opportunities available for us to do so.

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So we're happy to do both. We like to do both. Our priority is M&A, but we're more than happy to return capital and invest in ourselves through share repurchases, if there's not good opportunity to grow and expand the business.

### Bryan C. Keane

Analyst, Deutsche Bank Securities, Inc.

Okay. With that, I think we'll keep it there. Cameron, I enjoyed the discussion. Thanks so much for coming.

### Cameron M. Bready

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

Thanks very much for having me.

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