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Global Payments, Inc. (GPN)

Wolfe Research FinTech Forum

CORPORATE PARTICIPANTS

Darrin Peller

Analyst, Wolfe Research LLC

Cameron M. Bready

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

MANAGEMENT DISCUSSION SECTION

Darrin Peller

Analyst, Wolfe Research LLC

Global Payments is a name we've now covered for many, many years and we've really, really been very constructive on as clearly there's been a transformational story underway for the past several years into a much more technology-enabled business.

And with that said, we're obviously really, really happy to have Cameron, who is the CFO of the company, with us today to give more color on the story. So first of all, thank you again for joining us.

Cameron M. Bready

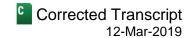
Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.

Thanks very much for having us, Darrin, really glad to be here.

QUESTION AND ANSWER SECTION

Darrin Peller Analyst, Wolfe Research LLC	Q
Thanks. So, why don't we jump in and just get started with like a quick update on recent trends growth across the business but	s, clearly still strong
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.	A
Yeah.	
Darrin Peller Analyst, Wolfe Research LLC	Q
Just maybe you can talk a little more about the drivers of your performance and your guidance little bit of a tour around the world?	ce and maybe a
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.	A
Yeah, sure. I'd be happy to do that. So, as I think if we look at 2018, it was certainly a record your relates to organic rates of revenue growth in the business and overall performance for the businest here in the U.S. market where our pivot as you correctly highlighted a moment ago, over years the more technology enablement has really been beneficial to driving outsized rates of gousiness. So if we look at our U.S. direct channels in 2018, they grew organically in the low do are expecting a very similar trend as we head into 2019. And I would say overall as we look at organic growth in our business excluding the wholesale business we're exiting to be in the low which is really the highest rate of organic growth we've ever guided to in our business and at the targeted range for the business as we head into 2019.	iness and it really the past several frowth for our tuble-digit pace. We 2019, we expect double-digits,
So, the U.S. market I think remains very constructive for us. I don't know that we expect the magood as it was in 2018, but I think the mix shift we see in our business and the continued perform technology-enabled businesses	· ·
Darrin Peller Analyst, Wolfe Research LLC Yeah.	Q
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Incwill allow us to continue to drive growth in that low double-digit pace.	A
Darrin Peller Analyst, Wolfe Research LLC You know – go ahead.	Q

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Cameron M. Bready

everyone in the room.

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

I was going to finish the tour, just touch on Europe and Asia quickly. So, Europe, we again remain very pleased with how the business is positioned. Our Continental European businesses in particular in Central Europe and Spain continue to perform – excuse me, extraordinarily well and are driving growth for the overall region. We expect Europe on a local currency basis to grow high single digits and that assumes a relatively benign, I think,

environment in the UK. So little bit of a slowdown relative to what we saw in 2018, I think, for obvious reasons to

And then Asia we continue to expect to grow low double digits organically. The macro environment in Asia remains constructive as it relates to our business and I think as we look at the backdrop heading into the year we feel really good about the momentum we have exiting 2018 and entering 2019. So, overall the business is, I would say, extraordinarily healthy around the globe and I think that's really evidenced by the targets we've established for 2019.

Darrin Peller

Analyst, Wolfe Research LLC

We talked a lot about differentiation among merchant acquirers around where they're investing in technology and you guys have clearly been at the forefront of some of the software-centric investments and partnering in that way as well as owning, right. But just thinking about your tech-enabled businesses, maybe for the audience since not everyone here will be as familiar, just what does that mean? What businesses do you consider your tech-enabled businesses? They're about 40% of your revenues or they were and I think you expect them to get to 60% by 2020?

Cameron M. Bready

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

That's right. Yeah, we're really trying to differentiate our offerings through our technology offerings.

Darrin Peller

Analyst, Wolfe Research LLC

Yeah.

