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Global Payments, Inc. (GPN)

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

MANAGEMENT DISCUSSION SECTION

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

Okay. I think we'll get started. My name is Bryan Keane. I cover the payments, processors and IT services here at Deutsche Bank. And we're really excited to have a great luncheon speaker in keynote. From Global Payments, we have Jeff Sloan, who's the CEO; and Cameron Bready, who's the Senior EVP and CFO.

So first of all, gentlemen, thanks for being here. Thanks for representing at our tech conference here this year.

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

Thanks, Bryan.

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

Yeah. Thanks for having us.

QUESTION AND ANSWER SECTION

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

Q

I think for the benefit of the members of the audience, some people will know Global Payments, of course, but some will be a little bit new to it. I was hoping, Jeff, maybe you could help folks in the room that might not be as familiar with GPN, talk about the transformation of the company to a tech-enabled payments company you've done over the last five-plus years.

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

A

Sure, Bryan. So, thanks again for having us here at the Deutsche Bank Conference. So, I would say that we've been running the company for just about six years. When we started out, the first thing that we talked about was making a consistent message that we are really a payment technology company. And the reason I say that is it's very distinct from being an IT outsourcer or just a services company and instead really was a technology company specifically focused on payments.

And some of the deals that we did, Bryan, at that time with APT and PayPros really got us into the partnered software business, which has become our integrated and vertical markets business. Thereafter, we learn more deeply into owned software. And really, the deals that we've done in owned software, as distinct from partnered software, include, in the last couple of years, our ACTIVE business, AdvancedMD, and SICOM in restaurants. And our thesis all along was to be in the software business, both owned as well as partnered. That's been particularly important, to answer your question, because we have a similar thesis to the one, for example, that Square has, where I think it's very important for us to own the entirety of the ecosystem, not just be a rifle shot single silo payments provider where owning the entirety of the ecosystem in certain vertical markets is critical to actually winning the business.

Restaurants are a very good example of that. So in our restaurant business, which comprises Xenial today, we own the hardware, the software, the data and analytics from the front, the middle and back of the house, all the way through to payments. Heartland had done this, Bryan, for example. When we bought Heartland in 2016, Heartland had done this in the educational and the university space. Legacy Global Payments had done this here in Las Vegas in the gaming space. We own the hardware, the software, as well as the payments. So increasingly, our thesis became technology enablement and software-driven.

And then, lastly, I would say, and most recently, we've really added wrapping value in value-added services, but wrapping value [indiscernible] (00:02:52) transaction. So, for example, much of our data and analytics environment today at Global Payments has been built over the last several years. It's an eight-figure revenue business for us today to resell data and analytics in our company largely on a cloud basis. And I think we're the largest user of Google Cloud in financial technology in the world. So, increasingly, wrapping services around what we do and providing additional value add has become central to our thesis. So, in the last six years, we've really taken the business from legacy provider to a payment technology company, to technology enablement, to software-driven and, now, really wrapping value around the transaction. That really explains the migration of our business over time.

And of course, now, with TSYS, very consistent with that strategy where we've added to our own software suite with our issuer business. We've added substantially to our ecommerce and omnichannel businesses and we've added another 40 geographies in faster growth markets that we otherwise were not in.

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

Q

And you broke down the several components to that software-driven payment strategy. Is there a different growth rate as you look on an outlook organically between owning the software, partnering the software, and then, obviously, the e-comm and omnichannel?

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

A

Yeah, I would say the answer is it depends on which business you're talking about, but generally, yes. So, most of the earlier stage software businesses that we own today, pretty much everything is in the double digits in the integrated owned and partnered spaces. But I would say, certainly, some of the newer businesses we've gone into, Bryan, like AdvancedMD, the growth rate is certainly substantially higher than lower double digits.

I would say our partnered software business, we probably posted, Cameron, three of our quarters in a row now of mid-double digit growth to, call it, mid to high-teens growth, I think, in the most recent quarter. So these are all good problems to have, Bryan, but all well north of the company's target of around 10% organic constant currency revenue growth.

