Global Payments Inc. (GPN) CEO Jeffrey Sloan on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-31-19 Earnings Summary

Press Release

EPS of $1.7 beats by $0.04 | Revenue of $1.16B (13.26% Y/Y) beats by $6.01M

Earning Call Audio

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Global Payments Inc. (NYSE:GPN) Q3 2019 Earnings Conference Call October 31, 2019 8:00 AM ET

Company Participants

Winnie Smith - Senior Vice President, Investor Relations

Jeffrey Sloan - Chief Executive Officer

Cameron Bready - President and Chief Operating Officer

Paul Todd - Senior Executive Vice President and Chief Financial Officer

Conference Call Participants

David Koning - Baird

Tien-tsin Huang - JPMorgan

David Togut - Evercore ISI

Eric Wasserstrom - UBS

Ramsey El-Assal - Barclays

Dan Perlin - RBC Capital Markets

Darrin Peller - Wolfe Research

Operator

Ladies and gentlemen, thank you for standing by. And welcome to Global Payments 2019 Third Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will open the lines for your questions and answers. [Operator Instructions] And as a reminder, today's conference call be recorded.

At this time, I would like to turn the call over to your host, Senior Vice President, Investor Relations; Winnie Smith. Please go ahead.

Winnie Smith

Good morning. And welcome to Global Payments third quarter 2019 conference call. Before we begin, I'd like to remind you that some of the comments made by management during today's conference call contain forward-looking statements about expected operating and financial results. Forward-looking statements are subject to risks and uncertainties discussed in our SEC filings, including our most recent 10-K and any subsequent filings. These risks and uncertainties could cause actual results to differ materially. We caution you not to place undue reliance on these statements.

Forward-looking statements during this call speak only as of the date of this call and we undertake no obligation to update them. Some of the comments made refer to non-GAAP financial measures such as adjusted net revenue, adjusted net revenue plus network fees, adjusted operating margin and adjusted earnings per share, which we believe are more reflective of our ongoing performance.

For a full reconciliation of these and other non-GAAP financial measures to the most comparable GAAP measure in accordance with SEC regulations, please see our press release furnished as an exhibit to our Form 8-K filed this morning and our trended financial highlights, both of which are available in the Investor Relations area of our website at www.globalpaymentsinc.com.

Joining me on the call are; Jeff Sloan, CEO; and Cameron Bready, President and COO and Paul Todd, Senior Executive Vice President and CFO.

Now I'll turn the call over to Jeff.

Jeffrey Sloan

Thanks, Winnie. We are delighted to have completed our landmark merger with TSYS this quarter, bringing together two industry leaders and positioning the new Global Payments as the premier pure-play payment technology company at scale globally.

We successfully closed this transformative partnership on September 18, just 3.5 months after we announced our agreement in late May and well ahead of our initial expectations.

Our ability to execute on an accelerated timeline was made possible by the highly complementary nature for our market leading payments and software technology businesses, this strong alignment of our corporate cultures and the unrivaled expertise of the 24,000 people across our combined organization. I could not be more excited about the future opportunities for all of our stakeholders.

Our terrific third quarter results highlight the continued momentum in our business which is being fueled by broad based strength across our relationship-led and technology businesses and underpinned by consistent ongoing execution.

In the midst of the largest integration, we have undertaken to date we again delivered double-digit revenue growth, expanded adjusted operating margin by 80 basis points and produced adjusted earnings per share growth of 18%. We are very grateful for the hard work of our colleagues that has brought us to this point.

And we also accomplished of these results while simultaneously expanding our strategy to be the partner of choice for the most complex financial institutions worldwide.

To that end, we are thrilled to announce we have signed new partnership Desjardins, Canada's leading financial co-operative group; and Citi, one of the largest money center banks globally. These new competitive wins with marquee partners across multiple geographies further validate the distinctiveness of our pure-play payments model.

Starting with the Desjardins, we reached an agreement to purchase the Québec based bank's existing portfolio of approximately 40,000 merchants and have executed an exclusive referral partnership to provide acquiring solutions to its clients for next decade.

Desjardins selected Global Payments as a direct result of the breadth and depth of our technology payment solutions, local and global expertise, comprehensive distribution, modern architecture and infrastructure, and our unrivaled track record of execution over many decades. We expect this transaction to close by early 2020.

We were also excited to have been selected by Citi to partner to offer payment acceptance services to its multinational banking clients on an omnichannel basis. Our ability to offer highly competitive payment solutions physically and virtually in more market seamlessly than our peers differentiates Global Payments and this partnership capitalizes on our local market expertise and industry leading unified commerce platform, or UCP to provide a true omnichannel experience. We expect to be in market with Citi by year end 2019.

We look forward to working with Desjardins and Citi to bring best-in-class solutions to their merchant customers around the globe. We are winning every day in the marketplace with the uniqueness of our strategy and we are very proud of the company we keep.

In addition to our new preliminary agreement with Citi, we recently signed several significant global omnichannel customers including with UK based online luxury retailer, MATCHESFASHION and a rapidly expanding modern high tech hotel chain, Eurotel.

We also continue to expand UCP. We are now live in the United States in addition to Canada and Asia-Pacific and will fully roll out UCP in the UK over the next two weeks.

Turning to our integrated and vertical market businesses. OpenEdge, once again, delivered strong growth during the third quarter, driven by our ability to provide a truly integrated ecosystem across more vertical markets and more geographies than our peers.

And we maintained our consistent track record of growth in our own software portfolio as our strategy of delivering the full value stack in key vertical markets is creating deeper, richer and more value-added relationships with our customers.

Our combination with the TSYS significantly accelerates our technology-enabled software-driven mission establishing Global Payments as the leading provider of integrated payment solutions, own software in both merchants initialing and omnichannel capabilities in the most attractive markets globally.