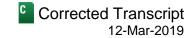
Cameron M. Bready

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

And that's really combined or the composition of two different strategies for us. One is our software-driven payment strategy and through that particular distribution approach we really embed or integrate our payment technology into enterprise software environment that are being utilized predominantly by small- to medium-sized businesses to run their operations. We have a partner model in that channel and then we obviously have vertical markets in which we own the software, we are the ISV and we integrate our payment technology into our own software solutions and distribute them to the marketplace. That business today is probably below 30% of our revenue globally coming through that particular strategy.

The second leg of our technology enablement strategy really is our e-comm and omni business and this is where we're blending face to face an e-comm and mobile capabilities for our customers around the globe. We predominantly focus on sort of small- to medium-sized businesses and their domestic or regional omni needs, but

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we also go up market in certain circumstances to serve larger multinational corporations where we have the ability to serve them and be paid appropriately for the level of value and service we can deliver around the globe.

So our e-comm and omni business today is probably a little north of 15% of our revenue. So combined with our software-driven payment strategy, that total technology enabled portion of the business is probably around 47%, 48% of the business for 2019, up from roughly 40% heading into 2018. So making good progress relative to the target we've established, which is to have 60% of the business be technology enabled coming from those two strategies by the time we get to the end of 2020.

Darrin Peller

Analyst, Wolfe Research LLC

Analyst, Wolfe Research LLC

Okay. So you – still sounds like you're on pace, in fact maybe even ahead of pace.

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

Yeah. I think we made good progress in 2018. We obviously put capital to work through M&A to help advance that strategic initiative. But I think we feel very good about how we're positioned relative to meeting that target as we head into 2021.

Darrin Peller

Let's hone in for a moment on really what I think is one of your most differentiated abilities is to buy good assets and/or partner with good software assets. Well, one of the questions we get is how you ensure that you keep buying the right assets and differentiating in a very competitive software market?

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

Yeah.

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

Darrin Peller Analyst, Wolfe Research LLC

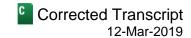
Can you just give us some thoughts on that in terms of whether you truly believe that the assets you already acquired are stand-out, differentiated, and how you do it?

Cameron M. Bready

Yeah. I think we have a very disciplined approach as it relates to pursuing M&A. And I think it is a core competency of ours to be able to identify, execute and integrate these acquisitions to continue to operate them effectively to balance attaining scale from combining the business with Global Payments while at the same time not disrupting the rate of revenue growth for the businesses we acquire.

So, as we think about owning more software businesses, it really starts with the vertical market itself. We want to buy assets in large addressable spend vertical markets where there's a strong nexus between payments and software, where we think by owning the software we can drive faster rates of payment growth and drag more payment volume through Global Payments and leverage our distribution capabilities and our payment capabilities

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globally to drive faster rates of growth in those businesses, while at the same time sort of leveraging core functional capabilities to scale them effectively.

I think we have a very good track record of balancing, obviously obtaining scale out of these businesses while at the same time not disrupting the rate of revenue growth that inherently exists in the business and quite frankly the converse which is we've been able to accelerate rates of revenue growth, as I mentioned before by leveraging distribution, cross-selling products and capabilities into the businesses and really looking to monetize payments in ways...

Darrin Peller

Analyst, Wolfe Research LLC

Right.

Cameron M. Bready

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

Δ

...that they haven't historically. So, we remain very bullish, our own software strategy. Obviously, there's a lot in our M&A pipeline today that's focused on that. I think we have a good track record of demonstrating the efficacy of our strategy, number one. And obviously, two, creating returns out of these acquisitions that are attractive for our shareholders.

Darrin Peller

Analyst, Wolfe Research LLC



Sure. Look, I mean I think you guys have done a good job with cross-selling payments into these acquisitions. And so maybe you can just start with talking about where we are in that? I think we – I think you've mentioned about 20% penetrated in terms of payments into AMD, if I remember correctly. But there's been a number of other software companies you've partnered or acquired. And so, where are you in terms of the payment penetration into those assets?