So, yes, our software businesses at the margin are probably going a little bit faster than our partnered businesses, but that is not to say that our partnered businesses aren't doing well. Additionally, they're growing well into the mid-to-high teens, and each of those business sectors is growing faster than our traditional, more relationship-driven business, but even that is high-single digits, which is obviously a very good rate of growth. In our market, organically, it's probably growing around 5%.

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

Q

Okay. A question I often get is about as you kind of pursue this owning your own software assets, but there's different pockets and there's different acquisitions that you've made in different areas, can you harmonize that in kind of run a company and grow it and still have enough DNA or investments in all these different areas to be successful in the strategy?

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

A

So, we have very much at our company, what we call, a core and an edge philosophy. So, as it relates to software companies in particular, we try to stick to our knitting and do those things that we do well corporately. So, at the core of what we do, providing leverageable, scalable, extensible technologies at the core of our processing environments, providing really good compliance, good management, good regulatory postures, good postures around privacy, those are all things that fall in the core that we actually think are extensible to the software businesses that we've acquired.

But then, at the edge, which is how the software companies actually interact with their customer bases in healthcare, for example, and in restaurants, we leave the edge business units to do the evolution of their software under our oversight in the edge environment. So, we think we've struck a really nice balance between the core and the edge. We get synergies out of the core. We also get synergies in the edge because we're very good, we think, at cross-selling those businesses into new geographies as well as existing geographies.

So it's very much a balance, as you say, and every deal is different. But focusing on what we're good at the core and allowing the businesses to innovate with their customers at the edge has been a pretty good balance. And we've been in this business, Bryan, the partnered software business since 2012, really, the owned software business for the last four or five years. Heartland was in it before us years before that. So, it's not future conjecture. That has been what our past experience has been able to demonstrate.

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

And Bryan, the only other thing I would add to that is what often gets lost in that conversation is the commonality across all those businesses is payments. So when we think about vertical market software businesses, we want to focus on those vertical markets where there's a strong nexus between owning the software and payments, and payments has the potential to be a meaningful share of the revenue of the overall business over time.

So, payments is sort of the common thread across all those businesses, and we obviously get meaningful scale in those businesses by being able to leverage the core payment capabilities that Global Payments brings to bear on those markets.

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

Okay. Jeff, you did mention Total Systems and you guys are – or announced a plan to merge with TSS and it's going to be the biggest kind of what you call pure-play payment technology company. Just, we've seen other mergers, large mergers, obviously, in this space. Can you talk a little bit about what's unique about your deal and then why the combined company will be better positioned together?

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

Well, I think, Bryan, you touched on the first thing already, which is that the combined company of TSYS and Global Payments will be a pure-play payments business, meaning all that we do on a combined basis is payments. Now, you may say, well, why is that important? Well, the first thing I'd say is we're experts in payments. We're not experts in deposit software or mortgage software. I'm sure those are very good businesses, but we're not experts in those businesses. We're experts in payments.

The second thing I would say as to why it's important is we all know in public company land how budgets work. If you look, for example, at new Fiserv or new Fidelity, about a third of those businesses, by way of revenue, are in payments. We all know how budgets work in a public company environment. When the last dollar of capital gets allocated, is it going to go to the business that's 100% of the company, as it would at Global and TSYS, or is it going to go to business that's one-third of the company as it is in the case of Fiserv and Fidelity. So, time will tell but I think it's very important to have a pure play focus and to stick to what we're good at.

The second thing I'd say, in response to your question, is how the businesses are constituted. So, Global Payments is much more diverse as a geographic manner relative, in particular, to Fiserv and First Data. So for example, on a pro forma basis, 30% of our combined TSYS-Global Payments revenue or about $3 billion is outside the United States. I think Fiserv pro forma is about 95% or 90% in the United States. Fidelity is more similar, but I also think you have to realize that in Fidelity's case, the geographic diversity is primarily U.S. and UK in the context of Worldpay acquiring business, whereas ours, post-TSYS, we're physically present in acquiring in 38 countries doing business cross-border in 100 on a pro forma basis. So really, a very different geographic footprint.

