Q2 2023 Earnings Call

Company Participants

- Jennifer Como, Investor Relations
- Ryan McInerney, Chief Executive Officer
- Vasant Prabhu, Chief Financial Officer

Other Participants

- Darrin Peller, Analyst
- David J. Koning, Analyst
- Jason Kupferberg, Analyst
- Lisa Ellis, Analyst
- Rayna Kumar, Analyst
- Robert Napoli, Analyst
- Sanjay Sakhrani, Analyst
- Tien-Tsin Huang, Analyst
- Timothy E. Chiodo, Analyst
- Trevor Williams, Analyst
- Will Nance, Analyst

Presentation

Operator

Welcome to Visa's Fiscal Second Quarter 2023 Earnings Conference Call. All participants are in a listen-only mode until the question-and-answer session. Today's conference is being recorded. (Operator Instructions) I would now like to turn the conference over to your host, Ms. Jennifer Como, Senior Vice President and Global Head of Investor Relations. Ms. Como, you may begin.

Jennifer Como {BIO 20121273 <GO>}

Thanks, Jordyn [ph]. Good afternoon, everyone, and welcome to Visa's Fiscal Second Quarter 2023 Earnings Call. Joining us today are Ryan McInerney, Visa's Chief Executive Officer, and Vasant Prabhu, Visa's Vice Chair, and Chief Financial Officer. This call is being webcast on the Investor Relations section of our website at investor.visa.com. A replay will be archived on our site for 30 days. A slide deck containing financial and statistical highlights has been posted on our IR website. Let me also remind you that this presentation includes forward-looking statements. These statements are not guarantees of future performance and our actual results could differ materially as the result of many factors. Additional information concerning those factors is available in our most recent annual report on Form 10-K and any subsequent reports on Form 10-Q and 8-K, which you can find on the SEC's website and the Investor Relations section of our website. For non-GAAP financial information disclosed in this call, the related GAAP measures and reconciliation are available in today's earnings release.

And with that, let me turn the call over to Ryan.

Ryan McInerney {BIO 17310000 <GO>}

Hi, everyone. Good afternoon and thanks for joining us. Our financial performance in the second quarter of 2023 was very strong with net revenues up 11% year-over-year. Non-GAAP EPS was $2.09, up 17%. Overall, our global quarterly payments volume was up 13% year-over-year, excluding Russia and China. In the U.S., quarterly payments volume was up 10%. Outside the U.S., excluding China and Russia, payments volume was up 17.5%. Excluding intra-Europe, total crossborder volume remains strong, up 32%, with crossborder travel volume at 130% of 2019. Processed transactions grew 12% year-over-year. We remain confident that our strategy is focused on the right opportunities. In the second quarter, this strategy continued to deliver, driving strong growth through consumer payments, new flows, and value-added services.

I'll talk briefly about our progress in each area. Let's start with consumer payments. Consumer payments remained a massive opportunity for Visa. Even with all the digitization over the last several decades, there is still a tremendous amount of cash and checks spent globally. There is a very long runway for growth in this business. In consumer payments, the flywheel has three parts. Grow credentials, more buyers on the network; grow acceptance, more sellers on the network; and drive engagement, more transactions. We continued to grow credentials, up 7% year-over-year through December and 11% excluding Russia. And we now have more than 6 billion tokenized credentials, up nearly 90% from last year, excluding Russia. We continue to grow acceptance with over 100 million merchant locations worldwide. And Tap to pay continues to be a powerful driver of engagement.

Globally, 74% of all face-to-face transactions outside the U.S. are now Taps. In the U.S., we're at 34%, up 7X from three years ago and up more than 10 percentage points from last year. A couple of highlights in the second quarter include U.S. quick-service restaurants, where penetration surpassed 40%. And in key metro areas across the United States, we continue to see great traction beyond the success in New York and San Francisco. LA, Detroit, Seattle, San Diego, and Oakland, and Miami, are all now over 40%. Mass transit continues to be one of the best ways to get people used to tapping and we've set records.

In the first half of 2023, we processed more than 745 million Visa Tap-to-Ride transactions globally, up 35% over the first half of last year. We've enabled 55 new transit systems, bringing our footprint over 650. We also had some significant client wins in the quarter. Starting in North America, we are pleased to have renewed a multi-year agreement with TD, a top 10 North American Bank for continued Visa credit and debit issuance in both Canada and the U.S. In Canada, we renewed our relationship with CIBC, with a new multi-year agreement for Visa credit issuance. We renewed our partnership with Marqeta, a leading fintech issuer processor, and MoneyGram, who is utilizing Visa Direct for cross-border money movement, and just recently signed a consumer debt agreement.