Cameron M. Bready

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



Yeah, it's naturally going to exist. It's going to be different relative to the...

Darrin Peller

Analyst, Wolfe Research LLC

Sure, sure.

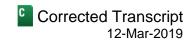
Cameron M. Bready

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



...the different vertical market and the different asset that we're talking about. AdvancedMD is a good example where AdvancedMD was a partner of ours and we ultimately acquired it. When we acquired it, it was about 20% penetrated from a payment standpoint and we looked to drive that to a much larger number over the course of time now that we own the business and we can be perhaps more aggressive in going after the existing book of business that AdvancedMD serves who are not payment customers of Global Payments today. But as we think about these opportunities, it really starts with new sales, right.

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It's the opportunity to take and sell payments integrated into the software solution as part of a single sale to the merchant customer as opposed to doing the partnership model, it being two separate sales. So AdvancedMD is a good example of where we've already put a lot of effort behind making sure we can sell the customer both payment and software in one transaction which obviously improves the hit rate as it relates to new sales, while at the same time we'll be more aggressive in going after the back book of business to drive more penetration into the existing base of customers and we take that same approach to every transaction that we do. That's just an example of how we thought about it in the context of AdvancedMD.

Darrin Peller Analyst, Wolfe Research LLC	Q
I mean, is the 20% representative of typical or is that?	
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.	A
Yeah, I would say on average our penetration, probably and some of this depends on how long we've been integrated and partnered	
Darrin Peller Analyst, Wolfe Research LLC Sure.	Q
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Incwith a particular software company, but on average we're probably 30% penetrated, 25%, 30%.	A
Darrin Peller Analyst, Wolfe Research LLC	Q
Okay. And there's no reason why you can't go over 50%, right?	
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.	A
Yeah, absolutely.	
Darrin Peller Analyst, Wolfe Research LLC	Q
Because it's not always exclusive, right, but?	
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.	A
You'll never get to 100%.	
Darrin Peller Analyst, Wolfe Research LLC	Q
Right.	

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Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc. I think that's pretty obvious. There's always going to be some reason that you can't get to 100%.	A
Darrin Peller Analyst, Wolfe Research LLC Sure.	C
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.	Δ
But certainly our view is over time obviously to get better penetration of the back book and be more effect selling on the front end to drive those overall penetration rates up well above 50% and even higher in the where we own the software outright.	
Darrin Peller Analyst, Wolfe Research LLC	C
In terms of other verticals. I mean, you've done very well in certain, we know about whether it's medical or like restaurants, we can go on and on. But there definitely still are some you called out even at your In Day, whether it's government or banking or others.	
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc. Yeah.	Δ
Darrin Peller Analyst, Wolfe Research LLC I'd be curious to hear your thoughts on either other acquisitions into those areas or just organic opportuni	Cities?
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.	A

Yeah. I think as we look at vertical markets I think we have the luxury and the optionality to think about either partnering or owning in the market, given our strategy. So number one, I think that's a really important distinctive element of Global Payments is the opportunity to do both, which is really unique amongst all our peers. So if we look at vertical markets it's always with an eye towards what is the right model to be able to attack that vertical and be successful in that vertical. It starts with the size of the vertical market itself.

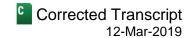
As I mentioned before, ensuring that there's a strong nexus between payments and software and there sort of the roads diverge to some degree. Where we want to own, it's a function of how fragmented is the market, how large is the market, do we have the opportunity to acquire the number one or number two or number three player in that market, which is highly fragmented, where you still have a good runway for software growth on top of the payment growth.

Darrin Peller

Analyst, Wolfe Research LLC

Sure.

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Cameron M. Bready

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

And then on top of that, is there an opportunity internationally with the vertical market, can we bring those solutions under the Global Payments umbrella to other markets outside of the U.S., the 31 other markets we serve and bring those solutions to bear and other markets to create a more distinctive offering? That's typically the type of market where we would want to own versus partner. Where we partner is a good example is in the automotive dealer space where we partner with Reynolds and Reynolds who's the probably 800-pound gorilla in that space. If there's someone with that much dominant market share...