And then, lastly as you would know, our balance sheet and our capital position, when the close occurs in the immediate term, the company will have a much bigger balance sheet, levered about 2.5 times investment grade credit. New Fiserv and new Fidelity, obviously, are more substantially levered than out of the box. So, I do think it's a capital matter. I think it's a business positioning matter, it's a geographic matter, it's a product matter. To be honest, I just think we have a better mousetrap.

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

And any change in how you guys are thinking about the TSYS opportunity as you've done more due diligence since the deal's been announced? I know they reported – TSYS reported second quarter results. And do you guys believe the long-term growth rates TSYS has outlined in their business as achievable?

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

Why don't I start and I'll turn it over to Cameron on the second part your question, in particular. But what I would say is we're even more confident in what we announced on the revenue and expense side at the time we announced the transaction at the end of the May. We've spent the last, Bryan, two or three months in integration planning. We're knee-deep in the integration today. Most of the business, if not, all of the business unit leaders on a combined basis have been selected. We're knee-deep in the revenue and expense plan. So with that work continuing but a lot of the initial work largely behind us, we're very confident in the revenue and expense targets that we laid out all the way and – back in May. So I would say, in summary, we actually feel more confident at what we said at the time of transaction sitting here in September than we did in May.

Cameron, you want to talk a little about the financials?

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

Yeah, sure. I'd be happy to. So, I think the short answer to your question, Bryan, is yes. I think the long-term growth targets that TSYS has historically outlined for those three segments of the business still very much remain intact. Obviously, we didn't own the business in the second quarter, so I can't really comment too specifically on any particular transitory items that may have impact the Q2 results. But as we look at the business longer term and certainly how we expect it to perform in the back half of this year heading into 2020, I think those long-term growth fundamentals are still very much achievable for the business. And to Jeff's point earlier, I think by putting these two companies together, we're even more confident today and more bullish today about the opportunity to drive meaningful revenue synergies across the two businesses globally. Obviously, by the combined capabilities, we'll be able to bring to bear.

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

Yeah. At this point, Bryan, as an example, we've had multiple conversations with customers across multiple geographies, both on the FI side and the tech side. So, real-life experience has shown us that this combination has been pretty well-received.

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

Q

Yeah. There were some doubts originally on the Heartland acquisition and that acquisition turned out to be a homerun for you guys. Can you talk a little bit about it? Are there some similarities – I mean, TSYS is obviously a much bigger acquisition, but some similarities between the two?

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

A

Yeah. I mean, absolutely. So Cameron and I had certainly talked a lot about our experience into Heartland when we were working on TSYS partnership. So I would say the first thing is just financial in nature, which is to say that our view on the expected returns both in terms of earnings accretion as well as IRR are pretty much the same in the TSYS transaction as they were in the Heartland transaction. I think our stock went from $70 to $160 kind of in the three years or three years and a quarter post-close of the Heartland transaction on pretty much the same economics that we expect to achieve sitting here today in the TSYS transaction. So, we look forward to continued growth in the revenue margin earnings, much as we saw in the context of Heartland.

Of course, we're a much larger company and TSYS is also a much larger company. So, we'd be able to replicate those earnings accretion to IRR metrics in the context of a company that's probably three or four times the size than we were when Heartland was at the time we did a deal. It's something we're very pleased about, number one.

Number two, I'd also say in the context of the integration, many of the lessons that we learned – and Cameron should comment on this – many the lessons we learned in the Heartland integration, really applying to the TSYS integration. You want to mention some of those?

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

A

Yeah. I mean, I think as we look at the two businesses, obviously, the significant overlap with us and TSYS is on the merchant side of the business. And we have extensive experience obviously in combining merchant businesses, particularly that are based here in the U.S. market. That is a direct corollary to what we did with the Heartland transaction. So, I think we learned a lot of lessons through that process in terms of how to approach that, how to yield the maximum amount of synergies out of, obviously, the expense opportunity that exists across the two businesses, while at the same time, not diminishing the opportunity to drive strong rates of organic revenue growth across the two companies, as we look to combine them. And then, of course, being able to draw expense synergies out of the shared service functions and other areas of overlap in the business. We're highly confident in our ability to do that, while still maintaining the momentum in the business.

