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WP - Q3 2018 Worldpay Inc Earnings Call

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CORPORATE PARTICIPANTS

Charles D. Drucker *Worldpay, Inc. - Executive Chairman & Co-CEO*

Nathan A. Rozof *Worldpay, Inc. - Senior VP of IR*

Stephanie Ferris *Worldpay, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Ashwin Vassant Shirvaikar *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

Bryan Connell Keane *Deutsche Bank AG, Research Division - Research Analyst*

Darrin David Peller *Wolfe Research, LLC - MD & Senior Analyst*

David John Koning *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

David Mark Togut *Evercore ISI Institutional Equities, Research Division - Senior MD*

Georgios Mihalos *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

James Edward Schneider *Goldman Sachs Group Inc., Research Division - VP*

Jason Alan Kupferberg *BofA Merrill Lynch, Research Division - MD in US Equity Research & Senior Analyst*

Jeffrey Brian Cantwell *Guggenheim Securities, LLC, Research Division - VP and Analyst*

Lisa Ann Dejong Ellis *MoffettNathanson LLC - Partner*

Thomas Craig McCrohan *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Analyst*

Tien-tsin Huang *JP Morgan Chase & Co, Research Division - Senior Analyst*

Timothy Wayne Willi *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

PRESENTATION

Operator

Good day, and welcome to the Worldpay Third Quarter Conference Call. Today's conference is being recorded.

At this time, I would like to turn the call -- conference over to Mr. Nathan Rozof, Head of Investor Relations.

Nathan A. Rozof - *Worldpay, Inc. - Senior VP of IR*

Thank you, and thank you to everyone for joining today's call. By now, everyone should have access to our earnings announcement, which we filed as an 8-K in the U.S. and released via the RNS in the U.K. The 8-K filing also includes a slide presentation that we'll refer to on today's call. These documents can also be found at worldpay.com in the Investor Relations section.

I would like to direct your attention to the safe harbor statement and other required statements on Page 2 of our presentation. Our discussion today will include forward-looking statements. These forward-looking statements are not guarantees of future performance, and therefore you should not put undue reliance upon them. These statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from what we expect. Additional details concerning our business risks and the factors that could cause actual results to materially deviate from our forward-looking statements can be found in our annual report on Form 10-K under the headings Risk Factors and MD&A and in our other filings with the Securities and Exchange Commission, which are available at sec.gov.



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Also throughout this conference call, we will be presenting non-GAAP and pro forma financial information, including net revenue, adjusted EBITDA, adjusted net income and adjusted net income per share. These are important financial performance measures for the company but are not financial measures as defined by GAAP. Reconciliations of our non-GAAP pro forma financial information to the GAAP financial information are presented on Schedule 2 of our earnings release.

Turning to Slide 3. During today's call, Charles Drucker, our Executive Chairman and co-CEO, will lead off the call by discussing our highlights for the quarter. In addition, he will describe how our powerful value proposition and unique capabilities across the transaction life cycle position us to win as a payments innovator. Stephanie Ferris, our CFO, will then review our third quarter financial results and provide our outlook for the rest of 2018. Following some closing remarks, we will then open the call for questions.

With that, I'll turn the call over to Charles Drucker, who will begin his comments on Slide 5. Charles?

Charles D. Drucker - *Worldpay, Inc. - Executive Chairman & Co-CEO*

Thank you, Nate, and thanks to everyone for joining today's call. This was another strong quarter for us, and I look forward to sharing it with you.

Our transformation continues to differentiate us in the marketplace, where our payment is innovative with a breadth and depth of capability that span the transaction life cycle. And we use these capabilities to create tailored solutions for our clients that we can use and scale across that platform. Today, I'll share with you a few examples in order to demonstrate why we win.

But first, let me start with our accomplishments in the quarter. As you can see on the right-hand side of the slide, we continued to generate impressive financial results. Organic growth -- organic revenue growth accelerated to 9% during the third quarter from 8% in the second quarter. This improvement demonstrates the fundamental strength of that business as we continued to deliver strong organic growth at an impressive scale.

Further demonstrating the strength of that business, adjusted EBITDA margin expanded by 150 basis points as we generated \$14 million in cost synergies during the quarter. As we discussed on the second quarter call, our integration continues to be ahead of schedule, and our U.S. client migrations are progressing well.

We've made substantial progress towards achieving \$50 million in cost synergies this year. And based upon our progress so far, we are highly confident in our ability to generate \$200 million in total annualized savings by the end of 2020.

We also continue to diligently manage our capital structure and interest expense. As a result, we are able to exceed our earnings expectations, growing adjusted EPS by 17% to \$1.05 in the third quarter.

Turning to our sales performance, I'm excited to announce that we've added another 15 cross-sell wins to our eCommerce portfolio. This shows how we are growing our share of wallet within our existing client base of global brands and digital natives. With these wins, we are building momentum towards our goal of creating \$100 million in annualized revenue synergies by the end of 2020.

In terms of the new wins, we signed a multi-year partnership with Nestlé to strengthen their global eCommerce capabilities. Together, we look to grow online sales across Nestlé's categories and to offer a trusted and secured shopping experience for their clients. We also signed Webjet, an innovative online travel agency who partnered with us in order to understand the data and insights that we can bring. In addition to those, we also won one of the world's largest retailers, a top U.S. airline and a major electronic tax filing company.

Moving to partnerships, we were selected by M&T Bank to enable their merchant service program. M&T went through a thorough evaluation process and chose Worldpay because of their leading products, technology and sales automation capabilities. We also signed exclusive agreement with the National Association of Convenience Stores. This deal immediately brings a portfolio of over 200 locations, and we are now the exclusive referral partner for their gas stations and convenience stores.



