Corrected Transcript

14-Feb-2019

Global Payments, Inc. (GPN)

Goldman Sachs Technology & Internet Conference

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MANAGEMENT DISCUSSION SECTION

James Schneider
Analyst, Goldman Sachs & Co. LLC

Okay. Good morning, everybody. Welcome to Day 3 of the Technology and Internet Conference at Goldman Sachs. I am Jim Schneider, I'm the Payments analyst here at Goldman. And it's my great pleasure to introduce Global Payments, Inc.'s CEO, Jeff Sloan; and CFO, Cameron Bready. Welcome, guys. Thanks for being here.

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

Thanks for having us.

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

Thanks for having us.

QUESTION AND ANSWER SECTION

James Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Maybe just historical or a very broad level. Back at your Investor Day last spring, I think you kind of outlined your journey kind of going from 2013 a payment technology company to today be more of a value-added services technology company that does payments, and then in the future the goal of being kind of a software-driven payment technology company. Maybe if you can just kind of talk about what drove that change in strategy and if you look forward what are the top two or three key things you need to execute on to affect that transition.

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

A

Sure. I'm happy to do that. Happy to do that, Jim. So, I think the way we think about our business is it's pretty simple, it's really in two pieces. First, we're a technology company, so we're building distinctive technologies. And second, we like to sell those technologies through distinctive and defensible means. So, if you think about the way our services are sold and bought these days, it's increasingly around technology enablement, meaning we're selling a distinctive software product and we're partnered with a distinctive software partner to sell their product into a customer or we're selling a solution like our ecommerce and omnichannel solutions. We're one of the handful of people really selling that at scale across our markets.

So, I think it's pretty simple answer, which is we're focused on those services that drive differential rates of sustained growth. We're providing more value to our customer rather leaning with price and more commoditized markets. We overlay that approach to our market with owned and partnered software and ecommerce, omnichannel. We overlay that with exposure to faster growth markets, which is really the third leg to our stool. So most recently, that means we're into Mexico at the end of January with our partners at HSBC. But over a period of time, we've been very successful in expanding to other regions in Europe, other regions in Asia-Pacific by attacking those emerging payments markets with the differential technologies that I just described. That really does explain therefore why we've been able to consistently grow in 2018 and our expectations for 2019 at really some of the fastest rates of organic revenue and earnings growth in our sector because we're attacking those areas of the market that we think are most distinctive and most value-added in combination with our geographic overlay.

James Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Very good. Maybe I want to touch on macro for a second because I think it's a topic de jure for top of mind for me and investors in this conference. When you think about the overall outlook you're seeing right now, you've guided to some pretty healthy growth rates for your overall company. But if you look across the various regions, how do you frame the macroeconomic outlook, whether it's issues about potential slowdown in the U.S., Brexit, FX headwinds, et cetera, and kind of maybe what're you expecting from some of the overall regions in terms of consumer spending this year?

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

A

Yeah. So, we – as Cameron mentioned on our call yesterday, Jim, we continue to see really a very constructive macro environment. Relative to last year, there obviously are a bunch of puts and takes, but I think it's important to realize that that's against a backdrop of the distinctive services that we're providing that I described in response to your first question, and more specifically what I mean by that as we described yesterday is our software businesses partner [indiscernible] (3:55) think that our restaurant business for example, or our petroleum business, those businesses are generally very resistant to changes in macroeconomic environment outlook. It's not like you're going to go to Burger King less. In fact, they're probably going to go more if the environment changes. It's not for example like you're going to send your children to fewer K-12 schools in the United States or few universities in the United States or in Europe if the economic environment really changes dramatically. You might send them to more of a state school versus a private school, but we have both of those too.