On a standalone basis, TSYS produced consistent results for the third quarter. Performance at TSYS merchant business improved, resulting in meaningful revenue acceleration.

These results were achieved while making significant progress on integration, contributing substantially to an increase in our expected revenue and cost savings expectations just a few weeks post close.

Our strategy of the combined merchant businesses remains focused on cross-sells of complementary products, further penetration of adjacent distribution channels and rollout of UCP to the TSYS customer base.

In addition, TSYS' issuer solutions business recently completed new long-term agreements with the Central Trust Bank in North America and leading retailer Riachuelo in Brazil.

These were competitive takeaways, providing further validation of our combined pure-play payment service. And we also expanded existing contracts with Virgin Money Nationwide Building Society and Metro Bank.

Most notably, we expect growth to accelerate in this business as the issuer solutions team successfully converted the Walmart portfolio on behalf of Capital One earlier this month.

This market leading business has a full pipeline today and the expanded breadth of our combined 1,300 FI partnerships provide significant untapped opportunities for new issuer and merchant referral relationships.

Our strategy to accelerate growth in issuer solutions involves modernizing its platforms, cross-selling existing relationships globally and extending the product suite. As customers move to cloud-based solutions, we believe that Global Payments can enhance the development of next-generation products and services.

Turning to the consumer solutions business. Earlier this month, we announced a partnership with Samsung to integrate the Netspend digital MasterCard into Samsung’s mobile wallet and provide a variety of payment solutions including P2P. Branded Samsung Pay Cash, this solution allows smartphone users to establish a re-loadable balance and whole funds for use, including spending and budgeting, opening a significant pool of new customers for this business.

Our differentiated strategy at Netspend consists at Netspend consists of product extensions into P2P and B2B segments, as well as select international expansion. In addition to the recently announced P2P solutions like Samsung, we are building product offerings currently to dramatically enhance the scale and scope of Netspend's B2B offerings.

Domestically, we expect Netspend's Paycard products to help expand Heartland's payroll offering. We also see additional use cases for Paycard in restaurants, one of our largest vertical markets, as well as in our gaming business, which is among the largest in North America.

Finally, we believe we can bring Netspend into new markets, based on Global Payments' existing acquiring partnerships outside the United States in short order.

The substantial progress we have made in just a few short weeks since we finalized our partnership, provides us with the confidence to now raise our expectations for both revenue and expense synergies.

Importantly, we expect the integration actions we have already initiated to generate in excess of $100 million of expense benefits on an annualized basis, meaning that we believe we can achieve our 2020 accretion goals announced in May, even if we were not to undertake any additional actions next year, and, of course, we intend to do more in 2020.

Cameron will provide you with the specific details on our updated targets in a moment, but let me highlight a few of the revenue synergy opportunities already planned that give us a clear line of sight towards achieving our goals.

First, our efforts to align our merchant organizations and go-to-market strategy in the US are well underway and we expect to start cross-selling products including Bio TSYS, Genius and ProPay, as well as the subscription-based engagement and analytics and vertical software solutions in 2020.

Specifically, we expect the capabilities of ProPay to provide value-added products like multiple disbursement capabilities and web-based Sales Select and Heartland. We’re also laying the groundwork so we can begin to deliver products like products like Data Final POS, Genius and ProPay to additional geographies internationally and enable TSYS' legacy customers outside of the United States.

Second, we are already engaged in preliminary discussions with our existing global bank partners across three continents on issuer processing opportunities for TSYS. We have just returned from Europe and we believe that the market is ready for processing capability domestically and cross-border in geographies like United Kingdom, Central Europe, Spain Ireland, and closer to home Canada.

By marrying issuer processing with our acquiring capabilities, we can emulate many of the aspects of the virtual close loop, as well as provide strong customer authentication internally which is now the law of the land across Europe. These opportunities are in addition to core merchant referral relationship possibilities from existing TSYS FIs and private retailers to Global Payments.

Third Netspend is actively working on new B2B, B2C and P2P capabilities and opportunities including for our restaurant and gaming customers, as well as in new geographies. Netspend has already proved fertile ground for new merchant referral relationships among its larger distribution partners.

We have found a true partner with TSYS and could not be more excited about the future opportunities to drive significant value creation for our employees, customers, partners and shareholders. We are fortunate and grateful to be in the position we are in today. With that, I'll turn the call over to Cam.

Cameron Bready

Thanks everyone. Before I begin, I would like to welcome Paul as the new Chief Financial Officer of Global Payments. It has been my privilege to serve in this role for the last five years and to work with all of you in that capacity. We were thrilled to successfully finalize our merger with TSYS this quarter, our largest transaction to date.

And as Jeff mentioned, we’re already making significant progress on the integration of our two leading pure-play payments businesses. Importantly, we accomplished this while producing strong financial performance in the third quarter, a testament to our continued relentless focus on execution.

Total company adjusted net revenue plus network fees for the third quarter was $1.31 billion reflecting growth of 27% versus the prior year. Adjusted operating margin expanded 80 basis points to 33.8% and adjusted earnings per share increased 18% to $1.70 or approximately 20% on a constant currency basis. Naturally our third quarter performance reflects TSYS' results from September 18, the impact of which was neutral on an adjusted earnings per share basis.

Before turning to the financial impacts of the merger, let me start by covering the standalone Global Payments highlights for the quarter. Excluding TSYS Global Payments produced adjusted net revenue plus network fees of $1.161 billion, reflecting growth of 13% versus 2018 or over 14% on a constant currency basis. And adjusted operating margins expanded by 110 basis points to 34.2%.

In North America, adjusted net revenue plus network fees for Global Payments on a stand-alone basis was $877 million, reflecting growth of 16% over the prior year period.

Adjusted operating margin in North America expanded 130 basis points to 35.6%, driven by growth in our technology enabled businesses and consistent strong execution across the segment.