I think if you look at the Heartland deal, some of the skepticism that may have existed out of the gate around that were really around the cultural alignment of the two businesses, whereas I think even in the TSYS case, thus far, we have far more similar cultures than we probably did with Heartland. So, I think some of the concern in the Heartland transaction was just how are you going to be able to bring these two businesses together in a cultural matter. Whereas with TSYS, I think our cultures are very similar and, in a lot of ways, it's going to make it easier to go about things than it even was in the Heartland transaction, which again gives us, I think, substantial confidence around the ability to drive similar levels of value out of this deal as we did with Heartland.

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

Q

And how will the distribution work when you combine these assets? Just thinking about selling the software and then the partnerships between OpenEdge and [ph] Cayenne (00:15:25) and Heartland in transfers, how would that all come together as a distribution?

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

Yeah. So, I think if you look at the distribution assets that we have today, the distribution assets that TSYS has today on the merchant side, they're very complementary. So, we have a large direct sales force, roughly 1,500 sales professionals here in the U.S. selling on a relationship-led basis. We will take those aspects of TSYS's existing business today that look like that, particularly their FI partner channel where they're using direct sales professionals in combination with bank branches to sell merchant-acquiring solutions in the market. We'll combine all that together.

I think we have a much better mousetrap in terms of how we're able to support those FI customers going forward, particularly as it relates to our ability to surround them with sales professional and drive faster rates of revenue growth and more cross-sell through that channel by combining the relationship-led aspect of TSYS with our relationship aspects today.

On the integrated side of TSYS, which is similar to our OpenEdge business today, we're going to combine those assets as well. So, we have a full suite of capabilities across the landscape of integrated, all the way from fully integrated solutions that we offer through OpenEdge today and that TSYS offers through their channels today, all the way to obviously PayFac capabilities that really come to us domestically by virtue of the ProPay business that TSYS operates in the U.S. market.

So, we'll go to market as a distribution matter similarly to how we have historically. We'll have our integrated businesses that will be under common leadership and we'll have our relationship-led business that will be under common leadership. But the nice thing about the two channels, there's not a lot of overlap in terms of vertical market focus, how we go to market today. Largely, the distribution channels, I think, are highly complementary.

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

Wanted to ask about Vital Point of Sale and what does that potentially give GPN that it didn't have before? And how does that look and compete versus the Clovers and the

Squares of the world?

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

Yes. So, our business is really a tale of vertical market expertise. So, we primarily focus on small to mid-sized businesses globally, but we're especially focused on SMBs in the context of vertical markets. So Heartland, for example, just by way of comparison, from the taco truck all the way to Taco Bell, and we announced this and took people through it, Bryan, in our, I believe, our April call, has a register, a restaurant, a point-of-sale device for pretty much every type, every size of customer you can have in the restaurant land from the taco truck through to Taco Bell, but what we don't have at Heartland that's primarily restaurant focused, what we don't have at Heartland today is the equivalent in retail, and that's really what Vital POS is.

So, if you look at what Vital POS is especially geared toward, it's geared to the retail environment much like Heartland Register is geared toward the restaurant environment. So, one of the synergies that we certainly see coming out of the transaction is to take Heartland's as well as Global Payments' products and services in merchant, and I think Heartland Register is a really good example, cross-sell that into the TSYS space and conversely take TSYS or Vital POS and cross-sell that into the Heartland base, which is very much focused on a retail point-of-sale device.

As it relates to Square and Clover, what I would tell you is that our current footprint with Heartland is the same or better than either of those two products. Our goal would be, as part of the integration, to do the same thing with Vital Point of Sale that we did in the context of Heartland, which is to say enhance it so it's the same or better as Square or Clover's device is. The important distinction between what we're selling and what we will be selling as part of Global Payments and TSYS versus what Fiserv – new Fiserv and First Data or what Square does is we're really selling an ecosystem.