So, I think what we were trying to articulate in our call yesterday is the investments we've made over the last number of years, particularly as it relates to distribution and distinctive distribution of our technologies, put us in a relatively insulated environment as it relates to macroeconomic fluctuations. It isn't to say that everything in the world is static. So, I think as Cameron said in our call yesterday, we're very pleased with the performance in our UK business in the fourth quarter. But that performance is slower than it was in the third quarter. And I think as Cameron rightly said, we expect the UK today to really kind of muddle through, a lot of stuff that you're seeing is a macroeconomic, local currency matter through the Brexit. It's not to say that everything is rosy every day, but it is to say I think given the nature of the model that we've constructed, which I think is less exposed to variations in spending that it either has been historically for us or is relative to our peers, we feel we're very confident heading into 2019 in the back of a record 2018 and back of a record 2017 and giving the kind of guidance that we just gave yesterday.

James Schneider
Analyst, Goldman Sachs & Co. LLC

Q

So to that point, Cameron, want to bring you into the conversation, you just gave – yesterday gave guidance for I believe it was 12% to 13% revenue growth in 2019 that includes about 1 point to 2 points, I believe of FX headwinds. So, maybe kind of talk about first of all how much of that is organic, how much of it is M&A? And then, maybe talk about some of the macro assumptions underlying that guidance and kind of the level of confidence you've got on that guidance now versus before?

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

A

Yeah. Maybe I'll start with the last part of that question first. I think we have a tremendous amount of confidence in our guide for 2019. I mean, first of all, if you look at the business we're running today, it is a much better business than we've been running over the past several years, largely by virtue of the investments that we've continued to make in the business to pivot more towards technology enablement as Jeff was describing earlier. So with that as a backdrop, I would say going into 2019 we have more confidence, more levers I think and more just general belief in our ability to produce the types of numbers that we outlined yesterday as it relates to the guidance for the year, and it really starts with the rates of organic revenue growth that we're driving around the globe. I would say for 2019 in particular, if you look at the U.S. market, we're forecasting and guiding our U.S. direct business at a low-double-digit rate of organic growth at the high end of our cycle guidance and expectations for that business, once again led by our technology-enabled businesses and our software businesses.

We also expect our U.S. direct business to continue to grow in the high-single digits as it did in 2018 as well. You put those two channels together again, that's low-double-digit organic growth in our U.S. direct businesses.

Canada, we expect to grow low-single digit, which continues to be our outlook for that market. Obviously that's going to be a little bit offset by currency as we're looking at our forecast for currency rates in 2019. But again, still a stable rate of growth in Canada. The nice thing about Canada is, I like to remind people, it generates a lot of cash that we've been able to redeploy in the business to drive faster rates of growth in other markets and by investing in more product and more innovation. So, the margins in Canada are very high because it's largely an extension of our U.S. business.

Looking to Europe, we expect Europe to drive low-single-digit, or excuse me high-single-digit rates of organic growth. That's against a backdrop of 2018 of probably low-double digit and that's really a function of the UK. We're forecasting mid-single-digit rates of organic growth in the UK on a local currency basis in 2019. And again, that's a function of just our outlook for the market in light of where things stand with Brexit as well as what we saw kind of exiting the year in Q4 as it relates to GDP growth. And as Jeff highlighted earlier, our expectation that the UK just muddles through, to some degree, the whole Brexit outcome over the course of 2019.

Asia, we continue to forecast low-double-digit rates of organic growth in that market. We've had terrific performance in Asia I would say over the course of the last three years. We've done, I think, a great job in diversifying our business in Asia, bringing new product, new innovation, new distribution into that marketplace. And again, we remain very poised to continue to grow low-double digit organically in that marketplace.

I think you graphed on top of that obviously the acquisitions that we've done AdvancedMD and SICOM which we expect to contribute $125 million in 2019 and $100 million, respectively. And that kind of gets you to probably something in the 13% to 15% rate of growth for the business with again a little bit of headwind from FX kind of globally as we talked about on the call yesterday bringing us back to that 12% to 13% FX adjusted outlook for 2019.