Our US direct distribution businesses again delivered low double digit normalized organic growth this quarter led by strength in our integrated and vertical markets business.

Specifically OpenEdge produced high-teens growth while our own software portfolio continued to deliver low double-digit organic growth consistent with our outline targets. We also saw high single digit organic growth in our US relationship led channel, reflecting consistent execution in this business.

Our Canadian business grew low single digits in local currency with weakness in the Canadian dollar impacting reported results by approximately 100 basis points for the quarter.

As Jeff noted, we are very pleased to announce today our new partnership with Desjardins in Canada, which we expect will provide new avenues for growth in this market going forward. Lastly, our wholesale business declined mid-teens consistent with our expectations for the quarter.

Moving to Europe, adjusted net revenue plus network fees for stand-alone Global Payments grew approximately 11% in local currency or 6% on a reported basis as foreign currency exchange rates remain a meaningful headwind during the period. We continue to benefit from strength in our businesses in Spain and Central Europe, each of which grew well into the teens on a local currency basis.

In the UK we delivered mid-single-digit organic growth, which was ahead of our expectations and accelerated sequentially from the second quarter despite a continuing soft macro-environment and the uncertainties surrounding Brexit.

Our European e-com and omni solutions business, again delivered strong growth as we further enhanced our differentiated capabilities in unified commerce platform. We look forward to completing the next phase of our rollout of UCP globally when we go live in the UK over the next few weeks, which we expect will support continued momentum for our pan-European omni-channel offering.

Adjusted operating margin in Europe expanded 100 basis points to 48.6% as consistent execution and scale benefits offset pressure from foreign currency headwinds.

Turning to Asia Pacific. Reported adjusted net revenue plus network fee growth for stand-alone Global Payments was 5% or approximately 7% on a constant currency basis.

Excluding Hong Kong where we have been impacted by the ongoing protest, our Asia Pacific business delivered low double-digit growth in local currency consistent with our overall target for the region.

Adjusted operating margin of 33.9% improved slightly relative to the prior year as outstanding execution and expense discipline offset headwind from both disruptions in Hong Kong and foreign currency exchange rates.

Following the close of our merger on September 18, TSYS contributed $145 million of adjusted net revenue plus network fees and $45 million of adjusted operating income for the final 13 days of September.

Overall, for the third quarter, the legacy TSYS business produced constant currency revenue growth largely consistent with the second quarter, while margin expansion was above the high end of TSYS' previous 25 to 75 basis point target.

Growth for the legacy TSYS merchant solutions business accelerated from the second quarter moving back into the high single-digits longer term targeted range. Normalized for the exit of its government services business and the deactivation of a single value-added product, the legacy TSYS issuer solutions business grew in line with its longer term mid-single digit target in the quarter.

Finally, revenue performance for the legacy TSYS consumer solutions business was largely consistent with the second quarter. We expect revenue growth to accelerate in the fourth quarter across all three legacy TSYS businesses.

In the merchant solutions business we're building on solid third quarter performance as we align our go-to-market strategies in the U.S. and begin to capitalize on cross-selling opportunities.

In the issuer solutions business, the conversion of the Capital One Walmart portfolio earlier this month provides us line of sight to improve growth entering the fourth quarter.

Lastly, in the consumer solutions business, we're building momentum as we expand our digital product offerings including our partnership with Samsung and realize benefits from recent distribution wins and renewals, more to come on our outlook for the remainder of the year in a moment.

Turning now to capital structure, in August, we successfully priced a $3 billion senior unsecured notes offering. In combination with the new credit facility we closed in July, our combined capital structure is now largely complete and meaningfully improves our weighted average interest rate going forward. In fact the terms we achieved are more favorable than we anticipated when we announced our partnership with TSYS in May.

In addition at closing, we received our final investment-grade credit ratings from both S&P and Moody's, consistent with our expectations. Pro forma leverage for the combined business was approximately 2.5 times at the end of the quarter.

This leveraged position coupled with our expected strong free cash flow generation provides the new Global Payments with significant capacity to invest in the business as we continue to advance our strategy and execute on our capital allocation priorities.

As for the outlook for the combined company in 2019, we now expect adjusted net revenue plus network fees to range from $5.60 billion to $5.63 billion reflecting growth of 41% to 42% over 2018. We also expect adjusted earnings per share in a range of $6.12 to $6.20, reflecting growth of 18% to 20% over 2018.

Inclusive of TSYS from the date of the merger, we now anticipate adjusted operating margin expansion of up to 40 basis points for the full year. Given TSYS' business mix, its margin profile is lower than that of Global Payments' legacy business, thereby reducing margin expansion expectations for the full year period.

That said, on a standalone basis, TSYS is forecasted to exceeded its margin expansion target for the full year period. In addition adjusted operating margin expansion for Global Payments on a stand-alone basis is now expected to be up to 100 basis points for 2019, well ahead of our historical target.

We’re very pleased with the progress we've made since closing on our partnership with TSYS last month and have increased confidence in our ability to accelerate revenue growth and deliver substantial cost savings over the next three years and beyond.

In fact, as Jeff detailed, our revenue enhancement initiatives are already underway. And based on the work completed to date, we're increasing our target for run rate revenue benefits to more than $125 million within three years.

As for expense synergies, we have implemented actions that are currently running ahead of our year one target and have already identified additional sources for expense optimization. As a result, we're also increasing our total expected expense savings to more than $325 million on an annual run rate basis within three years.

The momentum we have in our business coupled with the significant progress we've made on integration bolsters our confidence in the future. And more specifically, the accretion expectations we have for the TSYS merger at the time of announcement in May.

We now expect at least mid-single-digit accretion in 2020, which all else being equal, would imply adjusted earnings per share expectation in the mid-$7 range based on a stand-alone 16% to 18% growth target. Naturally, we will share in more detailed outlook for 2020 during our year-end call in February.