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Lastly, as the undisputed leader in integrated payment space, we continue to have success. We are building on our lead by adding our first new technology partner in the U.K. With this important win, we have begun expanding our integrated payment business into the U.K., which is part of the rationale for the deal. It was a combined strength and power of that unique value proposition that helped us achieve these new strategic wins. This shows that we are stronger together as 1 company than either of us would have been on our own.

Let's turn to Slide 6 to discuss the reasons why all of these great companies selected Worldpay. Our powerful value proposition includes global reach, innovative technology and tailored solutions. We do all these by operating at tremendous scale. Each of these is critical to how we go to market.

First, through a global reach, we can help our clients access 99% of the world's GDP. We have the leading position in the U.S. and Europe and a differentiated on-the-ground presence across the rest of the world. Our proven global leaderships gives us an advantage over the patchwork of domestic acquirers and gateways that process in selected regions and countries around the world.

Second is our innovative technology. Our product boasts -- boosts approval rates, which helps our clients to increase their revenue, and we have other solutions that lower our clients' costs by increasing product and minimizing fees. By reducing friction and creating a superior client experience, we outshine other providers that merely accept payments.

Third are the tailored solutions that are deeply knowledgeable payment experts developed for our clients. We have feet on the ground in countries around the world who are there to help implement their technology and optimize client assets. They solve our clients' most complex problems with scalability, data-driven solutions.

With our value proposition, we survey strategic partners helping our client to navigate rapidly changing global trends. And once we build a new capability to help a client, we then scale it across our entire client base for the benefit of everyone. By doing so, we can grow faster than the market and sustain our technology lead.

On Slide 7, we've highlighted 3 examples of value propositions in action. First is a leading technology company that needed our global reach and tailored solutions. The challenge was that our client wanted to enter Brazil, but they found it more complex than they expected. The Brazilian market is unique. It has installment payments and delayed settlement amongst other challenges. So they partnered with Worldpay to gain access to this new growing market.

Our team in Brazil understands global technology and helped them streamline their operation and reporting. We also used our domestic license to lower their costs and to manage their foreign exchange. With these solutions, we helped this leading technology company enter Brazil and then turn it into one of their top-performing markets.

Second is a trendy U.S.-based retailer that was struggling to connect with young adults in Japan. These consumers often prefer to pay in cash even for online transactions, which creates a lot of complexity in eCommerce. So the retailer turned to Worldpay for support in this new and unfamiliar market.

We used innovative technology that allow Japanese consumers to order online and pay in-store. We also made it easy for the young Japanese consumers to see prices and pay in yen. This allowed the retailer to avoid lost sales created by consumer concern over fluctuating exchange rates. With these changes, we helped this U.S. -- this trendy U.S. retailer to increase sales in the region by 10% -- approximately 10%.

Third is an online travel company. It was successfully bringing clients to its website, but too many were browsing and not buying. Our payment experts poured deep expertise and new insights from processing \$1.6 trillion in global transactions each year to optimize their website country-by-country.

We made it easier for the consumer to navigate the payment experience by adapting to local preferences in different countries. As a result, more customers started buying instead of just browsing, helping our client to convert more traffic into sales.



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Turning to Slide 8, we create tailored solutions by bringing together the most advanced payment technology at each stage of the transaction life cycle. We enable acceptance by seamlessly integrating software, developing rich omni-channel solutions and creating the ability to accept 126 currencies across more than 300 payment methods.

At authorization, we increase our client's revenue and lower their cost with our AuthMax and PRIME intelligent routing products. At settlement, we offer dynamic options, including fast active spending, which enables real-time payouts.

At the core of our offering is advanced data analytics. We use machine learning to dramatically evolve our capabilities with every transaction. Finally, we surround the transaction lifestyle with a comprehensive suite of security products. We offer encryption, tokenization and fraud prevention at each stage of the transaction life cycle in order to protect that client's revenue.

Our approach to innovation is data-driven, and our Recovery product is a good example of this. With recurring transactions, merchants often lose sales when a card is lost, stolen or becomes outdated. Our Recovery product ensures that the current transactions go through without interruption even if the user's card number has changed or the card itself has expired. It leverages tokenization technology to securely manage cardholder data and to update in real time using multiple data sources. All of this happens so the consumer doesn't have to alert the merchant that their payment credentials have changed.

Recovery also applies algorithms that we have uniquely developed over the last decade to maximize the likelihood of authorizations. When combined with AuthMax, Recovery is able to increase authorization rates for recurring transactions by 2% to 5% on average. It's products like this that show why we are winning at Worldpay. We are a payment innovator. We have unique capabilities that our people are dedicated to our clients' success.

So with that, I will turn it over to Stephanie to discuss how this translates to our financial results as well as provide an update on our financials.

Stephanie Ferris - Worldpay, Inc. - CFO

Thank you, Charles. I'm pleased to announce another strong quarter with net revenue of approximately \$1.02 billion and adjusted EPS of \$1.05.

Organic revenue growth accelerated to 9% during the third quarter on a pro forma basis. Together, our merchant and technology segments generated 10% organic growth on a combined basis, accelerating from 9% in the second quarter. We achieved these strong rates of organic growth even as we overcame approximately \$5 million in headwinds that were created by foreign currency as well as lumpiness within our cryptocurrency volumes.

Beyond revenue, the fundamentals of our business also remained strong in terms of client wins. The pace of our cross-sell wins accelerated within our eCommerce portfolio even as the strength of our pipeline improved. This further increases our confidence in our ability to generate \$100 million in annualized revenue synergies by the end of 2020.