James Schneider Q
Analyst, Goldman Sachs & Co. LLC

Yeah.

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

And just maybe one last point on that, I would say as an organic rate of growth matter, it's the highest rate of organic growth on a local currency basis, of course, that I think we've ever guided to as a business. So, I think that does serve to underlay the confidence that we had in the business as we head into 2019. Against a macro backdrop as Jeff was mentioning earlier, that's probably not quite as constructive as we saw in 2018, so I think it speaks to the health of the business and obviously the confidence we have in the growth channels, and particularly our technology-enabled growth channels that continue to drive strong rates of growth.

James Schneider Q
Analyst, Goldman Sachs & Co. LLC

Yeah. I think [ph] it's being well-received (9:43) by markets, so it's good to see. Maybe, Jeff, we've seen kind of at a broad industry level, merchant acquiring businesses across the industry kind of transform themselves or companies trying to transform themselves from – to more technology-led distribution away from some bank partnerships, ISOs and things of that nature, you were one of the leaders in that shift, I think at this point you're about 45% technology enablement across your portfolio today. But I guess, one thing different about your strategy is you've chosen to acquire software assets themselves bringing into the company as a way to drive that growth rather than partnering with software companies as an exclusive matter. So, maybe talk about why you think that's the right strategy?

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

A

Sure. So, I think it's really – the way we think about it, Jim, is how we achieve the technology enablement that we started discussing at the top of our conversation this morning. And I think for us as we said in the press release yesterday, the most important thing in our business is balance. So, I would say it's not one to the detriment of the other. But if you think about our models as we articulated last year, as we said in our Investor Day, is 60% technology enablement revenue by the end of next year. Ideally, I'd like that to be 25% or thereabouts. So, the owned software – it's probably closer to 20%, 15% more or less of partnered software. So it's really not the exclusion of partnered software and about 15% to 20% depending on where we are on a given day of ecomm, omni revenue all with the faster payments market overlay.

So, you can see by what I said. It's really a question of a balance mix rather than one versus the other. And in fact, in our transcript in our prepared remarks yesterday, we actually highlighted that our OpenEdge partnered business had the best ISD partnered win rate that we've ever had in our history doing that business for almost six-and-a-half, kind of seven years now. And we also articulated the number of new customer wins that we've had in that partnered business, which we're very, very proud of.

The other thing I'd say though to go back to your question is, why have we decided to do more therefore owned software versus partner while they're not mutually exclusive. What I would say is that markets like restaurants, for example, which is one of our biggest vertical markets, the mode of competition and the mode of decision and differentiation by our customers is the software and the point of sale. So, in those markets where owning the software and the nature and the type and the differentiation of the software does drive the decision-making as it does in the restaurant vertical markets, does drive the payments and technology [indiscernible] (12:22) decision-making, is very important as it was when we pivoted away from wholesale seven or eight years ago for us to control that customer interaction, that decision-making. So, we don't find ourselves commoditized or dis-intermediary. Restaurants of course is the clearest example and of course we're not the only people with that strategy in the restaurant business.

The other thing we said in our call yesterday in terms of owned software that I think is incredibly important strategically is that the mode of competition outside the United States. So, if you look at our success with bank, financial institution partners, or as we said in our Investor Day, we've done three new JVs over the last number of years, most recently in Mexico, but three new JVs across three continents over the last three or four years. What we hear from our bank partners consistently, Caixa, HSBC UK, HSBC Asia, Erste, is what they want us to bring to our partnerships is the software, vertical market software that we're selling here in the United States. Now why is that important to them, because those partners are approaching their customer bases as financial institutions with a perspective of growing revenue, and if we don't actually control and manufacture and develop that software, our ability to actually bring that overseas and make that a point of differentiation with our partners is much more limited.