Before concluding today, I want to provide an update on our expected go-forward reporting for the business. First, as we finalize our combined structure, we anticipate reporting based on three operating segments: merchant solutions, issuer solutions and the newly named business and consumer solutions, which includes the legacy TSYS consumer business and also reflects our expanded strategy for this channel going forward. We believe this reporting structure will best align with how we expect or operate our differentiated payment center business model.

Second, based on feedback from the SEC regarding the use of our adjusted net revenue plus network fees metric that came out of a customary review of our public filings going forward we expect to report on an adjusted net revenue basis excluding the addition of network fees.

Although, we believe adjusted net revenue plus network fees provide useful insight into the economics of our business in a manner consistent with how the company assesses and measures performance, the SEC has requested we discontinue its use. As a result, we report without the addition of network fees in the future, consistent with how TSYS has reflected this item historically.

To facilitate this change, we'll be providing pro forma financial information for the combined business for historical reporting periods consistent with this presentation. Of course, Global Payments reports adjusted net revenue each period, in addition to the adjusted net revenue plus network fees metric and a historical pro forma information will be built on this basis.

We will be transitioning to this methodology in the fourth quarter and will provide all the components necessary for you to measure performance under both conventions. We could not be more excited about the future as we build on our competitive advantages and payments leadership position and we look forward to updating you on our continued progress in the coming quarters.

Now I'll turn the call back over to Jeff.

Jeffrey Sloan

Thanks, Cam. We could not be more excited about the momentum in our business and the significant wins we have recently achieved with large FIs like Desjardins and Citi validate our pure-play payments business.

Payments are not just an adjacency for us; payments are our exclusive focus in the area of unrivaled expertise. Multiple recent successes and competitive processes confirm the wisdom of our strategic focus and the privacy of our business model.

With TSYS, we deepen our competitive mode and confirm the value of our ecosystem across each element of our strategy. We have the most comprehensive software-driven solutions globally with full omnichannel capabilities, the broadest market reach, and enhanced exposure to faster growth geographies.

We have the very best employees providing the very best experiences for our customers with the very best technologies in the most attractive global markets. Together, we are positioned to deliver industry leading growth and remain at the forefront of innovation as we had into 2020 and beyond. This is truly an exciting time to be part of the new Global Payments. Winnie?

Winnie Smith

Before we begin our question-and-answer session, I'd like to ask everyone to limit their question to one with one follow-up to accommodate everyone in the queue. Thank you. Operator, we will now go to question.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from David Koning of Baird. Your line is open.

David Koning

Yeah. Hey, guys. Great job.

Jeffrey Sloan

Thanks, Dave.

Cameron Bready

Thanks, Dave.

David Koning

Yeah. I guess, first of all, just on TSYS, I mean you laid it out extremely well, I just want to make sure we understand 2020, should we expect accelerating revenue just given the synergies and some of the headwinds this year falling off? And then I guess the other part of TSYS, am I right to understand about $100 million cost synergy run rate already in Q4?

Jeffrey Sloan

Yes, Dave its Jeff. I'll start off and I'll turn it over to Cameron and Paul. So, the answer is yes to your first question. I think what we're very excited about the combined company, certainly as we looked at TSYS to address what you asked. We are entering the fourth quarter with our expectation of an accelerated revenue growth in TSYS just really 13 days after the close of the merger. We pointed out the reasons of that including the Walmart portfolio conversion in Capital One.

So, we feel really good about where we are heading into 2020 with TSYS. We also did see - I mean one area of direct overlap between Global and TSYS which is in the merchant business. As Cameron pointed out, we did see an acceleration in the third quarter in merchant already. And I think Cameron alluded to the other thing that we see improving performance in merchant in the fourth quarter.

So, we think we're in a really good run rate place Dave at TSYS currently in the quarter we're in, in the fourth quarter. And I think it gives us a lot of confidence heading into 2020. Cameron you might want to comment a little bit on the revenue synergies as it relates to Dave's question?

Cameron Bready

Yes, David, I'll jump in there quickly. We are making good progress particularly in the merchant business on realizing some very tactical cross-sell opportunities already with our combined businesses and obviously, we expect those to continue to ramp as we head into 2020 and beyond.

Now, the numbers at this point aren't going to be dramatic, but certainly they are providing a little bit of a nice tailwind in the merchant business within TSYS that gives us confidence that we can continue to accelerate growth and maintain it in that high single digit target for the merchant business as we head into 2020 and beyond and hopefully, even build upon that in future period. So I do think we feel very good about the momentum that we have in the TSYS business heading into Q4 and then further on into 2020 in particular.

To address your last question about the $100 million of expense synergies what we said in the script, just to be clear, is we've taken actions that run rate to $100 million of expense synergies in 2020. Obviously that $100 million is not in Q4, so I just want to be explicitly clear about that.

The actions we take and today will generate $100 million of expense savings in 2020, which was our target for realize the expense energies for the first full year of ownership of TSYS that we announced when we paid the acquisition or merger back in May.

David Koning

Great. Thank you. And then just as my follow-up, the Canada acquisition that sounds pretty cool. What roughly is the size of that? I mean, is that something that 10% of the Canada business or something more substantial?

Cameron Bready

Yeah. It's a great question Dave. We're thrilled to have the opportunity to partner with Desjardins in Canada. It adds about 40,000 merchants to our existing base of customers in Canada and obviously gives us a much more significant presence in Québec, which is an area of the market where Desjardins has been very effective and certainly has a very strong presence.

So we're too glad to be able to partner with them. As it relates to financial contribution it's going to add next year probably about in the neighborhood of $70 million or so of adjusted net revenue plus network fees to our existing Canadian business, which I think you know is just a little north of $300 million.

So it's a nice addition, nice bolt-on to our overall Canadian business and obviously, I think opens up new avenues for growth in that market for us going forward.