In Asia-Pacific, UOB, one of the leading banks in Asia, has renewed and expanded its relationship with us in Singapore, Malaysia, Thailand, Indonesia, and Vietnam for both credit and debit cards. OCBC Bank, the second-largest bank in Singapore by market cap, renewed its flagship product and portfolio with us, the OCBC 365 credit card. MUFG bank, the banking arm of Japan's largest financial group, renewed its long-term debit partnership. Chunghwa Post, Taiwan's Post Office and the largest debit issuer in Taiwan has renewed its long-term exclusive partnership with Visa. And in India, we're very excited about a long-term consumer credit contract with Axis Bank, targeting new affluent customer segments.

Additionally, I want to highlight an exciting new product innovation that we launched in Japan with our long time partner SMBC. It is a single flexible prudential that a consumer can choose to use as a debit, credit, or prepaid card. SMBC calls the product Olive [ph], and we think it could meaningfully enhance the buying experience for SMBC customers and users in many other countries around the world. Now to Europe, in Germany, we've signed a co-brand deal with Solaris and ADAC, which is Germany's largest automobile association with 21 million members. Visa is excited to be the new network of choice for one of the country's largest co-brand portfolios.

In Israel, we renewed and expanded our relationship with our largest issuer, Bank Leumi. In Belgium, we recently reached agreements with six issuers to migrate over 2.6 million debit cards to Visa in the next few years, bringing our country total since 2021 to 6.5 million new Visa debit cards. And finally in Latin America, from December 2019 to 2022, we have grown our credentials by 1.5X and our merchant locations by almost 2.5X. Over that time period, the percentage of our total volume that is point-of-sale payments versus getting cash out of an ATM has grown from 46% to 59%, demonstrating the cash digitization happening in the region.

In Colombia, we're pleased to partner on a co-brand with LATAM Airlines, the largest airline in Latin America. We continued to strengthen our position in Brazil, renewing our partnership with Itau, the largest private bank in the country. We also announced a new strategic deal with Banco de Brasilia, that expands upon our existing agreement including a popular credit program issued in partnership with one of Brazil's leading football teams with over 40 million fans. Also in Brazil, WhatsApp had already launched peer-to-peer service to facilitate money transfer using Visa Direct, and recently they announced they will be offering payments from consumers to small businesses as well. And more and more, we see clients work with Visa on multiple levels, across consumer payments, new flows, and value-added services.

Natura [ph], the world's fourth largest beauty group with 4., -- I'm sorry, 4 million beauty consultants in Latin America is a recent example. In 2020, we announced a deal with them and we just renewed our agreement, which includes digital issuance of a Visa business credential and adds acceptance innovations, as well as CyberSource risk management solutions. Thus far, in Brazil, we've issued cards to almost 50% of the Natura consultants. And we love working with clients that take advantage of our full range of solutions. It's

Visa at our best, serving clients in multiple ways across our growth levers. Now let me turn to new flows. The potential payments volume opportunity in new flows is enormous, 10X that of consumer payments. New flows revenue in our second quarter grew more than 20% in constant dollars, excluding Russia.

Commercial volume was up 15% in constant dollars and Visa Direct transactions were up 32%, excluding Russia. We've been winning in new flows by executing our network of network strategy. And two weeks ago, we announced a new network called Visa Plus, that further extends our network of networks. This new network allows users to send and receive payments among different P2P apps through a personalized payment address, a Visa Plus Pay Name. This enables P2P payments from one app directly to another app, as well as gig creator and marketplace payouts. This can be done through an app, a neo-bank, or a wallet. We're connecting endpoints and form factors and enabling interoperability, our network of network strategy at work. We are launching pilots with several partners including Venmo, PayPal, Tazapay [ph], and Western Union with more to come soon. Let me now turn to Visa Direct. Visa Direct is also a great example of our network of networks.

Visa Direct utilizes 66 ACH networks, 11 RTP networks, 16 card-based networks, and five gateways, with the potential to reach nearly 7 billion endpoints globally. We continue to grow Visa Direct with new use cases and partners. For example, in Peru, Banco de Credito del Peru, BBVA, Interbank, and Scotiabank shows Visa Direct as their preferred network and YellowPepper, their technology enabler for the interoperability among their wallets and payment apps. Last year, we announced our agreement with the payments infrastructure platform, Thunes, to add send-a-wallet capabilities to Visa Direct. Similarly, this quarter our cross-border reach continued to grow, expanding coverage to 32 new wallet providers across 22 countries by connecting to TerraPay, a leading cross-border payments infrastructure company.