So, this really sounds very simple, but at the end of the day, Jim, what's driving that is that's what the customer is telling us, what our customer, the merchant, the partner is telling us is, I'm making a decision based on this, therefore you need to control this. I don't think it's any more complicated than that. And if you look at our win record yesterday articulated in OpenEdge, it's certainly not the detriment of that, it's important to keep balance because back when I started the company and we didn't have balance and there was a lot of wholesale distribution, we actually got into some trouble. So, it's important for us therefore to serve all those end markets.

James Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Then really, Cameron, as you think about acquiring various kinds of software assets, how do you think about valuation multiples and could there reach a point in future where you can no longer underwrite [indiscernible] (14:24) prices you're acquiring at now in light of the subscription or SaaS revenue kind of tied to them, and how do you think about the rate of return for these deals in general?

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

A

Yeah. I think it's a very fair question, just in light of what we've seen from a valuation standpoint in the market over the course of the last few years. I think the short answer to your question is no, we don't see that sitting here today. I think we view ourselves as a very competitive buyer for a lot of different reasons. One is we're not a financial buyer, right. We're not just competing on capital arbitrage and looking to generate returns by levering up and finding a lower cost of capital by which we acquire these assets.

What we bring to these businesses is real operational capability and distribution, and that gives us a very distinctive advantage when we go in and look at a software business that we find attractive. But generally, the way we look at the world is, if we can't accelerate the rate of revenue growth of these businesses by leveraging our distribution capabilities domestically here in the U.S. and around the globe, we can't operate the business more effectively, if we can't scale the business more efficiently, we can't bring technology solutions, technology capabilities, operational capabilities, customer support solutions to the business in a way that helps it scale more effectively, we're probably not the right owner. And typically, what we've seen historically is when we can bring those solutions, we can pay a fair price for these assets, we can compete with other buyers and we can generate the types of returns that we're typically targeting for our businesses from an acquisition standpoint, which you should think of as kind of high teens, low-20s from an IRR standpoint.

So, I remain very confident in our ability to do that going forward, although there's a lot of capital that continues to chase these types of assets. I think we do bring a lot of unique attributes as an operator and as an operating business that positions us to compete I think very well with typical competition, which is going to be more financial buyers by nature. So, I think as we look at the outlook for the market, it remains very robust. And if I can take a moment just to advertise the fact that we ended the year and we're proud of the fact we ended the year at 3.5 times leverage, we're forecasting $1 billion of free cash flow next year. Obviously we've done recent acquisitions that we want to make sure we're integrating well, but as we look to 2019, I think we feel very bullish about the opportunity to continue to put capital to work in the business, growing and expanding in the three growth channels that Jeff highlighted earlier, our software-driven payment strategy, our ecomm, omni-solutions as well as our exposure to faster growth markets globally.

James Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. And Jeff, you highlighted about ecomm and omnichannel solutions before, that's a big focus for you. I think it's already 15% of your total revenue. And then, you've said that you intentionally are kind of avoiding these larger, more commoditized omnichannel and ecomm deals and focus instead on value-additive services on the back end. So, it's a pretty competitive market out there. I mean you've seen players like Adyen and Worldpay kind of offering these very, very, low-priced solutions with scale. So, what're you doing differently from your peers that can give you confidence you can be effectively competitive and outgrow some of your peers in that space?

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

So, we really stick to our knitting. I think that's the key. And really the core of the company, as you know, while we service every size customer in the 60 – nearly 60 countries that we're in and 32 physically, we're really focused on the small- to mid-sized business. So, I'd say our ecomm and omnichannel strategy, Jim, is no different. First, we're focused on taking small- to mid-sized customers in a given domestic market online and really providing that omnichannel capability for the small- to mid-sized guy, that by itself I think is distinctive relative to some of the competitors that you mentioned, kind of point number one.

Point number two, where we go after multinational corporations including some of the largest, most sophisticated in the world, we stick to our knitting and that we follow our geographic physical presence, examples will be Taiwan, Malaysia, Singapore, and the countries across the European Union, where we know that we're one of two or one of three people doing what we do. Meaning we have both virtual enablement as well as physical acceptance in those markets.