[indiscernible] (00:11:33)

Darrin Peller

Analyst, Wolfe Research LLC

It doesn't make sense [ph] to buy (00:11:34).

Cameron M. Bready

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

Right. So we really want to find those opportunities where there's good software growth potential. AdvancedMD is a great example of that as well as being good payment growth opportunity by virtue of the fundamental to the market.

Darrin Peller

Analyst, Wolfe Research LLC

Have things gotten more competitive into integrated payments, whether it's – I know that when you own the software, it obviously gives you that edge.

Cameron M. Bready

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

Right.

Darrin Peller

Analyst, Wolfe Research LLC

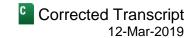
But when you're partnering with ISVs, we're hearing, I mean, I kid you not, literally every company on stage here today is talking [ph] of, that's in-merchant acquiring (00:11:59) well, say, they're in integrated payments, right, and so it's got a lot of definitions. Just curious if you're seeing real pushback from the ISVs on commissions or pricing?

Cameron M. Bready

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

Yeah. I would say no, I mean, obviously, there is more competition in the space. It's hard to argue there isn't, but what I would say is 2018, we had our best partner signing year ever at OpenEdge and OpenEdge just by way of background, that is our partnership model, that's the entity through which we partner with other ISVs to execute on our software-driven payment strategy through the partnering model. OpenEdge had its best partner signing year ever and we highlighted three large wins we had, but that's three of many over the course of 2018. So with the backdrop where obviously there's a lot more focus on the competitive landscape as it relates to integrated, we had our best partner signing year ever and we've been in the business since 2012, when we originally acquired

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APT. And I would say two of those three acquisitions were obviously competitive bid situations where we didn't bid the highest rev share.

So although in many markets ultimately cost prevails, I think integrate is a very different model.

Darrin Peller

Analyst, Wolfe Research LLC

Yeah.

Cameron M. Bready

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

And certainly when you're talking about coding into an ISV software environment, there's a lot more emphasis on the nature of the partner or the partner's capabilities, what services and solutions we can bring to bear as opposed to who's willing to pay me the largest revenue share. So I think what we're seeing in the marketplace is, yes, it's becoming more competitive, a lot of peers were having to compete on price. And I think where we compete, obviously we have to be competitive from a pricing standpoint, but I think we compete very effectively on capability, depth and breadth of experience across a number of vertical markets and the numbers of partners that we've integrated with over the course of time and that really sells.

Darrin Peller

Analyst, Wolfe Research LLC

So you're not really seeing a major slowdown in terms of either growth or [indiscernible] (00:13:46)?

Cameron M. Bready

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

No, I think we had one of our best years ever and I think we're expecting a very similar rate of growth out of our partnership business in 2019.

Darrin Peller

Analyst, Wolfe Research LLC

Yeah, yeah. So, all points to North America continuing to grow at pretty much a similar rate or if not better based on your guidance actually in 2019?

Cameron M. Bready

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

Yeah. I mean, I think obviously putting currency aside...

Darrin Peller

Analyst, Wolfe Research LLC

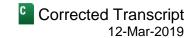
Right.

Cameron M. Bready

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

...which obviously creates a bit of a headwind in Canada. If you look at the organic business in North America, I expect that actually it will be better from a growth standpoint in 2019 than it was in 2018. Some of that is just obviously we continue to invest in more technology enablement, those businesses have faster rates of growth,

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and secondly or secondarily, I would say, as the wholesale business becomes smaller it just creates less of a drag on the overall optical rate of growth for the North American business.