We have significant operating leverage. We expanded pro forma adjusted EBITDA margins by 150 basis points and generated \$14 million in cost synergies, reflecting the power of our platform.

We are reaffirming our cost synergy targets by \$50 million -- of \$50 million during 2018 and \$200 million in total annualized savings by year-end 2020. Our integration remains ahead of schedule, which may create the opportunity for us to revisit our cost synergy targets while we complete the U.S. migration in the middle of next year.

Our business is highly cash-generative. And we use our strong cash flow to pay down an incremental \$125 million in debt so far this year, reducing our leverage ratio to 4.1x. As a result, adjusted EPS grew by 17% to \$1.05, reflecting our compelling financial profile.

Turning to Slide 11, organic net revenue growth within our Technology Solutions segment was 17%, consistent with the second quarter. As a reminder, we locked Paymetric last quarter, which contributed to 2 percentage points of growth in the segment. Our strong eCommerce value

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proposition is generating high teens rates of growth within this segment. We are winning share of wallet as shown by our multiple cross-sells, and we are winning new clients, including those that Charles mentioned.

Merchant Solutions grew 4%, up from 3% in the second quarter, as the segment continues to benefit from strong consumer spending in the U.S. as well as improving execution in the U.K.

Lastly, Issuer Solutions also grew 4%, accelerating from 2% in the second quarter, as the underlying business continues to show strong trends.

Turning to Slide 12, based on the current business and transaction trends, we are narrowing our 2018 net revenue guidance range to \$3.9 billion to \$3.93 billion, representing growth of 8% to 9%. We are also narrowing our adjusted EPS guidance range to \$3.95 to \$4, representing growth of 30% to 31%.

The guidance reflects our currency assumptions of \$1.31 per pound, which is unchanged from our prior range. In addition to currency, we laid out several other assumptions supporting this guidance on the bottom of the slide.

Going to our guidance for the fourth quarter. We expect to generate net revenue of \$1.027 billion to \$1.055 billion, representing growth of 7% to 9% on a pro forma basis. In terms of adjusted EPS, we expect to earn approximately \$1.05 to \$1.10 per share during the fourth quarter.

And with that, I'll pass the call back over to Charles for his concluding remarks. Charles?

Charles D. Drucker - *Worldpay, Inc. - Executive Chairman & Co-CEO*

Thanks, Stephanie.

Worldpay is a payment innovator with a powerful value proposition. Our team brings this to light as they solve our clients' most complex problems. They do this each and every day, and we couldn't win without the team. And for that, I'd like to thank everybody here at Worldpay.

Together, we're integrating 2 great companies and transforming into something even better. It's been a lot of hard work. We are pleased with where we are in the process, and I'm confident that we'll continue to succeed. I'm excited about our position in the market and the opportunities that lie ahead. So thank you, and I look forward to winning together.

With that, operator, we would now open the line up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Tien-tsin Huang from JPMorgan.

Tien-tsin Huang - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Thanks for going through some of those wins. And I'm just curious, Charles or Stephanie, can you maybe give us an idea on how bookings are at least sales performed versus planned? Maybe some -- if there's any comments you might have on merchant additions or ISV additions, et cetera, across the regions?



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Stephanie Ferris - *Worldpay, Inc. - CFO*

Yes. So let me take a stab with the numbers and maybe Charles can add on in terms of qualitatively. So new business really across all the segments continues to be really strong. We highlighted, in particular, a lot of cross-sell wins we saw in eCommerce and the power of the combination in terms of growth in Technology Solutions. But in addition, I would also tell you that new business continues to be strong across all the segments. This obviously is always a competitive business, but the power of the combination, both in terms of in the U.S., what we call IP U.K. and then even in Issuer returning to 4% growth. We feel pretty good about the business.

Charles D. Drucker - *Worldpay, Inc. - Executive Chairman & Co-CEO*

Yes. I think that there, we will push it every day. And actually, what I'm extraordinarily excited is in the cross-selling activities of the team. We carved out a separate team to focus on along with the cross-selling of our eCommerce base, and we're seeing good success in that. Obviously, it takes a bit of time from the time you sign someone to convert them, test them, get them boarded. But the signs that we're seeing there are very strong. And I'm talking to these teams regularly and very good optimism that is coming out.

Tien-tsin Huang - *JP Morgan Chase & Co, Research Division - Senior Analyst*

All right. Great. And maybe just a quick follow-up, if you don't mind, just on the -- maybe for you Charles on the strategy side with First Data pushing Clover, Square pushing their terminal and Global Payments owning more software, I'm curious how does that change your strategy around working through the ISVs and the dealers on the integrated side? Does that have any implications or maybe even change your thinking around that model?

Charles D. Drucker - *Worldpay, Inc. - Executive Chairman & Co-CEO*

So I'd say being a leader in this, we continue to support our ISVs and the models that we have today. And it's about continuing to bring features and functions. We believe that in the U.S., our ISVs will innovate and develop quicker because of their focus on particular markets, especially when you think of retail and restaurant, it's very fragmented. So when you have these great partners focused on the specific markets, their ability to be agile and move is key. And I'll remind you, a lot of our ISVs deal with million-dollar type of merchants. And they continue to be very successful. I mean, we're having early success in the U.K. We're excited on that part. And we continue to look at work with our partners as the market evolves. So we're very aware the competition continues to increase because this is a fast-growing area. But we're happy with how we're progressing.