So, when we're one of two with a domestic bank competitor as we were in Taiwan and markets like that, I'd like our chances. So, in that instance we're very lean with value-added services our presence rather than leading at the lowest possible pricing kind of praying it works out. So, I think we stick to our knitting by focusing on those customers that have made us successful. And as you can see from the numbers, Jim, that we articulated at the end of 2018, $520 million of revenue which makes us by way of revenue the second largest provider worldwide of ecomm omni solutions growing at mid-teens, which is what we said coming out of the fourth quarter, I think we're incredibly well-positioned in that business.

And people asked this yesterday what's going on with cross-border volume trends, which is something that's come up on some of the network calls, et cetera, I think the reason that we're less exposed to some of those trends is that we intentionally have kept what we think the most attractive customers in markets or ecomm omni today. So, this stuff is not an accident, rather we planned it this way such that we think that we're a little bit more insulated than most in going after those markets.

James Schneider
Analyst, Goldman Sachs & Co. LLC
Q

Yeah. And then maybe kind of to think about your sales strategy a little bit, Jeff, you are unique among a lot of your competitors, I think you're 95% on direct distribution...

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

Right.

James Schneider
Analyst, Goldman Sachs & Co. LLC
Q

...of various strips, a lot of your competitors are kind of more or less heavily reliant on the bank partnership spaces, et cetera.

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

Right.

James Schneider
Analyst, Goldman Sachs & Co. LLC

Q

You've talked about kind of how that global sales force is a unique asset for the company, obviously you've bolstered that with the acquisition of Heartland some time ago. So, maybe tell us about why you think that's such a big advantage and why you've differentiated relative to some of your peers?

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

A

Sure. So, it's a technology company that does two things pretty simple. We build technology, then we sell it. So, it's important that we have very good technologies, but it's also important to your question, Jim, that we've very good distribution. So, there're very few companies in our sector I think otherwise that have 3,000 people selling their products and services every day, including support people in sales who are physically present in 32 countries and selling services cross-border into 60. So, I think it starts with who else is in markets like that, who else has that presence to actually sell, and there's very few people who fall in that category, which is a key point of differentiation for us, increasingly what they're selling is technology enablement.

So today for example, the legacy Heartland sales force probably half of what they're selling today is either an integrated or semi-integrated solution. A good example of that is what's going on in the restaurant space as more and more of those sales are technology-based rather than relationship-based. But really there's no better means to get [indiscernible] (21:02) customer by having local salespeople, 2,000 in the U.S. and 1,000 outside of the United States in those markets, know their markets, know what they're selling and increasingly sell specialized technology solutions. That doesn't mean that we don't do self-service sales. In fact, AdvancedMD, some of our technology models actually don't have salespeople other than inside sales meaning people have follow-up on telephone sales and instead that's distributed online, which is the principal means in selling AdvancedMD, and as we said yesterday on our call accounted for 50% bookings growth kind of year-over-year. So obviously, we have capabilities across the spectrum, but I can't think of very many peers and competitors of ours that have 3,000 salespeople physically present in 32 countries around the globe and I do think that's distinctive to us.

James Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Let's move on to some broader competitive dynamics in the industry. A few weeks ago, we heard about the – one of the largest deals in payments, which is the merger between Fiserv and First Data, so I mean I think this potentially presents some interesting potential challenges and opportunities for the company. So, can you maybe talk about how the bank channel could be different from a competitive perspective whether you see that intensifying in the future? And then maybe similarly or conversely are there any other areas where you think that new entity might be vulnerable?