Together, Visa Direct and TerraPay can enable P2P remittances for individuals, as well as business payouts through accounts, wallets, and cards. Enablers remain an important part of our strategy and we're partnering with Pfizer to expand on their U.S. domestic Visa Direct business by commercially launching cross-border capabilities for their clients, starting with outbound payouts. I'll mention two other recent cross-border agreements. We signed a deal with Brightwell, a global payments technology company to leverage Visa Direct to expand cross-border remittances and payout capabilities for their customers in over 175 countries across a variety of industries, such as travel and financial services. And earlier this quarter, PayPal Xoom announced that customers in the United States can send money directly to an eligible Visa debit card in 25 countries, utilizing Visa Direct.

In the second quarter, Visa Direct cross-border P2P transactions, excluding Russia, grew nearly 50%. While Visa Direct is growing fast, B2B is the largest component of new flows. And traditional issuance is the core of what we do today in B2B, comprising the majority of the over $760 billion in commercial payments volume year-to-date. I'll highlight three important issuance deals. In Colombia, we renewed with Grupo Bancolombia, the largest issuer acquirer in the country for commercial credit and prepaid, as well as consumer credit. Financial Technology platform, Adyen, has expanded its offerings with a Visa commercial card, initially targeted towards global merchant customers. Visa and Stripe's issuing partnership offers card issuance to enterprise and startup consumers in the U.S., the U.K., and Europe.

And for cross-border B2B money movement, which you all know is about Visa B2B Connect, a solution that seeks to deliver predictability, speed, reliability, efficiency, data, and flexibility to our clients. We're building an entirely new network and we're making progress. Over the last six months, we've signed nearly 30 banks in more than 20 countries and payments have been routed to 90 countries globally. And there are several areas for additional expansion in B2B, such as new capabilities, new geographies, and new verticals. Today, I'll talk about two verticals, fleet and fuel and agriculture. In fleet and fuel, we're seeing a big shift in this vertical, where the historically closed-loop systems are opening up and receiving the benefits of our investment and innovation. For example, the Standard Bank in South Africa will issue Visa Fleet Cards in South Africa with plans to roll out across four additional priority markets across Africa in 2024.

Over the past two years, Visa has signed or launched fleet-focused solutions for over a dozen providers with more to come. In Latin America, we're bringing our innovative capabilities to an untapped vertical, the agriculture industry. Agriculture represents nearly 15% of the workforce and nearly 25% of the exports in the region, which supplies nearly 15% of the world's food production. Visa has developed a solution called Visa Agro. It provides credit access to farmers in advance of their harvest so that they can buy inputs using Visa credentials, with payment periods aligned with their production cycle. Visa Agro is live in six countries through partnerships with banks, fintechs, processors, and marketplaces.

Now, I will touch on value-added services. Value-added services are equally important to Visa's accelerated growth. By offering compelling value-added services, we hope to grow our clients' businesses and deepen our relationships with these clients, increase the yields on our own network volumes, and expand beyond our own network by adding value to non-Visa transactions. Our existing suite of value-added services is impressive. In the second quarter, we had about $1.7 billion in value-added services revenue, up 20% in constant dollars. And our clients continue to add value through value-added services. An example is Wells Fargo. As they modernize their acquiring solutions, they're working with CyberSource to offer enhanced product features and functionality for their merchant services customers.

Or in Europe, fiscal year to date, we've signed on nearly 80% more clients than last year across 11 countries in our popular risk products, Visa Advanced Authorization and Visa Risk Manager, which together deliver increased transactions through higher authorization rates, while also lowering fraud. Our network products, which include services such as account and address verification, stop payments, and smarter stand-in processing continued to grow at a rapid pace, with nearly 500 clients added year to date globally. We also enhanced and developed new value-added services, which are helping to drive growth and innovation. I'll briefly share three examples, Visa Acceptance cloud, managed services, and risk as a service. We spoke about Visa Acceptance cloud last year, which moves embedded payment processing from individual devices to the cloud. It eliminates the need for expensive terminals, as well as the cost and time to certify the processing software.

I'm pleased to share that First National Bank in South Africa has launched a solution and Visa expects more pilots to follow soon globally. Next is Managed Services, part of our advisory solutions, which is when we embed Visa employees with subject matter expertise within a clients' organization to execute on a specific actionable project, such as an ongoing management of risk and fraud parameters, product implementations, or execution of customer engagement strategies. For example, one issuer for whom we provided end-to-end campaign execution enjoyed a 15% lift in spend and a 40% increase in activation. Managed Services are bringing strong results for our clients and growing revenue twice as fast as our core advisory business through the second quarter. Finally, our Risk as a Service offerings also continued to be utilized, powered by network level data, AI capabilities, and our risk experts.