Operator

We will now take our next question from Ashwin Shirvaikar from Citi.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

I guess, my first question is, Stephanie, you had a comment in there with regards to revisiting profitability targets by mid-year. And my assumption is it's kind of linked to being on time to slightly ahead of plan. Could you provide more details on sort of at least directionally that the statement is correct? And any -- how should we see that from a quantitative perspective?

Stephanie Ferris - *Worldpay, Inc. - CFO*

Yes. I know, happy to. So we're really pleased with the cost synergies that we have been able to deliver in 2018, pleased to reconfirm the \$50 million on track to -- and feel really good about our \$200 million by 2020. The comment that I made was the bulk of the heavy lifting around the synergies relates to the U.S. platform. So moving the merchants from a heritage Worldpay U.S. platform to the heritage Vantiv platform here in the U.S. And we're making great progress on that. And they started that work here in the third quarter. But the lion's share of it will complete by June of next year. And so at that point, we want to really see how well that goes, if things continue to go very well. But it's after that, that we would be able to

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potentially revisit our expectations around the \$200 million because we want to make sure that we successfully execute on that and can see those synergies coming through. So that's what I meant by that comment.

Ashwin Vasant Shirvaikar - Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst

Got it. And then with regards to sort of the annualized revenue synergy by 2020, and I understand that, is there a way to kind of think about it in sort of year-by-year terms? How much might you have in '19 versus incrementally in '20?

Charles D. Drucker - Worldpay, Inc. - Executive Chairman & Co-CEO

So I'll just start. Look, we're talking about the back half of '20 seeing some parts of the revenue synergies. I would say where we're having success, we want to make sure that we complete some of these conversions and get them tested and moving. And I think that's something as we get into guidance in '19. When we provide guidance, we'll have a better visibility of it. I would say that thinking about the revenue synergies, we -- we're -- I feel good at how we're tracking early. But we want to see the completion, the testing and the revenue coming in. And from there, we'll have a better picture when we come into the -- of putting guidance out for next year.

Operator

We will now take our next question from Jason Kupferberg from Bank of America Merrill Lynch.

Jason Alan Kupferberg - BofA Merrill Lynch, Research Division - MD in US Equity Research & Senior Analyst

I just wanted to ask about Tech Solutions. The organic growth was real strong there again at 17%, steady versus last quarter. I think last quarter, you had anticipated some acceleration in the back half for that segment. Do you still expect that, I guess, in Q4?

Stephanie Ferris - Worldpay, Inc. - CFO

Yes. So you're right, Jason, we had anticipated a bit of acceleration in the third and the fourth quarter. I still think we are expecting to see that acceleration in the fourth quarter. The third quarter for us, and I mentioned this in the script, did get impacted by a little bit of slowing in crypto. So we do process for cryptocurrency clients. Their overall transaction growth slowed second quarter to third quarter from a macro standpoint. And so that really was what took the upside or the third quarter expectations of us being a little bit higher than '17 away. But we're still feeling strong about our fourth quarter acceleration.

Jason Alan Kupferberg - BofA Merrill Lynch, Research Division - MD in US Equity Research & Senior Analyst

So ex crypto, would you have actually inched up a point or so in Tech Solutions?

Stephanie Ferris - Worldpay, Inc. - CFO

Ex crypto, I think we would've -- yes, we would've been a little bit better.



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Jason Alan Kupferberg - *BofA Merrill Lynch, Research Division - MD in US Equity Research & Senior Analyst*

Okay. And now just turning to the cost synergies for a second, you're reiterating the \$50 million for the year. I think you're at \$36 million year-to-date, if I'm not mistaken. You've got \$14 million here in Q3. So that would imply a steady \$14 million in Q4. Is this just rounding? I mean, do you think you'll be a couple of million dollars above the \$50 million? Or are you looking at a very similar number in Q4 as you saw in Q3?

Stephanie Ferris - *Worldpay, Inc. - CFO*

Yes. I think we feel really good with the \$50 million. Yes, there's probably a little bit of rounding as we think about the fourth quarter. And as you -- if you remember, holiday season is a pretty big quarter for us. So yes, a little bit of rounding there, but feel real good about the \$50 million.

Jason Alan Kupferberg - *BofA Merrill Lynch, Research Division - MD in US Equity Research & Senior Analyst*

Okay. Any reason organic growth won't stay in the high single digits next year?

Stephanie Ferris - *Worldpay, Inc. - CFO*

No, no reason at all.

Operator

We will now take our next question from Dave Koning from Baird.

David John Koning - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

In -- I guess, my first question, I can't remember what you said last quarter, maybe we can look at last quarter and this quarter about which of the 2 between eCom and ISV was growing faster? I know that total Tech was 17%. But was eCom faster than that and ISV a little slower?

Stephanie Ferris - *Worldpay, Inc. - CFO*

Yes. Yes. Actually, it was. eCom growing more in the upper teens, IP growing more mid-teens. Yes, eCom is growing faster than the IP side of the house.

David John Koning - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

Yes, okay. And then I guess, in Q4 -- well, I guess first of all, year-to-date, your EBITDA margin expansion has been kind of 1 -- 100 to 150, and most of that's from synergies and maybe just a little bit of core margin expansion. It looks like the way you're guiding Q4 is for core margins maybe to be down a little bit. It's still getting the big synergy margin expansion. But the core maybe being down a little bit. And I'm not sure if either, a, I'm miscalculating that a little bit or maybe if there's something in there that, that's the case.

Stephanie Ferris - *Worldpay, Inc. - CFO*

Yes. No. I mean, I don't see that same factored in. What I see is the EBITDA margin excluding synergies to be flat. I mean, that's our expectation. So we're not guiding down at all.