David Koning

Great. Thanks, guys.

Cameron Bready

Thanks.

Operator

Thank you. Our next question comes from Tien-tsin Huang of JPMorgan. Your line is open.

Tien-tsin Huang

Good. Thank you so much results. Just on the merchant side maybe can you help us recast what percent is now defined as tech enabled versus all the other pieces just want to get a better sense of how we should think about the components of growth for merchant with TSYS?

Jeffrey Sloan

Yes, Tien-Tsin. It's Jeff. I'll start. So it's essentially the same percentage at the combined business as it was for Global stand alone. I think we set this back in the May announcement up 50% is the combined total. The reason for that I'll ask Paul to comment just in a second.

The reason for that is TSYS merchant really had two pieces that were very similar to two pieces at Global Payments. One was Cayenne, which is very similar to OpenEdge. That was completely integrated business, adjacent areas of overlap, which I think is a great opportunity for OpenEdge.

The other one of course which transfers, which is very similar very similar to Heartland at Global Payments. And transfer has both semi-integrated as well as relationship-based businesses as well as an e-commerce asset.

So I actually think it looks a lot to be honest the way Global Payments did the on the merchant side so it's just about 50%. Paul you want to add anything?

Paul Todd

Yes. The only thing I would say is in the third quarter we do see that integrated piece of our direct business of the legacy TSYS direct business get right at 40%, which is a high watermark from an integrated standpoint in that legacy business going back a year or so ago. That was roughly one third and so the fact that has grown just kind of underpins just comments around the mix there.

Cameron Bready

Tien-tsin its Cameron I'll just add for the merchant business in particular, if you think about its contribution to the total business it's about 70% of the combined business now. And it's roughly 50% technology enabled and about 50% relationship globally.

So as we talked about when we announced de deal combining TSYS with Global Payment gives us just south of $1 billion of integrated revenue. We have just south of $1 billion of e-com and omnichannel revenue. And we talked about roughly $800 million or so of software revenue in our portfolio. So that ends up being close to half of the overall merchant business on a global basis.

Tien-tsin Huang

Okay. That's good to know. I just want to make sure we have that right. And then on the issuer side, you mentioned you get a full pipeline. How about on the merchant front, any comments on pipeline or bookings on the software side? I know there's a lot of activity going on with ISVs and dealers and even on the bank side as you mentioned; anything there? Thank you.

Cameron Bready

Yes, I'll talk a little bit about pipeline on the merchant side Tien-tsin. As you know our focus tends to be small to medium-sized businesses. So when we think about the pipeline for the businesses, it's a little bit different than obviously the issuer business which tends to be more large FI-focused. But I would say momentum in both of our businesses is very good.

As we talked about in our integrated business, Paul gave a little bit color on how TSYS performed. We commented that OpenEdge grew high teens in the quarter which is the high watermark for that business certainly over the last several years which I think reflects a strong new partner growth over the course of the last couple of years and obviously, good effectiveness at converting existing customers of our partners to payments customers of Global Payments which has been obviously an important part of our growth story over time.

The second thing I would say in our own software businesses, we continue to see strong bookings growth across AdvancedMD and ACTIVE as well. SICOM had a very strong quarter and has very strong momentum heading into 2020 having received recently some positive news from one of its largest customers about a rollout of a new product across its base of franchisees in 2020 which we think will be a nice tailwind for that business heading into the year.

And on the relationship side, we saw strong high single-digit growth in the quarter, good consistent execution in that channel. We continue to see decent same-store sales growth in the business, roughly 3.5% for the quarter and obviously, new sales and attrition rates remain very constant giving us again good momentum heading into the 2020 timeframe.

So, I would say all-in-all across the merchant business, certainly in the US, we’ve seen very strong trends. Europe improved quarter-over-quarter accelerated on an organic growth basis, largely driven by slightly better performance in the UK. And, of course, Spain and our Central European joint venture with Erste performed really well in the quarter as well.

The only really point of softness within Hong Kong that's completely expected, obviously, given the environment there. Ex-Hong Kong, we grew low double-digits in Asia which again is consistent with our expectation for that market.

So we feel good about how the rest of Asia is holding up as a macro matter notwithstanding obviously the site disruptions in Hong Kong. We've had to absorb in the P&L.

Jeffrey Sloan

Yeah. Just on the legacy TSYS standpoint, I'll just add on. We had an all-time record level of net revenue in the merchant solutions area. Our integrated - with legacy TSYS, integrated business grew in the strong double-digit range. We did get some accretive growth from the legacy indirect side. So much similar to Cameron's comments on the legacy Global side, it's just a great quarter from a merchant standpoint.

Tien-tsin Huang

Glad to hear. Thank you.

Jeffrey Sloan

Thanks Tien-tsin.

Cameron Bready

Thanks Tien-tsin.

Operator

Thank you. Our next question comes from David Togut of Evercore ISI. Your line is open.

David Togut

Thank you. God morning. Good to see the strong results and nice to see the early raise on the TSYS merger synergy targets. Perhaps just starting on the TSYS side, you talked about already having taken the actions to achieve the $100 million of cost take out in 2020. What specifically about the cost take out process is going better than you expected to-date?

Cameron Bready

Dave, its Cameron. I'll start and ask both Jeff and Paul to chime in if they have anything to add. I would say a couple of things. One is, first of all, experience, right? We've been down this path before. We have very strong experience from an M&A standpoint.

We learned a lot of in valuable lessons in the process of merging with Heartland and integrating Heartland. And I think TSYS has done the same with acquisitions that they've done over the point of time as well.

We got an early start with our planning process upon announcing the merger in May. And I think the governance model and structure that we put around the process itself I think has given us very strong start to obviously our working relationship and the ability to drive obviously ahead of schedule expense actions that we intend to take as we look to bring these two businesses together. So I really think it's the experience that we have and our ability to work collaboratively together.