For example, our AI and machine learning-enabled monitoring service identifies suspicious decline activity. For one client, we were able to identify a scheme where fraudsters were testing for valid accounts and then using the accounts to make fraudulent purchases. Visa blocked over $7 million in attempted fraud in just one month on behalf of this client. This is just one example, but you can see how these risk services enable us to both help our clients and generate revenue for Visa. Since launching six months ago, we've added nearly a dozen direct clients across three regions with a very active pipeline. In closing, as you all know, I've been at Visa for nearly a decade, and I can say, I've never been more excited about the opportunities in front of us. We have a compelling strategy, a World-class team, fantastic clients, and an incredible set of capabilities that I believe are second to none. While the current environment still feels uncertain, we have contingency plans ready and are prepared to take action as needed. We're constantly seeking the right balance between the realities of short term with the enormous opportunities ahead.

So with that, now Vasant will lead us through the financial highlights from the quarter and our thoughts on the rest of the year.

Vasant Prabhu {BIO 1958035 <GO>}

Thank you, Ryan. Good afternoon, everyone. In our fiscal second quarter new -- net revenues were up 11% and GAAP EPS up 20%. Non-GAAP EPS was up 17%. In constant dollars, net revenues grew 13% and non-GAAP EPS grew 20%. Adjusted for the discontinuation of operations in Russia, net revenue growth was around 18% in constant dollars. Net revenue growth exceeded our expectations due to strong value-added services and new flows growth, high currency volatility, and lower-than-anticipated client incentives, a few key highlights. In constant dollars, global payments volume was up 10%. Excluding China and adjusted for Russia, global payments volume was up 13%. As a reminder, January and the early part of February lapped Omicron impacts last year.

Index to 2019, excluding China and Russia, global payments volume was up 61% [ph], which is a compound annual growth rate of approximately 12.5% over the pandemic year. U.S. payments volume was up 10% year-over-year, again helped by lapping the Omicron impact last year. Relative to 2019, U.S. payments volume was up 58%, compounding at 12% over the pandemic year. The cross-border travel recovery continues at the pace we expected, indexing at 130 versus four years ago, a five-point improvement from Q1. As expected, the rebound in Asia is now the primary driver. Travel in and out of Asia reached 2019 levels in the quarter and travel into the U.S. was very close. We believe there is more recovery to come. Travel from Mainland China has mostly benefited other parts of Asia so far, but early bookings suggest strong interest in Europe as the summer approaches.

Our new flows and value-added services businesses continued to power ahead. Excluding Russia and in constant dollars, both businesses grew revenues at or about 20%. In the second quarter of fiscal year '23, we bought back approximately $2.2 billion in stock at an average cost of $222.09 and distributed $941 million in dividends. Now on to the details. In the U.S., credit grew 10.5% year-over-year, slightly faster than first quarter. U.S. debit grew 9.6%, up more than one point from Q1. U.S. card-present spend grew 8%. U.S. card-not-present volume, excluding travel, grew 9%. As you look at the monthly cadence in the US through the quarter, January and the early part of February benefited from lapping Omicron to varying degrees. In March, payments volume growth ticked down and has remained at similar growth level through the first three weeks of April. The primary driver of the tick down in the growth rate has been US ticket size, while transaction growth remains in line with Q1 levels at around 8%.

Ticket size is up over 1% year-over-year in the first quarter and it's down about 2% in March through April 21. Ticket sizes are declining as inflation moderates. Most notably, starting in March and through the summer, we will be lapping the peaks in fuel prices last year. For example, in March 2023, fuel prices were nearly 20% lower than last year. In 2022, fuel prices continued to rise through spring and peaked in June. Also contributing discounting in particular retail goods channels, you've heard various US retailers comment publicly about price cuts they are implementing to clear out inventory or pass on reductions in costs. Across other categories of spend in the U.S., payments volume growth remains strong in services, in particular, travel and entertainment. Non-discretionary spend growth in categories like food and drug is also holding up well. Another factor that is the potential drag on U.S. payments volume growth starting in March and through April is the impact of lapping higher tax refunds.

Refunds are largely spent in the few weeks post receipt. Based on IRS-reported data through April 14, tax refunds are 11% lower this year. We expect this headwind to a bit as we get into May. Moving on to international markets. In constant dollars, international payments volume growth rate was strong through the quarter in the major markets. Latin America was up 27% due to improved growth in Mexico and the South Cobb [ph]. Our CEMEA region, excluding Russia, grew 29%. Europe was up 13%. Excluding the UK, Europe volume grew 31%, reflecting share gains in multiple markets. Excluding portfolio conversion, volume trends in the U.K. improved. Asia-Pacific, excluding China, continued to recover, up 17%. Global processed transactions were up 12%. Constant dollar cross-border volume excluding transactions within Europe, but including Russia in prior period, were up 32% year-over-year and up 46% versus four years ago.