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David John Koning - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

Okay. And then just a last quick one. Is the current run rate of interest expense and tax rate, is that pretty sustainable as we look into next year, like around \$300 million of interest expense and around a 13% or so tax rate?

Nathan A. Rozof - *Worldpay, Inc. - Senior VP of IR*

Yes. Dave, it's Nate. So just as a reminder, on tax rate, right, we're getting about \$100 million annualized in terms of tax adjustment benefit. As the pretax income steps up next year on the continued strong growth, we would expect the tax rate to step up a little bit from there. And then in terms of interest expense, I think the team has done a good job here in terms of hedging up debt, but we have seen several rate increases so far this year and expect that to continue to next year. So we do see the effect for some increase in interest expense next year on a year-over-year basis.

Operator

We will now take our next question from Jim Schneider from Goldman Sachs.

James Edward Schneider - *Goldman Sachs Group Inc., Research Division - VP*

I was wondering if you could maybe talk about in the kind of traditional channel for a second, maybe give us a little bit of color on how the merchant banking channel is doing relative to what it had done over the last couple of quarters. And maybe give us a sense about -- it sounds like the overall retail environment is -- it continues to be strong. Kind of any difference you're seeing in the larger versus smaller retailers at this point?

Stephanie Ferris - *Worldpay, Inc. - CFO*

Yes. No, happy to. So in terms of Merchant Bank, as you know, our strategy there is really around taking share. We were really excited to be able to announce the M&T partnership. That segment for us or business continues to be -- do really well because of the ability to take share. So it continues to perform for us in the mid-teens revenue growth there. We continue to be excited about taking share there. In terms of the rest of the U.S. business, specifically around direct large versus small, I would say the overall environment broadly in the U.S. continues to be strong in the third quarter. I don't see any huge deviation in trends in terms of big versus small. The U.S. consumer, I think, their sales growth trends continue to grow into the third quarter over the second quarter and don't necessarily see any slowing in the fourth quarter. So no deviation, no change in trends and things continue to do well.

James Edward Schneider - *Goldman Sachs Group Inc., Research Division - VP*

That's helpful. And then maybe just as a follow-up, I think your slides referenced improving execution in the U.K. Can you maybe just kind of speak to the health of the U.K. market overall? But more specifically, how the sales execution in the U.K. is going? And any sense about new client wins or bookings in that business specifically?

Stephanie Ferris - *Worldpay, Inc. - CFO*

Yes. No, actually. So I'll give a little bit of view towards the U.K. in terms of our view on execution and health, and then maybe Charles can talk about how the leaders are doing there. So as you may recall in the third quarter of last year, there were a little bit of performance issues with respect to pricing with the heritage Worldpay team. So we are growing over a little bit of a degradation of the third quarter. With that, the view in the U.K. see some positive trends. And so we are happy to see that. That being said, we do continue to see our U.K. growth rate being low single and have our expectations set for that into the fourth quarter as well. So overall, health is improving. But that being said, I still don't see it accelerating in significant amounts. But it is improving in the U.K. Charles, do you want to talk about the leaders there?

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Charles D. Drucker - *Worldpay, Inc. - Executive Chairman & Co-CEO*

Yes. We've got our leader, Steve, in that market. I've been impressed with how Steve has grabbed hold of the market. He's providing some key talent in the market and has reenergized the people in that market. And I think what he's done a very effective job is focusing where the opportunities are in the market. And his leadership style has really helped us in communication, quite frankly, to improve the execution of that business. So we're very happy with how that's going. As Stephanie said, the market continues to see improvements, but not big step improvements. But the execution challenges that we've had in the past have been addressed very handily by a new leader that we have there.

Operator

We will now take our next question from Lisa Ellis from MoffettNathanson.

Lisa Ann Dejong Ellis - *MoffettNathanson LLC - Partner*

I have a follow-up on the 15 cross-sell wins in the U.S. that you called out. Can you remind us what's the level of integration you have or will have between the Worldpay eCom platform and the heritage Vantiv in-store platform in the U.S.? So meaning, when you're going in and pitching these cross-sell wins, will the merchant see common reporting? Will they see the ability to buy online, return in the store? And then also kind of related to that, how do you compete against somebody like Paymentech that's got maybe a broader banking relationship with the merchant?

Charles D. Drucker - *Worldpay, Inc. - Executive Chairman & Co-CEO*

Well, I think the first thing is the focus on the networks. What we want to do and the leaders and teams are working very well together is that when they come in from either one of the sites, they're going to be able to get access to both of the platforms behind the scenes. So our ability to connect the platforms and open up all the features and functions across. The second thing is they get access to our data analytics that are occurring and then also the reach to all the countries. So the biggest thing is that if you are an old U.S. -- if you are a U.S. client that we have, the thing that we couldn't really bring is all those reaches of the currencies and the methodology. And then how Worldpay approached all of the recovery products and everything associated with it. So energy and why everyone buys into the road map, we have to complete the final connection. We have some of the connections done, the final connections done to make it simplistic for them to be able to work with us. So this story is resonating. And I've got to tell you that I'm very happy with the company as a whole. But when I think of Shane's leading it, Casey, Jon, Monte, Juan and Phil, they're just all coming together and sharing customers so well back and forth, and the communication has been excellent.

Lisa Ann Dejong Ellis - *MoffettNathanson LLC - Partner*

Terrific. And then my follow-on is related to the discussion of -- a couple of your profiles that you did were some of the international examples in Brazil and Japan, et cetera. I believe if I remember properly, you've got about 15% or so of the business that's outside of the U.S. and the U.K. Can you just talk a little bit about the priorities around that global footprint, which countries are the focus? And sort of are you primarily focused on an omni- or eCom-oriented play? Or are you looking to invest more heavily in the domestic markets?