So, in the restaurant vertical market, we're selling an ecosystem, in the retail market with Vital POS, we'll be selling an ecosystem. What that means is the hardware that you're asking about as well as the software, as well as the value-added products and services, as well as the payments, most of our competitors are really just selling the payments. So, for example, Clover is an effort to get the payment. We want the payment, but we want the software, the ecosystem, the value-added services that come along with it. And that's why I think, competitively, we'll be better positioned relative to Vital POS.

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

A

Yeah. And on Vital, just one other thing I would add, I think we're particularly excited, as Jeff said, about selling it through all of our distribution channels today. And all the capabilities that we think we need to integrate into that environment, the value-added services that Jeff described, those all exist in our ecosystem today. But tying them into the platform, I think, creates a market leading retail point-of-sale solution on par or better than certainly what's in the market today and very consistent, to Jeff's point, at what we've already done in the restaurant vertical market at the point-of-sale.

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

Q

You guys have talked about creating a virtual loop in having virtual debit network capabilities internationally. Can you just talk about what that means for merchants and how that could impact the GPN's revenue and margins?

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

A

Yes. So, I would tell you that what we call on-us processing or really doing it within the four walls of the financial institution are four walls of a retailer, rather than going out to the networks, is already a very common thing to do outside the United States. So for example, in Spain, in Europe, in Asia, we have a lot of experience, Bryan, with on-us processing, which is to say internal routing through a financial institution or through a retailer.

We certainly think as we look at our business with TSYS that marrying the issuing processing capabilities that TSYS has, as well as their market share, especially in Canada, in the United Kingdom, and markets in Europe and Asia, matching their issuer processing capability along with our acquiring capability in Canada, in the United Kingdom, and in markets across Europe and Asia, will allow us to affect both of those things. Meaning, we can allow on-us or internal routing of transactions within the four walls of the financial institution of those markets without a need for a network authorization.

And we can do the same thing with large retailers where that retail has a private label or other [indiscernible] (00:21:19) loyalty program. TSYS runs a bunch of those for large retailers globally in Brazil, in Canada and in those markets and we can marry that with our acquiring in those markets and we have a physical presence, as well as a virtual presence, in Canada and in Brazil. We can marry that and process the transaction all internally. And we can do this with actually without owning a debit network.

So relative to new Fiserv and new Fidelity, firstly, they own debit networks which are in direct competition with the networks and those were commoditized businesses, not businesses you want to directly be in. And the second thing is those businesses for them, by definition, are all internally, meaning domestically in the United States, focused and are not overseas. So by marrying the issuer processing at TSYS with our acquiring capabilities, we can create a virtual closed loop, as you say, preserving the economics and the data flow and the richness of the data and the value-added services for our merchants, for our issuer clients and for large retailers. So, I think that also would be a better product and services that are available in the market today.

The other thing we can do is generate new technology solutions, Bryan, like strong customer authentication, which is coming under [ph] PSC.2 (00:22:27) in Europe actually next week or this weekend, on the 14th. We can actually provide multi-factor authentication, which is what FCA is, without the need to go to a third-party network for authorization, confirmation of those transactions with the same technology, which is to say combining, issuing, processing with acquiring, we know who that caller is, we know what their phone number is. We can actually authenticate those transactions without having to go to Visa and Mastercard. I think that puts us in a much better competitive position going forward than any of our direct peers.

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

Q

I was going to ask, there's definitely been a lot of talk about improving auth rates, and you hear that more and more in every conference call in payments. How much of that is kind of pie in the sky thinking or how much of that is really we're going to see improvement in that and somebody has a competitive advantage over somebody else?

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

A

Yeah. I think it's the latter. I think we will have a competitive advantage relative to most of our direct peers in ecomm because through a strong customer authentication, we'll be able to do that in-house. As you probably know, a lot of the FCA rules are being phased in over the course of 12 months. The reason they're not all taking effect this coming weekend on the 14th is because many parts of the ecosystem, like small merchants, small card issuers, small gateways [indiscernible] (00:23:42) ready. Global Payments is ready, but in particular, for these purposes, our ability, post-TSYS, Bryan, to match the issuing side with the acquiring side will allow us to deliver a much better customer as well as merchant experience, and I think undoubtedly will give us better auth rates versus the competition.