Darrin Peller Analyst, Wolfe Research LLC	Q
And with the UK being a hot topic today obviously just given Brexit.	
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc. Finally.	A
Darrin Peller Analyst, Wolfe Research LLC First of all, just reiterate what you expect? I think you said mid-single digits	growth for the year?
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.	A
Yeah. I mean, we saw closer to high single in most of 2018. Q4 was kind of because the GDP in the UK in Q4 grew I think 20 basis points and it control I think we expect a very similar macro environment for the UK as we saw in we're targeting the UK around mid-single digit rate of growth for	acted 40 basis points in December. So,
Darrin Peller Analyst, Wolfe Research LLC Yes.	Q
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc2019. Now that assumes the UK, in my term, sort of muddles through the tonight's vote brings and what the next couple of weeks bring. But the UK i irrespective of the outcome I don't expect it to have a	
Darrin Peller Analyst, Wolfe Research LLC Not a material impact.	Q
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Incsignificant impact on Global Payments in aggregate. But certainly, it's so	mething we're watching very closely
Darrin Peller Analyst, Wolfe Research LLC	Q
And how are you keeping growth up in the other – in, for instance, Spain?	I mean, in some of these markets, the

growth rates are well above and beyond what you'd expect for a mature market?

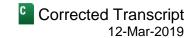
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Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.	A
Yeah. Well, I would say those markets are still maturing.	
[indiscernible] (00:15:37)	
Darrin Peller Analyst, Wolfe Research LLC	Q
Yeah.	
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.	A
That's the first and foremost. So, I would put Spain and certainly Central Europe, where we've seen fantas performance, kind of mid-teens growth in both of those markets.	tic
Darrin Peller Analyst, Wolfe Research LLC	Q
Right. You're still very cash rich?	
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc. They're still	A
Darrin Peller Analyst, Wolfe Research LLC [indiscernible] (00:15:49)	Q
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Incstill have better secular trends.	A
Darrin Peller Analyst, Wolfe Research LLC Yeah.	Q
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.	A
Than a lot of the markets around the globe and they fall into the third sort of pillar of growth for us which is faster growth market strategy. And obviously we're growing above the rate of market growth, but the market of growth are very healthy. But I think our ability to bring differentiated product and capability to market has obviously positioned us well to grow at very attractive levels and is allowing our overall European business grow at a very nice pace in 2019 notwithstanding a little bit of a slowdown in the UK.	et rates s really

Darrin Peller Analyst, Wolfe Research LLC

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Now, more capability, we talked a lot about software, some geography. When I think about e-comm, just curious to hear your strategy. When investors call us about Global it's really more about the software side than it is the e-comm side....

Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.	A	
Yeah.		
Darrin Peller Analyst, Wolfe Research LLC	Q	
so can you just touch on where you believe you stand in it relative to competitors	?	
Cameron M. Bready Senior Executive Vice President & Chief Financial Officer, Global Payments, Inc.	A	

Yeah. I think the e-comm message is probably gone a little bit lost around the excitement around the software strategy, but both have a lot of merit. And I think we're very excited about how we're positioned in both of those markets as it relates to e-comm and omni and we really think about those together because our strategy is really geared around leveraging our physical capabilities around the globe and combining that obviously with the ability to provide e-comm and mobile solutions to customer to create that blended solution, that more omni-channel experience for the merchant customer itself.

So, today that business is roughly, as I said, 15% of our overall revenues kind of globally. We're very well, I think, positioned in each market around the globe. We focus on that small to medium sized customer...

Darrin Peller
Analyst, Wolfe Research LLC

Yeah.

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

...in terms of delivering domestic omni capabilities or regional omni capabilities. And as I said, we go up market to larger multinationals in those situations where we feel like there's a value proposition and an ability to serve them in a way that's distinctive relative to the competition. So unlike some of our competitors who may be focused at the high end of the e-comm-only market, the Netflix of the world, great companies, don't get me wrong, but that's not really our model. We're not trying to serve the large volume, very thin-spread customers who want no service.

Darrin Peller

Analyst, Wolfe Research LLC

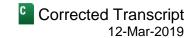
Yeah.