Charles D. Drucker - *Worldpay, Inc. - Executive Chairman & Co-CEO*

Our focus is going to be on eCom. And obviously, we have some strong leaderships in Latin America. We have a strong leadership that's in Asia Pacific. In Singapore, we have offices in Singapore there that we have a lot of focus in. There's actually a great amount of opportunity in Europe at the same time. So we're very excited. Now the cross-sell piece and the other pieces that we had a small portion in the U.S. and we were doing well with our -- we talked about it with the Vantiv platform. But we feel like in the U.S., we were, what we'll say, punching well below our weight in the U.S. And I've got to tell you with the international aspects and what we bring together, where because we were Vantiv before, we were quasi invited



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to the RFP, now we are arms open that people want us involved because they see the reach that we have. I think the U.S. market is going to really get gains in the future also.

Operator

We will now take our next question from Darrin Peller from Wolfe Research.

Darrin David Peller - Wolfe Research, LLC - MD & Senior Analyst

All right. Just starting off, if you could help us by putting into more context the 15 wins that you have in terms of -- I guess we don't really have a good sense as to what the normal number is for you. Obviously, cross-selling is going to bring in a new element to it. But what are your typical wins? How big is now 15 of these wins when you add to the 2 from last quarter in the context of reaching your \$100 million target? So are we in the eighth inning or second inning of that? Maybe I'll just stop there before a quick follow-up.

Charles D. Drucker - Worldpay, Inc. - Executive Chairman & Co-CEO

I would tell you in generally, and generally -- in general, these are wins we wouldn't have thought we would've gotten because of different types of capabilities. Now there are some in there that we might have gotten slight pieces of it, but these are things that because of the capabilities that we have today or what they'll see that we're going to have, which is around Recovery, AuthMax, PRIME Routing and data analytics associated with it, the reach in the country that we wouldn't have typically had. So if we talk about the U.S. portfolio, we had to -- if we wanted any part of the international, we outsource to a smaller player to help us. And we were able to get like 34 currencies. So therefore, they went to another player, and we really didn't focus our attention of even getting that outside of the U.S. business because we couldn't bring the value to the clients. So I would say, in general, not all, but in general, these are wins you can count coming from a few to this number. But in general, it was probably from not many because we didn't have the capabilities.

Stephanie Ferris - Worldpay, Inc. - CFO

Yes. And for Darrin, I might add a little bit just to put a little numbers around it. Look, I mean, we just started, right? So we're definitely seeing a lot of wins out the gate. So just to size it for you, I'd say we're probably less than 25% of our way from a sales -- signed sales standpoint to the \$100 million. But the pipeline's really rich, and we're excited about the pace of signings. Given that we just started this in January really and speaking about sitting here in November, that feels really good and is a test to the power of the value proposition that we are going to market with. Obviously, excited about the wins, but -- we are early innings but are feeling really good about it, which is why we continue to reiterate it. And we want to talk about the wins so that you can get a flavor for and get confidence around them with on.

Darrin David Peller - Wolfe Research, LLC - MD & Senior Analyst

Yes. Now that's really helpful. I mean, just quickly, are these incremental? Or are these RFPs that are out? Or are these just you're going to existing clients and saying, we should now be your bill processor, I guess? And then just on the FI segment, very quickly, Stephanie, the growth rate obviously was a little better. Is that a sustainable rate or it's still -- would you just guide us to the very low single-digits there?

Charles D. Drucker - Worldpay, Inc. - Executive Chairman & Co-CEO

I would say there's a combination. There's a combination of when I'm talking to the eCommerce team and talking to the relationship manager, and they would say, hey, I know this client would love to do this stuff with us in the U.S. but -- at Worldpay side, but we didn't have access to the U.S. So those aren't particularly RFPs, those are relationship with the clients. And it's about prioritizing for the client that insight and where they are in a contract. Then there's other ones that are existing clients that we have that there are some RFPs that now instead of us just keeping one part of



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it. So a lot of times the RFP, we would have bid 1/2 of it and kept it and left the other half, now we're getting opportunities on both halves. So I would say it's a combination when you talk about existing clients. Then there's a whole new set, how do we get new clients that unfortunately in the U.S., disqualified heritage Vantiv because we didn't check the box, which I understand didn't have the whole world to give them, and they wanted to if they were going to have multiple providers, they wanted to connect to someone that they can give the whole world to.

Stephanie Ferris - *Worldpay, Inc. - CFO*

Yes. And then following on, on the Issuer Solution side, we were obviously pleased with the growth that was posted in the third quarter, expecting a similar type of growth into the rest of the year. I feel still Issuer Solutions to be in the low single. Charles, I'm sure will be more bullish than me, but my expectations around Issuer as we look out are still -- it looks nice in terms of rates of growth.

Charles D. Drucker - *Worldpay, Inc. - Executive Chairman & Co-CEO*

Stephanie, I believe you when you gossip.

Operator

We will now take our next question from George Mihalos from Cowen.

Georgios Mihalos - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Charles, I just wanted to ask. As it relates to the European integrated strategy and how that rolls out, do you envision that taking the form of sort of the mercury model that you'd laid forward here in the U.S.? Or do you see yourself maybe going more direct ISV, potentially acquiring ISVs? Any sort of differences there? And is it fair to assume that we don't really start to see that noticeably contributing to growth maybe until 2020 or so?