If you think about how some of our competitors are positioned, whether it's Worldpay or whether it's Adyen, they're going to have to go out to third parties for that validation. That's not going to help their authorization rates, which is why I think they were all so vocal in advocating for a delay of the rollout of the FCA. It hasn't been delayed. It wasn't phased in over a period of time. So I do think competitively, starting like this weekend, on the 14th, we should be in a better competitive position the deeper we get into the TSYS integration.

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

Q

Okay. Another part of the strategy is the move and to expand internationally. Can you talk about some of the abilities you'll have to penetrate some of the European acquiring markets in a issuing opportunities that are out there even beyond Europe but looking in Asia?

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

A

Yeah. I'll jump in. I think a core part of our growth thesis historically has been looking to get more exposure to faster growth markets outside of the U.S., in particular, where the secular trends around card adoption and then obviously card payment at the point-of-sale or from an ecomm and mobile standpoint are clearly better than they are here in the U.S. market. So that thesis, post-TSYS, very much remains intact. And quite frankly, to your point, we think we'll have more opportunities to pursue that strategy by virtue of now having issuing and acquiring capabilities outside of the U.S.

Historically, we've looked at a number of different assets, Europe, LATAM, in particular, where issuing and acquiring under one roof. And historically, we've tended to pass on that as we haven't really been in the issuing business. And conversely, TSYS has also passed on those opportunities because they haven't had an acquiring presence outside of the U.S. market.

So in terms of I think the opportunities to further expand into faster growth markets that we're operating in today or into new geographies that again have those same strong secular trends that we find attractive and create nice tailwinds for growth, we certainly think there's going to be more opportunities for us to do that by virtue of now having issuing and acquiring capabilities under one house and being able to deliver those solutions at scale in markets outside of the U.S.

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

Q

On issuer, what is the company's plan to move the issuer solutions more to the cloud and how could that invigorate the growth as well as the margin?

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

A

So, that's certainly our plan. As you know, as it relates to Global Payments prior to TSYS, we certainly substantially modernized and enhanced our offerings. Pretty much all of Global standalone today, Bryan, is in the cloud. Internally, of course, a lot of our software businesses and the way we go to market and sell is also cloud-based in terms of what we do.

We certainly have plans to modernize and enhance the issuer business. That's primarily through new products, so with renewed focus on their debit business. They do have a debit business that's not as large as their credit business, enhanced focus on the commercial business. They have a very good commercial product, continue to build on the lead in commercial, and of course, expand into new geographies.

Part of the expansion into new geographies, particularly outside the United States, is going to require an investment in cloud SaaS to effectively modernize the means of distribution to make sure the economies of scale are there outside the United States. So, certainly, we thought about this as a pool of capital that, over a period of time, we'll certainly look to put into TSYS's market-leading issuer business. I think they'll be very similar to what we did at Global Payments standalone prior to Heartland and, really, what we did to Heartland, post the merger with Global Payments.

So, I would say that we feel very confident on our ability to execute in this stuff. It's stuff we've done before. And certainly, I think the model that TSYS has is successful as it has been. I think the modernization will help to accelerate growth really over the intermediate term. It's easier to do that outside the United States, where it's largely through their PRIME business. It's largely a license model today. Converting that to cloud SaaS is certainly something we're going to be taking a look at. But attacking new markets even within United States on a small to mid-sized basis through cloud SaaS efforts is something else we'll take a look at. So, certainly, it's on the radar screen, and as we work through the integration, that's something we'll spend more time talking with you guys about.

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

And the TSYS consumer business, a lot of questions on it, if that fits and how that fits. I know there's opportunities to expand in B2B and B2C and P2P payment. There has been some competitive pressures in that sector. Just can you give us an update on how you're thinking about the strategy there?