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

A

Sure. So, the first thing I'll say about the Fiserv-First Data deal is it validates our investment in technology enablement. If you think about the pivot we've made, particularly here in the United States, where that pro forma company is probably 90% in the United States, we're about 70%, it validates the pivot we made probably five years ago plus, into focusing on distinctive defensive distribution with technology enablement. I think those companies, as we said yesterday, who have financial debt and legacy technology debt are going to be forced into positions where they get further commoditized and are selling really just on the basis solely of relationships rather than making the kind of investments the $2 billion-plus, Jim, that we've invested in our technology environments organically at the company over the last five years.

I think those investments that you see in our financials and our guidance are coming to fruition. I think those companies that have a capital structure or a technology debt that they have to service are not going to be in the position to make those investments. So, really I think first it's complete validation of our strategy. The second thing I'd say is the mode of competition outside of the United States, particularly with financial institutions now, as I mentioned a few minutes ago in response to your other question, really has shifted toward technology sales. If you look at the successes we've had with the Erste in Central Europe that Cameron – and obviously with Caixa in Spain, that Cameron commented on, on our call yesterday, we're really selling ecommerce, omnichannel solutions and a lot of our technology solutions into those environments against the backdrop of faster growth markets.

Increasingly, those kind of ecommerce solutions will work not just in Europe and Asia but here with large FIs in the United States because it's very difficult for even the likes of JPMorgan and Wells to actually go out and build a multinational ecommerce, omnichannel strategy. So inevitably, I think those technological changes will come back into the U.S. and drive differential decision-making among larger FIs, which is exactly what we've seeing outside the United States. So, those companies that don't have that technology product suite, I think will be increasingly removed from their end customers and commoditized, and then they'll be in a situation where they're looking for scale solely for scale sake where they can just sell on price, and that's a position we'd rather not be in.

James Schneider
Analyst, Goldman Sachs & Co. LLC

Q

I want to pivot to your international for a second and kind of ask you about your strategy there because clearly you've chosen to enter some very specific targeted markets whether that's Spain or as you mentioned or APAC specific regions there or Mexico, et cetera, and some countries in Eastern Europe, so maybe help us frame what makes a good country for you to enter? Is it just early in the cash to card transition or is there something bigger or more specific to it? And then, maybe Cameron we'll have you kind of take the financial end of it. I mean your approach on joint ventures versus outright acquisitions and kind of where you see that going in the future?

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

A

Well, why I don't I start then Jim, maybe Cameron I think is certainly going to have to respond to most of it. So listen, this isn't the secret sauce here. I mean, I think at the end of day it's not that hard. We chase GDP much like Goldman and Citi do. We follow demographics. So, what we're looking for is quantum of GDP, rate of growth of GDP in the markets we're looking at. We also look at demographics, the size of the middle class, card penetration, what type of cards in those areas. So for example, we announced a number of years ago, probably Cameron, five years ago that we we're going to Australia, one the first things we said is [indiscernible] (25:52) the economy in Asia, right. I mean that's a very good example of how we think about targeting those markets' environments. So, at the end of the day we like to be where the customer is, where the merchant is, where the consumers are, where the payment flows are, we're probably in 99% in the markets that represent 99% of the payments flows in the world today. So, it's incredibly important for us to follow GDP, GDP growth, demographic changes, rise of the middle class, penetration of cards. I don't think it's really more complicated than that.

Cameron, you want to comment on that?

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

A

Yeah. The only overlay I would say on top of that is we obviously start by looking at the domestic market itself and the underlying attributes of that particular market, but we also look at it through the lens of our ecomm and omni strategy as well because there's important markets that we feel like we need to be in as a physical presence globally, to continue to support the expansion of our ecomm and omni business. So, that's always a little bit in the background as we're thinking about obviously opportunities in any markets around the globe, particularly those markets that have faster growth aspects to them, which is a core part of our strategy.