Excluding Russia, year-over-year growth was higher by about three points and the index to four years ago was higher by five points. Cross-border card-not-present volume growth, excluding travel and excluding intra-Europe, grew 6% year-over-year and was 77% above 2019. Adjusted for cryptocurrency purchases and Russia, cross-border e-commerce spending grew in the low-double-digits. Cross-border card-not-present, excluding travel and intra-Europe, represented over 40% of total cross-border volume in the second quarter. Cross-border travel-related spend excluding intra-Europe grew 59% year-over-year. The cross-border travel, excluding the intra-Europe index to four years ago, went from 129 in December to 134 in March or up five points. Travel into Asia now exceeds 2019 level, while travel out of Asia is around 2019 levels, improving 13 and 11 points respectively from the first quarter versus four years ago.

Travel out of Mainland China is a key driver to watch. With airline capacity coming back fast and streamline's Visa issuance, Southeast Asia has been the biggest beneficiary of travel from Mainland China. This is beginning to change as airline capacity is added in other corridors, especially Europe and COVID-related requirements are eased. We expect the recovery of Asian, and in particular, Chinese travel, to be a key driver of the final leg of the cross-border recovery. Travel outbound from the US to all geographies continued to be strong in the low 150s indexed to 2019. Travel inbound to the U.S. is still hovering just under 2019 levels. A strong US dollar, travel (inaudible) are backlogs and COVID restrictions have been dragged on the recovery, but all are beginning to ease. Europe, excluding intra-Europe, inbound and outbound remained strong with the travel indexed to 2019 in the low 130s for outbound and high 140s for inbound. Travel into Latin America and the Caribbean also remained very strong, indexing the 160s to 2019 levels.

Travel in and out of CEMEA indexed in the high 140s versus four years ago with outbound up more than five points from the first quarter and inbound up by about 10 points. Moving now to a quick review of our second quarter financial results. Service revenues grew 7% versus the 7% growth in first quarter, constant dollar payments volume. Exchange rate drag was offset by growth from business mix and pricing. Data processing revenues grew 10% versus the 12% process transactions growth. The primary reason is that our data processing revenues are impacted by Russia, however, our transactions growth is not. Adjusting for Russia, data processing revenues were up 14%, helped by value-added services strength. International transaction revenues were up 24% versus the 32% increase in constant dollar cross-border volume excluding intra-Europe. Revenue growth was helped by high currency volatility, although lower than the first quarter and pricing actions, offset by exchange rate shifts and business mix.

Other revenues grew 16%, led by marketing and consulting services, as well as benefiting from acquisitions. Client incentives were 26.7% of gross revenues, below expectations due to some deal timing, client performance, and other items. Revenue growth was robust across our three growth engines. Consumer payments growth was led by the strength in domestic volume transactions and cross-border volume, as well as high currency volatility. New flows revenue grew over 20%, excluding Russia in constant dollars. Commercial volumes were up 15% in constant dollars and 60% over four years ago, excluding Russia, Visa Direct transactions grew 32%. Value-added services revenue grew 20% in constant dollars, driven by higher-volume increased client penetration and select pricing actions.

GAAP operating expenses grew 11%. Non-GAAP operating expenses grew 13%, led primarily by personnel expenses from headcount additions over the past year. Excluding losses from our equity investments of around $90 million, non-GAAP non-operating income was $32 million, benefiting from higher interest income due to rising rates and a few other items. GAAP tax rate was 19.3% and non-GAAP was 19.4%. GAAP EPS was $2.03, non-GAAP EPS was $2.09, up 17% over last year, inclusive of a three-point drag from the stronger dollar. Through the first three weeks of April, US payments volume was up 6%, with debit up 6% and credit also up 6%, compared to four years ago, they are up 54%, 63%, and 45% respectively. In key markets around the world, we saw continued strength. Processed transactions grew 10% year-over-year and are 50% above four years ago.

Constant dollar cross-border volume excluding transactions within Europe grew 28% and was 47% of our four years ago. Card-not-present non-travel growth was 77% about four years ago. Travel-related cross-border volumes were 31% over four years ago. Moving now to our outlook for the third-quarter. Growth in domestic payments volumes remained stable around the globe. As we said last quarter, the recovery from COVID is behind us now for domestic volume. Post the Omicron impact from last year in January and February, US domestic volume growth rates have ticked down in March, driven by the factors we discussed earlier. We believe that some of these factors will persist through the third quarter. As such, we are assuming March and April trends will continue in the US for the rest of the quarter. In aggregate, we expect the international growth trajectory remains largely unchanged from the second quarter.