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

Yeah. I'll start and I'll ask Jeff to jump in as well. I think, as we look at that business today, there's clearly existing products in that business that we think are highly complementary to what we're doing at Global Payments today. One example is their [ph] P Card (00:28:28) solution that we see very good opportunity to cross-sell through our payroll channel and then, even more specifically, through the restaurant vertical market as that's a particularly strong solution for paying out waitstaff, paying out tips at the end of cycle. So, from our standpoint, there's clearly products within that business today that we think are going to be highly complementary and we're going to have a lot of success in cross-selling.

We also think the business has great potential to grow outside of the U.S. So, obviously, there's been regulation changes here in the U.S. that have created a little bit of a headwind for growth for the business this year. We obviously will anniversary that as we get into 2020. After which, I think the growth fundamentals in the U.S. are still fairly strong. But I think we see a lot of opportunity outside of the U.S. and we've already had a variety of conversations with partners and markets where the demographics are consistent with what we see here in the U.S. around the under-banked and unbanked segments of the market, where frankly, the existing prepaid markets are relatively nascent.

So, part of our strategy is we'll look to bring that business to markets outside of the U.S. where we think the demographic trends are favorable, where we think, obviously, we have an opportunity to further grow and expand the business. And candidly, this is something that TSYS has looked at historically, but they really lack scale in some of these markets, particularly, the markets that have the right demographic to be able to pursue these types of opportunities. So, the combination of cross-selling the existing capabilities using the platform to better explore B2B and P2P opportunities, particularly, digital trends in those spaces, the opportunity to bring it to markets outside of the U.S. give us confidence that we can grow and expand the business for the long term, again, consistent or better than kind of the growth rates that have been targeted for historically.

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

Okay. So if you wrap this all up, the company will have a pro forma leverage of about 2.5 times, big free cash flow generation of, I think, $2.5 billion on fiscal year 2019, and you guys have had a history of successful acquisitions. So, can we see potentially more software deals in particular or even larger transformational software deals in the future?

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

A

Yeah. The answer is absolutely yes. So, one of the things that we most like about the transaction itself is, as you just said, the financial characteristics of what the combined company looks like. So, I think our strategy focusing on software, owned and partnered, focusing on e-comm and omnichannel opportunities in faster growth geographies is not and will not change coming out of the TSYS partnership. I know TSYS feels very similarly.

I think what will change, though, due to the financial characteristics of the combined company is the type and also the size of deals that I think we will pursue. First of all, we're just a much bigger company. Second of all, we have a lot more financial firepower, as you were just alluding to. And in terms of the types of deals, Cameron touched on this a minute ago, there are companies, particularly outside the United States, in Europe and Latin America, that are issuing as well as acquiring and we would tend to pass on those because we didn't have both, now we do. Certainly, [indiscernible] (00:31:24) change a little bit, but the strategy will remain the same.

We continue to look at vertical market software deals. By the way, we continue to look at financial institution deals, we continue to look at new geographies, and we continue to look at more scale and existing geographies. So just an example that our strategy of vertical market software and everything else will remain the same, what will change is our financial firepower and our capacity to do that, and that is another distinction, I think, between us and some of our peers.

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

Q

Okay. If there's any questions out there, just raise your hand. There are mics here. It's a big group of tech conference and tech investors. And as you guys, being a big global payment tech company, I wanted to get your latest thoughts on some of the trends you're seeing in different economies, maybe where you're seeing economic strength in some geographies, and then, any slowdowns or things that are getting maybe a little bit worse.

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

A

Well, I'll start and I'll ask Cameron to join in, too. But I would say worldwide, the consumer remains very healthy. I would say particularly here in the United States but really across North America, we continue to see, Bryan, the same strength in our consumer merchant businesses here in the United States, in North America, that we really saw for the first half of calendar 2019. I'd also say more generally, we see consumer health really across Europe, particularly Continental Europe, and we see continued strength across Asia, with probably one exception.

Cameron will talk a little bit about the kind of the two markets that we spend a lot of time focused on.