As it relates to the other part of your question around JVing or outright acquisition, obviously we're open minded to both. And we've done both. I would say on balance, when we're talking about joint venturing, particularly with a bank partner in a new market, we'd rather joint venture than acquire it outright. There's a few reasons for that is. One is typically these businesses have some amount of work to do to bring them up to frankly our standards. And they also have work to do really to separate them from the bank in terms of how they need to operate as a standalone business. We want the bank to have skin in that game. We think it's very important that they're participating in the economic return of the joint venture as opposed to just getting a referral fee for sending business across the transom to a business, a merchant acquiring business that we might acquire from them.

So, typically I would say when we enter a new market with a bank partner, we want to be a partner with that bank, we like to do it through JV and over time that can evolve into full ownership as it has in a number of markets, where there're certain JVs that we expect to continue in perpetuity for example spending. I think we'll be long term partners with Caixa and I don't think Caixa has any interest in exiting and we don't either. So, that's a partnership that's working extremely well and I expect to continue for a long period of time.

As it relates to the financial returns we expect to achieve from these opportunities, I would expect that those returns would be very similar to what I described earlier. There – they have to compete for capital favorably against the other alternatives that we have to put capital work in the business and the returns we expect from the expansion into faster growth markets, need to compete favorably with the returns that we have we put in that capital to work in vertical markets, software, ecomm and omni or returning that capital to shareholders. So there's no different return hurdle and frankly given unique risk that may exist in some of those markets on a risk adjusted basis, those returns have to be competitive.

James Schneider
Analyst, Goldman Sachs & Co. LLC

Q

Then maybe just close on one question about margins before we run out of time for you Cameron. Maybe talk about the Investor Day guidance you provided mid sort of guidance about 75 basis points of market expansion annually.

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

A

Yeah.

James Schneider
Analyst, Goldman Sachs & Co. LLC

Q

You also talked about some SaaS revenue coming at a higher operating margin. So, 20% of – 18% to 20% of revenue. So, maybe talk a little bit about just broadly speaking how much you think of that extensions being driven by the mix up with SaaS versus how much natural kind of like attrition-related benefits where you're getting your margin equation?

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

A

Yeah. So, it's a great question. So, as I think we look at margins, we have a lot of levers that continue to expand margins going forward and as we've guided to yesterday normalized margin expansion for 2019 on a constant currency basis is kind of north of 100 basis points, so even ahead of the cycle guidance targets we provided last March.

So, when we step back and look at it, naturally the business mix shift that we're seeing, the movement more towards technology-enabled distribution, the more owned software in the portfolio, obviously that creates a nice tailwind to margin expansion in the business. Secondly, the value-added products and solutions that we're distributing to customers led by software has been including data and analytics capabilities, including e-mail marketing campaigns, reputation management, payroll, all of those solutions tend to be coming in at higher margins than our traditional merchant acquiring margin.

So, the broadening of our portfolio to more products, more innovation, more solutions that we're able to distribute and attach to the payment stream to customers is obviously helping margin expansion well. And then lastly, it's a scale business because we operate on single technology environments, common operating environments around the globe, the incremental margins of this business are very high. So, the more volume we're able to obviously put through the machine so to speak, obviously the more margin expansion we're going to be able to drive in the business.

And as we step back, one of the things Jeff and I spend the most time focused on is how are we poised to continue to expand margins as we look forward in time. And I think sitting here today we feel very good about the levers we have available to us to do so.

James Schneider
Analyst, Goldman Sachs & Co. LLC

Very good. Unfortunately much more to get to, but we're out of time. So, Jeff and Cameron, thanks for being with us today. We appreciate it.

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

Thanks for having us.

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

Thanks very much, Jim.

James Schneider
Analyst, Goldman Sachs & Co. LLC

Thank you, gentlemen.

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

Thank you.

James Schneider
Analyst, Goldman Sachs & Co. LLC

Thank you. Yeah.

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

Good luck with everything.

James Schneider
Analyst, Goldman Sachs & Co. LLC

Thanks again.

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

Thank you for hosting us.

James Schneider
Analyst, Goldman Sachs & Co. LLC

Yeah. Always a pleasure. Thanks.

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

My pleasure.