Cameron M. Bready

Our model is more geared towards, again, the small and medium-sized guy who needs service, needs capability that we can serve well from an omni-channel standpoint. And last thing I would say is from a technology point of view, we're really excited about how our platforms are positioned to serve those customers around the globe. We've just rolled out what we call our unified commerce platform, which allows customers to code into all of our

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

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technology and have access to effectively all of our processing capabilities globally with one single integration, one single API. And we think that's very differentiated again relative to the breadth and depth that we can provide the marketplace relative to our competition in that space.

Darrin Peller

Analyst, Wolfe Research LLC

So, I mean, doesn't sound like it, but do you think you need another M&A, any M&A into that area, technology around e-comm in particular or even omni?

Cameron M. Bready

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

I would say not to fill out any product deficiency or solution deficiency. I think we feel as if we have market-leading capabilities today or certainly market competitive with the best – those considered best of breed out there. So it's more of a function of can we do something in that space to improve scale. It's still a scale business and...

Darrin Peller

Analyst, Wolfe Research LLC

Yeah.

Cameron M. Bready

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

...obviously an attractive growth part of the business. Can we do something there to augment an existing strategy that we have in place. But we certainly don't feel like we need to do anything as it relates to adding a capability or product to fill a void that exists in that platform today. We're actually very excited about where we are, the technology matter.

Darrin Peller

Analyst, Wolfe Research LLC

So let me just shift gears for a minute, I mean, we just did a sort of – one of our Sunday spotlight theses on Global Payments and the margin opportunity...

Cameron M. Bready

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

Thanks for that.

Darrin Peller

Analyst, Wolfe Research LLC

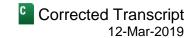
...and the reason for that is because, look, from our perspective the mix shift to the e-comm side, the mix shift to the software side should allow for that margin to expand over time. I guess, first of all, I don't know if I've heard as much granularity as I'd like, but if you could break out margins on the iPaaS business, the e-comm business, your own software, maybe wholesale, I mean, just given the market, a little more color on how to think about that?

Cameron M. Bready

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

Yeah, I'll try to capture it maybe in broad categories. So, as I think about our own software businesses, when they're sort of operating at scale, I would like to see the margin profile and it's going to differ a little bit by vertical

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as you can imagine, and by business, but certainly in the high 30%, low 40%, I think is a good target based on our revenue convention, a good target margin profile when we own the software. For OpenEdge, it's going to be kind of mid to high, it's a little less from a margin standpoint, because you don't have the software itself, but probably mid- to high- 30s is a reasonably good target for the partnership model. E-comm is probably going to be in a similar place as it relates to the overall market.

Darrin Peller

Analyst, Wolfe Research LLC

Q

And you think those are by the way sustainable based on your prior comps, right?

Cameron M. Bready

Δ

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

I do, yeah, absolutely. I mean, we've been able to achieve that level of margin while still investing meaningfully in those businesses...

Darrin Peller

Analyst, Wolfe Research LLC

Okay.

Cameron M. Bready

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

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...We can create more technology differentiation. We invest anywhere in the neighborhood of probably \$0.5 billion plus in technology annually, probably \$2 billion over the last few years on top of the \$8 billion we put into M&A. So we invest heavily in technology and still been able to expand margins and feel good about how we're poised to continue to expand margins going forward. Our more relationship-led channels are going to be probably closer to that 30% level, maybe slightly – so more consistent with the overall corporate average and then the wholesale business naturally is a lower margin business, down in the 20s, maybe low 20s or high teens depending on the nature of the customer. As we move away from that channel, obviously, that creates a nice sort of mix tailwind.

Cameron M. Bready

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

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I mean, that's only what, \$140 million of revenues now...

Cameron M. Bready

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

Yeah, for this year it will be around \$135 million-ish of revenue. So it's relatively small, but obviously as it becomes a smaller portion of the business, it's less of a drag on margins and less of a drag on revenue growth.