I think our common cultures have allowed us to work very collaboratively in a way that has brought to the forefront very good ideas of how we can bring the companies together in a very efficient manner, how we can find savings within the business as we look to bring our merchant businesses together.

In particular, we have great momentum amongst the leadership team in merchant as it relates to our go to market strategy and finding ways to obviously drive efficiencies in the combined business as we work to implement our target architecture model and target operating model.

So we feel very good about obviously where we are. We feel good enough to increase our target expectations around expense synergies on the whole. And as we said on the call and mentioned earlier on the Q&A, we had line of sight to $100 million of run rate synergies in 2020 already and the actions we've taken will allow those to materialize next year as we continue to look to do more for 2021 and 2022.

Jeffrey Sloan

Yeah. And the only thing David I would add is from a legacy TSYS perspective, we said this at the time of the deal that we knew each company very well. Both companies had a long history of knowing each other and we knew that that was going to provide kind of additive tailwinds from the synergy standpoint of just that expertise that we both had at our legacy businesses and the complementary nature of the two legacy companies putting them together. And so that was our commentary at the time of the deal, and after we got post close, that came to fruition of that kind of a starting point.

David Togut

Appreciate that. And just as a follow-up. Europe came in significantly better than we expected both on revenue and cash EBIT. I am just curious Jeff about any early go-to-market experience you've had combining your merchant business and TSYS' issuer processing business in Europe which was definitely a big call out when you announce the transaction?

Jeffrey Sloan

Yes. Dave that’s a great point. So as I mentioned in the prepared remarks we were just there, the combined management team clearly matured a couple of weeks ago. I would say the receptivity for the combined partnership was even better than I expected back in May.

David, when we announced the transaction in the first place, we saw most of TSYS' large customers in Europe on the issuing side and we saw a lot of Global Payments large customers in the merchant side in Europe, when Troy and I and the team where there.

I think the market, as I said in my prepared remarks is absolutely ready for onus domestic and cross-border processing and the markets I listed in the prepared remarks. Of course closer to home here in Canada, we just announced Desjardins this morning.

So I think on a combined-ish [ph] or a merchant basis we have the same relative presence for the combined company in Canada than we even do in Europe, which is why I singled out on the script this morning, I think the opportunities are right there too.

I would also say as I mentioned that PSD2 and strong customer penetration is now the Global land as of mid-September in Europe. While that's been – took the regulators have joined pushed the back to 12 months in terms of terms of implementation. I think that's good news good news for us. There's all sorts of matching that we can do in issuing and acquiring to get the hands authentication services in e-commerce and omnichannel capabilities that we also discussed with our partners in Europe a couple of weeks ago.

And there are even new opportunities David that I haven't considered such as enabling some of the bigger retail brands that TSYS has on the issuing side in Europe to become more of a payment facilitation mechanism and enabled around digital wallet using issuer and acquirer capabilities which is actually something I really haven't thought about in May, but certainly heard a loud and clear from some of the consumer brands who are already on TSYS when we were there a couple of weeks ago.

So, I would say David, sitting here today, I'm more optimistic than I was even back in May about what those opportunities are and in fact, at least one new sizable one has come to pass. I'd also reiterate what we said I think in the July or August call where Cameron and I mentioned which was we have a number of partners at Global Payments, FIs in Europe, and in Asia who've asked us about moving to TSYS on the issuer side.

These are large financial institutions and those conversations were had again when we were in Europe a couple of weeks ago. So, pretty optimistic on the combined business and where we're heading.

David Togut

Congratulations. Thanks so much.

Jeffrey Sloan

Thanks, David.

Cameron Bready

Thanks, Dave.

Operator

Thank you. Our next question comes from Eric Wasserstrom of UBS. Your line is open.

Eric Wasserstrom

Thanks very much. I was interpreting the commentary Jeff that you made around the consumer solutions and in particular Netspend. I was kind of indicating a renewed important strategically of that business to the combined entity going forward.

Is that a correct interpretation or you're just simply giving us more insight into how it fits into the broader integration strategy?

Jeffrey Sloan

Yes, Eric I think you're correct when you said. Let me just say that when we were doing diligence on that business in May, we were optimistic then. So, I don't know that it's a different point of view. I would just say that we looked at TSYS and each of the segments as being a very attractive partner for us.

And we certainly view there as - view us as having a differentiated strategy in Netspend versus the other public competitor. And I tried listing those in the prepared remarks. But just to reinforce it, number one, I think we have non-US opportunities, particularly in Europe to roll out the prepaid products.

And I think the market is right for that in those geographies and I would stay tuned on that in relatively short order. I think that is a differentiator for us. Number two, I do think there are a lot of revenue synergies coming out of Global Payments and Netspend. I’ve listed two of those at my prepared remarks, but as you know Heartland is a very big presence, Xenial and SICOM, as Cameron mentioned in the restaurant channel. There's particular surge of used cases in restaurants for the Paycard and related services for Netspend.

And they also called out the gaming applicability where prepaid - and we’re not the only ones doing this, but in prepaid, in light of the regulatory changes you've seen, in sports betting as well as the brands that we have in the gaming business, particularly, distinctive place on a combined basis with Global Payments and Netspend.

So I actually think it's a continuation Eric of the thesis we laid out in May. And we think we have pure line of sight to continue to enhance and grow the market opportunities of that business and that's something we're very excited about.

I’d also say for all of our businesses, not Netspend, we assess all of our businesses continually. And that's not specific to any one of them. So, if we think there's a higher better use for everything that we're doing, we're obviously open-minded and we're all very focused on shareholder value.

But I would say that we have a very strong thesis that we think we have the ability to add a lot of value into all of our businesses, but in particular, in light of this question, in Consumer Solutions by adding B2B, by adding International applicability, and we intend to focus on it.