On the cross-border front, the travel recovery trend has been steady and generally in line with our expectations so far in fiscal year '23. The cross-border travel index to 2019, excluding intra-Europe, has been improving at a rate of 5 to 6 points each quarter. We are assuming this trend is sustained through the third quarter. The big driver as recovery in Asia continuing, especially driven by Mainland China. We expect Chinese travel to extend beyond Asia to Europe as we enter the summer. On the cross-border e-commerce front, we're also assuming recent trends continue, adjusted for crypto-related volatility.

It is important to note that even as the cross-border business continues to recover, relative to 2019, the year-over-year growth rate will continue to slow down as it has over the past few quarters. Also, currency volatility is moderating, and we are now lapping very high currency volatility from the third quarter of last year. Our value-added services and new flows businesses have grown much faster than our consumer payments business. Sustaining faster growth rates for these businesses remains a critical priority. Client incentive growth is expected to be higher in the second half than it was in the first. This was driven by some delays in renewals that were expected in the first half, as well as some significant renewals that were anticipated in fiscal year '24 but are now happening in the second half of fiscal year '23.

In the first half, client incentives as a percent of gross revenue was below our outlook range of 26.5% to 27.5%. In the second half, this percentage is likely to run above the high-end of the range. We expect to finish the year in the upper half of the 26.5% to 27.5% range. When you put all this together, third quarter net revenue growth is expected to be in the low-double-digits, inclusive of an approximately one-point drag from exchange rate. As we indicated previously, non-GAAP operating expense growth is expected to moderate through the year. Our expectations remain unchanged. Q3 non-GAAP operating expense growth is expected to be two to three points lower than the second quarter inclusive of an exchange rate impact, which may add half a point to growth. And Q4 non-GAAP operating expense growth will likely be another two, three points lower than Q3.

Non-GAAP results exclude certain acquisition-related items and the litigation provision from the third-quarter last year. Non-operating income will continue to benefit from the attractive rates we're earning on our cash balances. As you know, short-term rates have been high lately, which is very helpful given that we always have very low duration on our cash balances. Interest income from cash will likely offset interest expense from debt by $5 million to $10 million in the third quarter. Our tax rate is expected to remain in the 19% to 19.5% range in the third quarter. As we've said previously, should there be a recession on a geopolitical shock that impacts our business, slowing revenue growth below our presumptions, they will of course adjust our spending plans by reprioritizing investments, scaling back or delaying programs, and pulling back as appropriate in personnel expenses, marketing spend, travel, and other controllable categories.

In summary, as Ryan said, Visa today has three robust growth engines, consumer payments, new flows, and value-added services. Our results in the second quarter (inaudible) that growth remains healthy across all three businesses. The opportunity is vast and the runway for growth remains long.

With that, I'll turn this back to Jennifer.

Jennifer Como {BIO 20121273 <GO>}

Thanks, Vasant. And with that, we're ready to take questions, Jordyn.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Timothy Chiodo with Credit Suisse. Your line is open.

Q - Timothy E. Chiodo {BIO 16128908 <GO>}

Great. Thank you for taking the question. I want to talk a little bit about Visa Plus, a little bit on the mechanics and sort of what could be, and then a brief follow-up. So on mechanics, my understanding is, as you mentioned, apps, neo banks, and wallets can be a part of this, but what about the prospect of any account being able to be attached to a pay name that's associated with Visa Plus, meaning traditional bank accounts. And also understand that at present, the Pay Name [ph] concept in Visa Plus is domestic only, but potentially has the -- I guess the chance to expand to cross-border.

A - Ryan McInerney {BIO 17310000 <GO>}

Thanks for the question. Just before I get into two specific parts that you asked about, just back up, Visa Plus is a great example of how a lot of innovations in Visa work. Our team started with a problem in the market, which is people have, we all have these apps with money in them, and it's not easy to get money from one app to another and so starting with the problem, which then created the opportunity, we then together with a number of different parts of the company laid out a roadmap and then announced the Pay Name feature in the Visa Plus network, I guess it was a couple of weeks ago. And like anything to find product market fit, we are starting with kind of some very specific use cases, so, yes, domestic. Yes, we've started with a few partners who happen to be, but not just in the P2P wallet business like PayPal is, with both Venmo and PayPal, we also mentioned Western Union, who is a launch partner with us. In theory, the Pay Name construct could be extended to really any source of funds on any surface, but we're really focused on, it's early days. We just launched, we think it's a great idea. We think it's got great product market fit. We've gotten really good feedback from the market. We're focused on launching in the U.S. with the partners that we mentioned, then we'll go from there. Thanks for the question, Timothy.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordyn.