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

A

Yeah. I think we called out in the second quarter call, the Q2, obviously, for the UK was a little bit weaker from a macro standpoint. We expect that trend to persists through the balance of the year. Obviously, as Brexit continues to linger and there's a lack of certainty as to how that's going to play out, that's clearly put a little bit of pressure on the overall macro environment in that market. But yet, notwithstanding that, to Jeff's earlier point, the rest of Europe, it remains quite strong. So the overall growth rates for Europe, I think, for the balance of the year, we continue to expect to be at the – at our targeted rate of growth, which is that high-single digit pace.

And then, Asia is good overall, and obviously, we've seen issues in Hong Kong, we called those out in Q2 as well, around the protests that have led to riots. In Q2, that impacted us for about a month. It's going to impact us a little more obviously in Q3 by the virtue of the fact that those have continued into July and August and now the early part of September as well. So, really transitory but that does put a little bit of pressure on obviously consumer spending in that market. It puts pressure on tourism, which drives a lot of consumer spending in that market.

Ex-Hong Kong, I think the rest of Asia is still growing in that low-double digit to low-teen pace that we've seen in the first half of the year. Hong Kong just obviously has its own transitory issues that will ultimately obviously resolve themselves that does create a little bit of pressure in the near term. But to Jeff's earlier point, by and large, the consumer outside of those two kind of discrete situations, I think, is very healthy and the trends we're seeing in the markets we're operating around the globe continue to be quite good.

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

A

Interesting, by way of context, Bryan, that I think we said, as Cameron, in February of 2019, we gave the most aggressive, meaning the highest rate of growth initial guide that at least since we've been managing the business for the last six years we ever gave. Here we are through the August call, I guess, seven or eight months into it.

And on the revenue side, we've been reaffirming the revenue guide, even though currency has been worse. So, implicitly, we're really raising at currencies [ph] by another point (00:34:45) off where we started. So notwithstanding, we were in February, which is the most aggressive guide as a matter of growth that we gave in absorbing now the 100 bps in currency, we've actually been reiterating and reaffirming the revenue guide and increasing the earnings guide. So, I think that probably tells you as much as you need to know about what do we think the state of the consumer is worldwide.

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

Q

I'll ask one last question to you, Cameron, just on the overall operating margin of the company, as set aside TSYS in those synergies.

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

A

Sure.

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

Q

The leverage has obviously been impressive, especially in North America. The question, I guess, is how much can this continue and how much leverage is there in the model as you scale?

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

A

Yeah. I think it's a fair question and I'm going to talk about it exclusive of TSYS, because obviously, that resets the whole conversation. But as we think about Global Payments standalone, I think one of the things we're most pleased about in terms of our financial performance over the last several years is our ability to expand margins, expand margins at rate above the targets that we have established for the business, but do that while also obviously not starving the business for capital. So, we've been investing heavily in the business as a technological matter, while at the same time, been able to drive strong margin expansion in the business.

And frankly, on a standalone basis, for Global Payments, I still see a good strong runway for us continuing to do that as we approach sort of a mid-30 kind of margin profile and ultimately kind of a higher-30 multiple – sorry, margin profile, as we expand in that sort of 75 basis points annually, which is our target.

Ultimately, as you start to get closer to probably the high-30s, 40%, there's going to need to be a little more reinvestment back into the business probably to continue to drive the same rates of top line growth. So as you get to that level, I would expect that to be the outcome because trees obviously don't grow to the sky and probably margins aren't going to go to 50% in the business we're running today. But we do have a lot of visibility into continued strong margin expansion in the Global Payments standalone, and then, obviously, bringing the conversation back around to TSYS, bringing TSYS into the mix, the opportunity to drive synergies from an expense standpoint out of the business.

I think in the near term, in terms of the over $300 million of run rate synergy target that we have established, as well the long term, being able to scale the business more efficiently, more effectively from a margin standpoint, I think gives us a lot of confidence that the overall margin expansion story for the combined business is going to be very attractive going forward.

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

Okay. With that, we'll leave it there. Thanks, Jeff. Thanks, Cameron.

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

Thanks, Bryan.

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

Thanks so much for having us.

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

Thank you.