Eric Wasserstrom

Thank you for that. And if I may just follow-up one more on the synergies. Of the - you delineated for us the three primary areas where you anticipate them, but of the incremental synergies that you’re underscoring today, can you give us an attribution of what they relate to with respect to those three buckets?

Cameron Bready

No. Eric it's Cameron. I'll jump in. I'd say they're probably roughly split between the three buckets. We've seen a little better opportunity across all three of the primary areas, we expect to realize synergies from the transaction an expense matter. I wouldn't want to point any particular item per se.

There’s not one significant driver of that overall $25 million increase that we articulated on the call today. So it's little things here and there and it's probably across all three of the primary areas where we expect to realize synergies from the transaction.

Jeffrey Sloan

Eric, it's Jeff. I would just add to that. When you make a deal you make assumptions. You make assumptions in May, when you can see all the detail. These are experiences Cameron said before but what those things are.

But we now have the detail. We now have the plans. So the happy news is those assumptions proved to be conservative and we think we're run rate at a much higher level.

Eric Wasserstrom

Thanks very much.

Jeffrey Sloan

Thank you.

Operator

Thank you. Our next question comes from Ramsey El-Assal of Barclays. Your line is open.

Ramsey El-Assal

Thanks for taking my question. I wanted to ask about the M&A environment. I know you did this deal and have a pretty attractive capital structure right now. What should we be thinking out in terms of timing?

And also what types of deals you're looking for? Could it be something in the future transformative or is it more series of tuck-ins? How should we take up frame of your M&A activity?

Jeffrey Sloan

Yes, Ramsey. It's Jeff. I would just say speaking from a strategic point of view I think our focus on M&A for the combined company really hasn't changed. So in terms of the types of deals that we're looking at, we’re looking at geographic expansions. We're looking at end market scale consolidations.

You heard Desjardins today that we described, which is a market partnership in a business that we're already in. And of course, we're looking for more software and more vertical market solution. So I think the strategy as it relates to combined company, really hasn't changed all that much.

We're obviously opportunistic. But I would say sitting here today, we feel pretty good about where the pipeline is, where the pipeline is going to be. From a timing point of view, we obviously want to make sure. I think the balance sheet is a very happy place.

As Cameron alluded to 2.5 times leverage give us a lot of capability. I think among the three deals that were announced its lowest leverage among all three. But as I think about it this is as much as managerial question as anything else.

We want to make sure that in the next number of months all the stuff that we've laid out internally and externally that we're going to meet and even exceed those expectations.

And I think once we feel our sea legs are there and they were tracking in the right place, this won't be an issue of capital availability or balance sheet. I think we have we have we have those today.

Instead of say, hey, we're in a really good place, we're in a really good trajectory, we're very good managerially about where we are. So certainly as we head into 2020, if the capital markets stay favorable and our execution continues or accelerates on a path that it's in, I certainly think we're open for business.

Ramsey El-Assal

That's helpful. Thanks. A quick follow-up on your wholesale business which I know for Legacy Global is an increasingly small part of your business and declining. I know TSYS had a slightly different strategy there.

And I am just curious in terms of the harmonization of those two approaches, how are you viewing that business kind of in a go-forward basis?

Cameron Bready

Yeah. Ram, it's Cameron. It's a really good question. We spent a lot of time as we bought the two merchant businesses together talking about that very topic. And what I would say is our strategy at Global Payments, obviously to your point is different than the way TSYS has approached sort of wholesale and direct channel historically.

I would start by saying for the combined business, it's a very small part of the overall combined business. And think as a given the size of merchant organization we're operating today, there's room for us to have a wholesale business. I don't know that we'll continue to try to grow it perhaps as aggressively as TSYS has grown it historically, but certainly I think there's a role for wholesale to play in the overall merchant business.

We want to continue to serve the customers and partners that we have in that channel extraordinarily well as I think we have historically. And I think we'll look to maintain that business without putting a lot of resources and deploying a lot of resources towards trying to grow it going forward.

I think you can be a part of the overall merchant business, again, without being a core part of where we’re deploying resources trying to grow the business in the future.

Ramsey El-Assal

Got it. Thanks so much.

Jeffrey Sloan

Thank you.

Operator

Our next question comes from Dan Perlin of RBC Capital Markets. Your line is open.

Dan Perlin

Hey, guys. Great result. I guess I had a question going back to kind of the original announcement and talking about this dual headquarter relationship. And I'm just wondering as we - you're pretty clear on the synergy target I think today.

But are you thinking about any opportunity to repurchasing the second location, is that contemplated in the cost synergy further down the road? Or is there some other use for that long-term that we could be thinking about?

Jeffrey Sloan

No, Dan. Its Jeff. We are dead-set on what we said at the time of the announcement which is we're fully committed to dual headquarters in Atlanta and Columbus. We have 5,000 fantastic team members in Columbus. We probably have in the Greater Atlanta area on a combined basis 1,000 or 1,250. So, Columbus is really the heart of the company.

At the end of the day, Columbus, of course, also is the heart of the issuer business where the two companies really don't overlap from a competitive point of view before we did the deal in the first place rather that's really more on the merchant segment.

So, we're fully committed to what we said. Columbus is an incredibly an important part of what the company is today and will be going forward and we're very committed to our team members there as well as the communities in which we live and work.

Dan Perlin

Got it. That's great. I just wanted to clarify a little bit on the TSYS reacceleration in merchant. I mean I know that the company seems like it was distracted in the second quarter, especially around merchant. I'm just wondering in addition to other things you mentioned, I mean is it just regained focus coming into this quarter as the deal closed?

And then you saw a better line of sight and so the people that were involved on the TSYS side selling those products just were reinvigorated or was there a bigger strategy that was kind of being put in place post, kind of, the second quarter which was a little bit disappointing?