Darrin Peller

Analyst, Wolfe Research LLC

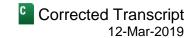
So, look, overall, I mean, why can't margins or I guess they theoretically should, but where can margins get to over the next five years just based on mix shift alone, I think?

Cameron M. Bready

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

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Yeah. I mean, certainly we're targeting based on where the business is today something in the mid to upper mid-30s range for margins I think is a very reasonable expectation over the next few years. We target margin expansion of up to 75 basis points this year. So if you exclude currency headwinds this year and the fact that a couple of our acquisitions are kind of coming in, one's coming in a little bit below our margins, but we're forecasted to expand margins more than 100 basis points this year and we did, I think, 130 basis points last year. So the margin expansion in the business has been really attractive, I think over the last few years and I think we're poised to continue to deliver on that going forward and continuing to drive margins closer to that mid-30% range over the next few years in particular.

Darrin Peller

Analyst, Wolfe Research LLC

Yeah. I mean, look, our math if you look at the mix shift suggests it could be even better than that and I know that

Cameron M. Bready

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

we don't know how much investment you make.

Yeah. I think that's really the counter, right...

Darrin Peller

Analyst, Wolfe Research LLC

Right.

Cameron M. Bready

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

...which is, we're not starving the business for capital. And one of the most – one of the things I think we're most proud of is the ability to continue to drive margin expansion in the business at very healthy levels, while at the same time investing back into the business to the tune, as I said before, about \$0.5 billion a year in OpEx and CapEx around technology to continue to drive more distinctive capabilities, more product, more innovation. So that's a balance that we look to strike every single year and we've targeted, again, that 75 basis points of margin expansion which we think strikes the right balance between flow-through to EBIT and EBITDA, while at the same time making sure that we're investing in the business in a way that's going to allow us to continue to be differentiated in the market relative to our peers.

Darrin Peller

Analyst, Wolfe Research LLC

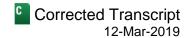
Yeah. Look, we're going to talk about M&A in a moment that's pertaining more to you. But before I do, I just want to get your opinion on a very large transaction, Fiserv-First Data obviously in the last couple of months. Just curious to hear your thoughts, from a competitive standpoint whether it impacts you guys at all or how you think it will impact the industry?

Cameron M. Bready

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

Yeah. I think as it relates to us, I think to some degree, it's a bit of a validation of the technology enablement strategy we've been deploying or even pursuing now for the last several years. So I really start by saying, I think it's in a nutshell validates very clearly everything that we've been trying to do and where the industry I think quite frankly is going overall, it's not just us, although I think to some degree we've been at the forefront of that. I think

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and as it relates to the U.S. market, it really doesn't change the landscape for us. We're not in the bank-based distribution business in the U.S. market, we have some bank partners, but it's a very small portion of our distribution go-to-market strategy in the U.S. market. So to the extent that the thesis is sort of obviously reintegrating payments back into the bank channel that Fiserv serves today, I don't think that has a real impact on our business nor does it really impact as we think about a go-to-market strategy how we're positioned in the marketplace today. It may involve some movement amongst some of the existing players, but I think that's less likely to impact us than maybe others in the market just given our go-to-market strategy and our approach to technology enablement and our vertical market position.

Darrin Peller

Analyst, Wolfe Research LLC

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Now just looking at you guys, I mean in the absence of an incremental deal, where does your leverage levels end by the end of 2019 from your modeling perspective?

Cameron M. Bready

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

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Yeah. So, I would say, we're very proud to end 2018 despite a very active year from an M&A standpoint at our targeted leverage ratio of below 3.5 times, I think we actually ended the year right at around 3.4. So our target for the business is 3 to 3.5 times, so we're squarely in kind of the targeted range today. So I would expect to end the year somewhere in that targeted range. So given we're generating or expect to generate about \$1 billion of free cash flow this year, absent opportunities to put that capital to work in M&A, that expands and augments the strategy and fits culturally and allows us to generate the kind of returns that we would expect for the business then you should expect we'll be looking for opportunities to efficiently return capital to shareholders.