Q - Timothy E. Chiodo {BIO 16128908 <GO>}

Thank you.

Operator

Our next question comes from Tien-Tsin Huang with JP Morgan. Your line is open.

A - Jennifer Como {BIO 20121273 <GO>}

Tien-Tsin, are you there?

Q - Tien-Tsin Huang {BIO 6065319 <GO>}

Hi, Jennifer, can you hear me?

A - Jennifer Como {BIO 20121273 <GO>}

Yes, now we can.

Q - Tien-Tsin Huang {BIO 6065319 <GO>}

Sorry about that. Thanks for taking my question and for all the good detail here. Just -- I want to make sure just can we infer from the no change in the operating expense outlook here that Vasant went through, that the modest slowdown you saw in March is limited to the US and largely inflation, and I think tax related. It sounds like it shouldn't extend beyond third quarter from what you see, and otherwise no real surprises in the consumer globally, just wanted to rehash that back to you.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah, the short answer is yes. We think the consumer is still in good shape. As we said, spending across most categories other than a couple I mentioned like fuel and some retail goods price cutting, very strong across services, strong across travel and entertainment, strong in non-discretionary, so, yes, that's how we feel.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordyn.

Operator

Our next question comes from Will Nance with Goldman Sachs. Your line is open.

Q - Will Nance {BIO 20732798 <GO>}

Hey, guys. I appreciate you taking my question. We've heard a couple of instances of several large merchants that have made the decision to start routing more e-commerce -- more e-commerce transactions over alternative networks over the past three to five months, so I just wanted to maybe get an update on your thoughts around some of the recent regulations in the US based on conversations with acquirers, merchants, and issuers, are there any updated thoughts or expectations around the potential impact of new regulations that are implemented over the next few several months?

A - Ryan McInerney {BIO 17310000 <GO>}

No updates, but I'll just kind of again summarize for you how we see things. The changes that the Fed put in place were consistent with our expectations. No changes to the card-present side of things. Obviously, in the e-commerce side of things, it requires issuers to enable to one affiliated networks for e-comm Most Visa issuers were already in compliance. Those that aren't will be. We've said and continue to believe that there'll be minimum impact in fiscal year '23 and beyond that, it's yet to be determined. We'll kind of see how the marketplace plays out. We continue to believe that merchants are going to want to choose to route transactions to Visa for a number of reasons. One is, in the e-comm space the merchants bear the liability for fraud in e-commerce. So the ability to save a couple of basis points in cost have to be weighed against the risk that comes from the liability of fraud in the e-commerce space. We believe that our tools, capabilities, and platforms to help reduce fraud are second to none. We've got advanced fraud and risk processing capabilities that help both issuers, acquirers, and sellers reduce fraud. And we've also got a product that has dual messaging functionality that, in a number of different use cases whether it's airlines or hotels or rental cars or the retail space, where they are ordering multiple products that are shipped at different times. The enhanced dual messaging functionality is really required. So, as always, we're going to -- we're going to continue to compete vigorously. We're going to continue to invest in our products, our capabilities, our services. The market is very competitive today. It's going to get more competitive, but we like our chances to continue to win.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordyn.

Operator

Our next question comes from Trevor Williams with Jefferies. Your line is open.

Q - Trevor Williams {BIO 20976822 <GO>}

Great. Thanks. I want to follow-up on value-added services and how much cyclicality we should expect on that line. I mean, they've been consistently growing faster than net revenue. Vasant, I know you said maintaining that elevated growth in new flows and value-added services is a priority, but if we are in an environment with slowing volume growth, just -- how do you expect value-added services in aggregate? And I know there's a wide range of what gets folded in under that label, but just in aggregate, how you expect value-add services to hold up relative to the consumer payments business? Thanks.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah, I'll start and I'm sure Ryan will add. Yeah, our goal of course is to grow the value-added services business faster than the consumer payments business and you have to remember that the secular growth in that business coming from adding new services, which we are doing regularly from expanding services outside the U.S., which we're doing, as well as deepening penetration with existing clients because all of them by all of the services. So there's already a secular growth component. In terms of being affected by market trends, there are services clearly that are linked to transactions. That's true of many of our services, like our DPS business, which is issuer processing on a CyberSource business and even to some degree the fraud businesses. So, yes, these transactions are impacted in some way. There will be some impact on it, but that is underlying secular growth in that business. I don't know if you'd add anything?