Paul Todd

Yeah. So, as it relates to second quarter, we did have some kind of comp challenges year-over-year as it relates to kind of just the overall number for the second quarter. I would say we've had acceleration kind of as part of the deal and so that's been a nice tailwind as we've been able to bring kind of our teams together.

But from a - kind of a core underlying performance, we did have good underlying performance in 2Q albeit some headwinds from a comp challenge standpoint. We obviously did lose our leader in second quarter which also did lose our leader in second quarter which also had some effect there.

But we're glad to be in a position where that meaningfully accelerated in 3Q. And as Cameron mentioned, we are expecting further acceleration on that legacy business in Q4.

Cameron Bready

The only thing I would add to that Dan is we've already aligned our go-to-market leadership teams across our integrated businesses here in the US market across our relationship channels in the US market.

Our key leaders in TSYS are now fully integrated into those overall leadership teams in those go-to-market channels. We feel very good about how we've come together as a go-to-market motion as a combined company and how the team is executing in the early days of putting those organizations together.

So, the momentum in the business is clearly there. We feel good about the pipeline as I highlighted earlier in the Q&A and certainly, feel like as we have more opportunity to work together, we have more opportunity to align our product strategies, our technology environment and our operating environment, there's obviously more momentum to continue to build as we go forward to 2020 and beyond.

Dan Perlin

That's great. Thank you, guys.

Jeffrey Sloan

Thanks.

Operator

Thanks. Our next question comes from Darrin Peller of Wolfe Research. Your line is open.

Darrin Peller

Thanks, guys, just coming back for money 2020 it does sound like pricing has been somewhat stable at least on the SMB side, if not actually better. And we actually did hear that there's still some opportunities on the TSYS side that were let's call it relatively underpriced. I know you have legacy on Heartland side.

So when we compare that in the end the other key trend, we are hearing one of the others is around paybacks. Companies enabling software to do more on their own which I guess underscores your strategy of buying in. But are you seeing that as well?

And just talk about what you really priced in around the opportunity on pricing upside into your guidance and your synergies? And is there more of an opportunity there? Thanks.

Cameron Bready

Yes. It's Cameron. I'll start, Darren. So I do think as we look across the TSYS portfolio over the course of time there may be some opportunity to rationalize pricing across the channels that we operate at Legacy Global Payments and TSYS collectively.

I wouldn't suggest that that's a meaningful aspect of how we think about driving revenue enhancements by combining our business. When we talk about revenue synergies and the merchant business, it's really across the opportunity, the cross-sell products and capabilities into our existing collective merchant basis.

Obviously, TSYS brings us I think some very attractive products in terms of the Vital POS solutions, the Genius platform and of course ProPay, which dives into the second part of your question as it relates to paybacks and enhanced capabilities in that channel in the US market.

So most of the revenue synergies we expect to drive from combining our two businesses are really around those particular cross-selling opportunities, bringing payroll into the existing TSYS base of customers.

Obviously, the Paycard capabilities the Netspend brings, we think provide a very attractive avenue for growth for the payroll business across our existing base of customers then of course bringing some of these solutions to International markets, we think creates other long-term opportunities for revenue enhancements in the overall merchant business. I'll maybe let Jeff ask - respond to you as it relates to the payback conversation that you raised.

Jeffrey Sloan

So, Darrin I would just say, this goes back to APT kind of 7.5 years ago we did that deal on August 2012. We really had not seen the advent of the bar ISOs to be honest in any of our businesses and any kind of meaningful way.

Part of what drove us toward the own software model was lots of worry about paypacks or ISOs are more focused on in those markets where it makes a significant difference like restaurant. We think we need to own the entire element of distribution.

So Cameron for example commented on trended venial SICOM, which has had a good year and we expect to have even a better year in 2020. We would not be in the position we are in today.

If we didn't know the hardware, software, drive through digital wallet functionality, we wouldn't be able to serve 20 of the top 40 QSRs, and have over 100,000 in the United States just full stop.

So, I think I was driven strategically less – what that paypack might do and more rather by the means and mode of competition in those businesses means that you need to sell all those things or you've been reduced to just selling commodities payments processing at the lowest possible price, which just is not that interesting from our point of view.

It's nice to hear that what you heard the conference is that the trend is coming our way. I do think we have a slightly different thesis though on why we think that's important strategically.

Darrin Peller

Okay. That's helpful just one quick follow up the, I mean, congrats on the city partnership. I just, because I just want to understand what exactly you're going to be executing there, is it more of a bank referral model that I mean historically you guys didn't really use as much I think, merchant bank referral, but maybe just explain what the Citi deal is all about?

Jeffrey Sloan

Sure, I am happy to do that. It's Jeff. That's the new initiative that's called Spring by Citi, so in essence, you can think about it as a referral deal, but as it relates to UCP specifically, so it's specific to the unified commerce product offering that we've been talking about for probably about a year now, specific to multinational customers on an omnichannel basis.

So, what's so exciting about this is, obviously, number one, Citi is a fantastic partner and number two, a very smart consumer and then the very, very sophisticated services. So, when they looked out in the landscape and asked who's got the very best technology and distribution capability on an omnichannel basis in the market that they care about, we're very fortunate to be in a position that they selected us.

So I think you should think about it as in an area that's high value add, very difficult to service for their most important largest, most complicated multinational customers in geographies both virtual and physical, that's something that we're very fortunate to be in the position to provide to Citi as part of the spring initiative.

So I think that just is further validation of the exceptionality of our technologies, particularly, in one of the most competitive markets that you can have, which is ecommerce and omnichannel business.

Darrin Peller

That's great. Thanks, guys.

Jeffrey Sloan

Thanks Darrin. On behalf of global payments, thank you very much in joining us - for joining us this morning and thank you for your interest in us. And everybody have a Happy Halloween.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.