Generally what we've said is our highest priority is to put capital to work to grow and expand the business. Absent near-term opportunities to do that we're not going to sit on a lot [ph] of ways in (00:25:45) capital, we'd rather return capital to shareholders just given how much cash flow we generate in the business.

Darrin Peller

Analyst, Wolfe Research LLC

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So, I mean, I guess bottom line is should we expect that given your strong cash, I mean, that we should be seeing another incremental deal or two in the next 12, 18 months, so?

Cameron M. Bready

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

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Yeah. I would say the pipeline is very full. So – and clearly that is a priority for us, is putting capital to work to grow and expand the business. That said we're not going to do deals just for the sake of doing deals.

Darrin Peller

Analyst, Wolfe Research LLC

Right.

Cameron M. Bready

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

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So they have to fit the criteria that we've established as an organization, they need to augment the strategy, the cultural fit has been good – has to be good, excuse me, and the returns have to be attractive.

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Darrin Peller

Analyst, Wolfe Research LLC

I was going to say, right, the pricing around software, I mean it's just sounds – it looks like software has jumped dramatically in valuations, so?

Cameron M. Bready

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

I think it's not really different, I'd say, today than it was last year or even that much different than probably it was the year before. I think our view of the market is we're a strategic buyer. If we can't go in and find an opportunity to drive faster rates of growth in those businesses to scale them more effectively than the current owners then we're largely just a PE buyer and we're buying based on really just financial arbitrage and that's not the business we're in....

Darrin Peller

Analyst, Wolfe Research LLC

Right.

Cameron M. Bready

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

So we're an operator, we have great distribution capabilities globally. We have lots of scale and capability in our business we can leverage. If we can't utilize that to drive better returns out of these businesses and we're competing just on cost of capital then it's not the right asset for us. So I think when we find those situations where we can leverage distribution, we can scale the business, we can compete with anyone to be able to acquire these assets and still generate the kind of returns again that we think are competitive uses of our capital.

Darrin Peller

Analyst, Wolfe Research LLC

Okay. Well, let me ask one last one then I'm going to open it up to the audience for questions given the time, but in terms of where you want to go in terms of acquisitions, would software be the place to be in?

Cameron M. Bready

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

Yeah. I mean, as you look at the pipeline today there are certainly a lot of opportunities that fit that software-driven payment thesis that we've articulated. As we generally look at the M&A landscape, we really think about it as a means by which to augment kind of the three pillars of growth that we have in our business, so software-driven payments, strategy, our e-comm and omni business, and our exposure to faster growth markets. So there are opportunities in the pipeline today that touch each of those initiatives. I would say the most, probably there is more software opportunities in the portfolio just by virtue of those opportunities in the marketplace...

Darrin Peller

Analyst, Wolfe Research LLC

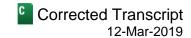
Sure, sure.

Cameron M. Bready

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

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...to some degree, but obviously we are pursuing things that would advance each of those strategies fairly meaningfully and as I said before our hope is we will be able to put more capital to work in the business to drive further growth and expansion in 2019.

Darrin Peller

Analyst, Wolfe Research LLC

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Great. Well, I think we have maybe a few minutes. So if anyone has any questions, we'd be happy to take them now. I guess – I thought I saw somebody, but all right, why don't we leave it there then.

Cameron M. Bready

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

Okay.

Darrin Peller

Analyst, Wolfe Research LLC

Cameron, thank you so much for your time.

Cameron M. Bready

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

Thanks very much for having me.

Darrin Peller

Analyst, Wolfe Research LLC

Appreciate it. Really great having you guys. [indiscernible] (00:28:47).

Cameron M. Bready

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

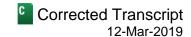
Thank you.

Darrin Peller

Analyst, Wolfe Research LLC

All right.

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