Charles D. Drucker - *Worldpay, Inc. - Executive Chairman & Co-CEO*

Yes. So I'd say we're evaluating. So we want to take -- every time there's a new market, you get to open and you get to take different parts of a model. So I wouldn't say that it's going to be exactly how it works in the U.S. because Europe is a completely different market. I do think there are U.S. clients that lean in, of course, the world that will be an opportunity. So from that perspective, I would say how we always approach things, we say, we do it one way, the market looks another way. What's the best way and where in the valuation standpoint. I think the timing is probably right. But I've got to tell you I'm excited about getting that early win and getting these pieces going. And Stephanie, you...

Stephanie Ferris - *Worldpay, Inc. - CFO*

Yes. In terms of thinking about how that contributes to growth, it's going to take a bit of time as you might expect. It took a bit of time for Mercury to win a bunch of new business as well. So we are excited about the new win we have -- significant win we have there, but it will take a bit to ramp. So I wouldn't expect to see any significant revenue growth out of Integrated around the world probably until the back half of '19 and more into 2020.

Charles D. Drucker - *Worldpay, Inc. - Executive Chairman & Co-CEO*

And I'd just close the back-up and say, look, what's excites me about our company and the people that we have in our company is we're always looking for the best way to operate. That's why we take a little bit more time even though I think we're moving extraordinarily fast as demonstrated in some of the movements that we've had. But we want to take the time to understand the market and then always evolve the model to where we think, I would say, the buck is going. So we remain open to how we view these markets. And that's why we're still at the evaluating stage.



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Georgios Mihalos - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Okay. Great. Appreciate the color. And then Stephanie, as you went through the different business units, it looks like at a minimum, you're sustaining momentum through all 3, in some cases, potentially accelerating. So I guess, as we look at fourth quarter and kind of the guide there, obviously, you want to build in some conservatism, but is there anything we should be aware of that would potentially cause growth to slow in a specific division?

Stephanie Ferris - *Worldpay, Inc. - CFO*

Growth to slow -- no. No, nothing that I can think of in terms of trends. Our guidance for the fourth quarter showed consistent trends with what we saw in the third quarter. Nothing to highlight that would be a cause for concern as we move into the rest of the year.

Operator

We will now take our next question from Jeff Cantwell from Guggenheim.

Jeffrey Brian Cantwell - *Guggenheim Securities, LLC, Research Division - VP and Analyst*

Most of my questions have already been answered. I just want to ask you a quick one on something you announced over the summer, which was your global partnership with MasterCard and specifically, their Pay by Bank app. I just want to get a better sense of what was the impetus behind that? Are you seeing a lot of demand for cross-border using Pay by Bank that you want to tap into, for example? And I actually wanted to see if you might be able to give us some color as far as what the economics are for those types of Pay By Bank transactions relative to sort of your all-in RPK in your acquiring business?

Charles D. Drucker - *Worldpay, Inc. - Executive Chairman & Co-CEO*

Yes. So I would say we have partnerships -- we work closely with the associations. And then when we're seeing trends that are occurring in the issuing world and the bank partners and demand on the merchant side, we will sometimes build and sometimes partner. In this case, we thought partnering was a good aspect and as this will continue to grow over time. So I would say it's -- we're in the stages of enabling and then having it grow from there. So the materiality is not something that you're going to see in our P&L for a while because it's like anything else, it's in the early stages of it. So you'll see us doing more. There's so many things evolving that you're going to see us continuing to partner. So we have a process: when it makes sense to build, we build; when it makes sense to partner, we partner. And especially with the association players that are, of course, the ecosystem that can advance more electronic, more payments moving to electronic opportunities. Because for us, everything we can do to enhance movement, whether it's in the U.S. or cashing checks or contactless or anything to an electronic movement is great for our industry. And we want to help the industry shift those payments as a whole. And we think we'll be a bigger net winner. But I wouldn't expect at this point a materiality of that taking a while for us.

Operator

We will now take our next question from Tim Willi from Wells Fargo.

Timothy Wayne Willi - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

I just had 1 question. In prior calls, Charles, I think you've talked a little bit about kind of a successful strategy to take it to the mid- and small businesses more efficiently with omni-channel and eCommerce. I'm sort of curious if there's any update or any thoughts on that topic? And how you're thinking about it?



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Charles D. Drucker - *Worldpay, Inc. - Executive Chairman & Co-CEO*

Yes. I think from my standpoint, we're continuing to evaluate that and understanding where the best verticals inside of that for us to play. We do have an advantage that we come from large clients, and we get to move down into that market, and we can strategically move down across into that market. So that continues to -- we're evaluating. Obviously, we're doing some smaller plays to grab that market. But we're still in the evaluation stage because it has become a much more complex and diverse market. And you have to make sure that you actually think of your company's capabilities and focus. One of the things that you would've saw is Mark playing a big role to help us think through that as a company. But it's a topic that is -- that we are pushing forward fast to make sure that we have the right approaches to it. I think we're doing very well, but we want to make sure as it evolves quickly, we're in the right spots.

Operator

We will now take our next question from Tom McCrohan.

Thomas Craig McCrohan - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Analyst*

I just had a quick question on eCommerce. Shall we assume your eCommerce volume growth this year has remained consistent with the volume growth witnessed in 2017?

Stephanie Ferris - *Worldpay, Inc. - CFO*

The volume growth within eCommerce, consistent with the volume growth from eCommerce in 2017...

Nathan A. Rozof - *Worldpay, Inc. - Senior VP of IR*

I don't have the '17 numbers, Tom. Can we come back to you on that? My expectation would be that I'm true. I want to check it before I make that statement publicly. So we'll come back to you, Tom.

Thomas Craig McCrohan - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Analyst*

Okay. Last quarter, you guys gave us the 2017 eCommerce volume growth, so that's why I was asking.

Nathan A. Rozof - *Worldpay, Inc. - Senior VP of IR*

Oh, right. That's quite right. I apologize. So...

Stephanie Ferris - *Worldpay, Inc. - CFO*

He forgot it already.

Nathan A. Rozof - *Worldpay, Inc. - Senior VP of IR*

But I didn't bring the electronic volume number thing this time, so let me come back to you.



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Charles D. Drucker - *Worldpay, Inc. - Executive Chairman & Co-CEO*

We have a lot of books here. Did you know that?

Operator

We will now take our next question from David Togut from Evercore.

David Mark Togut - *Evercore ISI Institutional Equities, Research Division - Senior MD*

I would appreciate any insights you have into breaking down both Tech Solutions and Merchant Solutions revenue growth into transaction growth versus revenue per trends. That's the breakout you used to give at heritage Vantiv U.S. I'm just curious are there any trends that you saw in the quarter.

Stephanie Ferris - *Worldpay, Inc. - CFO*

Yes. I'm happy to give some flavor on that. You're right, we no longer give those specific details. So transaction growth in Merchant Solutions continue to be strong in the third quarter, as I said, both in the U.S. and in the U.K. The U.S. continues its strength. The U.S. got -- the U.K. got slightly better in the third quarter over the second quarter, I think, from a macro standpoint. Revenue per transaction stayed pretty consistent there. So no big change in terms of quarterly sequential growth. Technology Solutions continues to benefit from the secular growth in eCommerce broadly in the marketplace. We did see a tick-up in Technology Solutions transaction growth in the third quarter because of some of our large clients who have events in the third quarter, like a big shopping day, spending day, something like that. But nothing material that I would call out as a different trend from the second quarter. And the revenue per transaction there continues to be very consistent. So no big changes in either segment in terms of transaction continuing to be strong as well as RPT.

David Mark Togut - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Appreciate that. Then as a quick follow-up, just a follow-up on Tien-tsin's question actually on the ISV space. Specifically in the restaurant space, we've seen 3 merchant acquirers either enter or expand into the restaurant space organically or through acquisitions. Could you just remind us about Worldpay's positioning/differentiation in the restaurant space?

Charles D. Drucker - *Worldpay, Inc. - Executive Chairman & Co-CEO*

I mean, I think in the restaurants, they top at the ISV there. It's a very fragmented space, and it's very specialized. So what people forget about the restaurant space is that we'll have strong ISVs that have pizza restaurants or fine dining or -- it's very fragmented in that space. So we're able to help them serve that market. And quite frankly, the entrepreneurs that we have that are the smaller ISVs are very enabled in that market. I think you do see some of our competitors that are buying a particular ISV or software in that space, but it doesn't give you the whole restaurant space. So it's not I buy 1 piece of software and I get the whole restaurant space. It's very fragmented. And that's where we've had a lot of success because we don't have any big concentration. But my competitors, because they can't get in, they will buy a software company in the restaurant space. But we think as we serve all these small fragmented, it gives us an advantage.

Operator

We will now take our last question from Bryan Keane from Georgia Bank (sic) [Deutsche Bank].



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Bryan Connell Keane - Deutsche Bank AG, Research Division - Research Analyst

It's Bryan from Deutsche. I just wanted to ask on Tech Solutions. I know you guys thought that would possibly accelerate in the third. It came in pretty similar growth to the second quarter. But you do still expect that acceleration in the fourth. What's going to cause the acceleration in the fourth for the growth rate in Tech Solutions?

Stephanie Ferris - Worldpay, Inc. - CFO

Yes. I mean, I think we continue to see really strong secular trends within eCommerce, right, the continued migration of transactions away from brick-and-mortar into the eCommerce side of the house. We just continue to take benefits from secular trends there as well as -- I think we mentioned this at the very beginning of the call, new business continues to be really strong. And so with a combination of new wins as well as secular growth, we still feel good about our Tech Solutions segment.

Bryan Connell Keane - Deutsche Bank AG, Research Division - Research Analyst

And the comps, I think, are a little bit easier from a year-ago period. Does that still hold true?

Stephanie Ferris - Worldpay, Inc. - CFO

No. I actually think the comps are a little tougher. If you go back and you look at the fourth quarter comps from last year, I think they're pretty tough.

Bryan Connell Keane - Deutsche Bank AG, Research Division - Research Analyst

Okay. And then my last question is you guys raised numbers pretty materially after last quarter. You guys aren't really raising numbers this quarter. Is that just the fact the momentum continues but maybe it wasn't as strong as you saw going in from your original guidance from 2Q?

Stephanie Ferris - Worldpay, Inc. - CFO

No. I mean, I think our methodology isn't going to be raised every quarter. We're really focused on giving very consistent expectations and then meeting those expectations. I think in the second quarter, the beat that we saw was a combination of new wins as well as accelerating in improving trends on a macro basis. And so we felt compelled given the performance results in the second quarter to call out those trends and raise guidance for the remainder of the year. But our approach and methodology is not to beat every quarter. So you shouldn't infer that. We're expecting decelerating trends because we aren't raising our fourth quarter guide.

Charles D. Drucker - Worldpay, Inc. - Executive Chairman & Co-CEO

So thanks, everyone, for joining the call. Again, I'd like to thank all the Worldpay employees in putting these companies together. It's a hard task, but I've got to tell you that the communication, the resiliency, the focus and excitement of all of our leaderships in all of our business lines and back office really excites me. And every time I talked to our people, I get excited every day leading this company.

So thanks, everybody, and have a great day.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.



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