A - Ryan McInerney {BIO 17310000 <GO>}

Nothing to add, well said.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordyn.

Operator

Our next question comes from Bob Napoli with William Blair. Your line is open.

Q - Robert Napoli {BIO 1526298 <GO>}

Thank you and good afternoon. I wanted to -- without the growth in new flows and networks, I just wanted to follow-up on the evolution of new technologies, AI and blockchain, and how that's affecting your business? How Visa is utilizing those technologies? And do they add any opportunities or risks to your business?

A - Ryan McInerney {BIO 17310000 <GO>}

Hey, Bob. I think I heard (inaudible) question cut in and out a little bit. Let me hit AI and blockchain. I think that's what you're asking. I think more broadly, we're obviously monitoring anything and everything that's impacting commerce and money movement around the world. And our approach is what it has been, which is to lean into those technologies and use them to add value to our products and services and clients and capabilities around the world. Just I guess hit AI and blockchain, on AI, clearly a lot of activity in generative AI right now. Before I get to that, I'll just mention that we have a long history developing and using predictive AI and deep learning. We were one of the pioneers of applied predictive AI. We have an enormous dataset that we've architected to be utilized at scale by hundreds of AI and ML different services that people use all across Visa. We use it. We use it to run our company more effectively. We use it to serve our clients more effectively. And this will continue to be a big part of what we do. And as you transition to generative AI, this is where -- we see this as an opportunity to take our current AI services to the next level. We are, as a platform, experimenting with a lot of the new capabilities that are available. We've got people all over the company that are tinkering and dreaming and thinking and doing testing and figuring out ways that we could use generative AI to transform how we do what we do, which is deliver simple, safe, and easy to use payment solutions.

And we're also spending a fair bit of time thinking our generative AI will change the way that sellers sell and we all buy in all of the shops. So that is -- it's a big area of opportunity that we're looking at in many different ways across the company. In terms of -- I guess blockchain and crypto, it's -- as far as we see it, still early days, still emerging technologies, but as we've said in other venues, we see the potential for blockchain and we see the potential for stablecoins. If you look at what we're doing in the market today, it's relatively basic, but I call it important work. We are enabling on and off-ramps on crypto. We're working with exchanges around the world to issue their users Visa credentials. We're developing the capability for our issuer and acquire partners to have a choice to settle in stablecoins. And we're engaging with central banks all around the world on CBCD priorities. Now the stuff we've got going in the lab, if you will, the R&D work that we're doing is, we're testing, ideating on all sorts of different ideas on how we could leverage blockchain and Web3 and Layer 1 and Layer 2 solutions, smart contracts, I mean, we've got teams of people that are exploring all those different types of innovations. And you want to see how they play out in the market, and if there's things that scale, we want to be part of that.

A - Jennifer Como {BIO 20121273 <GO>}

Next question.

Operator

Our next question comes from Sanjay Sakhrani from KBW. Your line is open.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thank you. Vasant, I'm just trying to think about all the areas that are impacting you differently than what you may have planned for, for the fiscal year like this transitory impact that you mentioned in March and April that are persisting and then the moderating FX volatility. As we pull-up and think about the fiscal year, do you feel like we're in about the same place where you started in terms of your forecast, given the strength in other places, just trying to think through all that? Thanks.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah. I think that's right. You know, clearly, the moderation in volatility is not a big surprise. Volatility last year was very high by historical standards. If anything they've held up better than we expected so far this year. And even now they're, I'd say a little bit higher than long-run medians, but not -- last year was real highs that we haven't seen in a while, so that's not a surprise. The cross-border business is recovering, almost on-track with our expectations, which, again we had no real crystal ball, but we are very close to what we were expecting, and it's recovering nicely and it's exactly as we expected, Asia driving it. China playing an important role. Cross-border e-commerce business, in general, the e-commerce business is holding up well. International is very strong, especially Europe. Europe is strong defying what we may have expected going into the year. If there is a positive surprise, it's clearly Europe. And then other parts of the world like Latin America, most parts of Latin America and the Middle East are also doing -- doing well, and Asia is recovering. So, yes, I mean, as you would expect something better than you expect something is a little bit lower. But in aggregate, the business is doing as well or better than we expected as you saw from our results.

A - Jennifer Como {BIO 20121273 <GO>}

Next question.

Operator

Our next question comes from Jason Kupferberg with Bank of America. Your line is open.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Good afternoon, guys. Just going back to your initial expectations for fiscal '23, at the outset of the fiscal year, I believe you were forecasting that Q4 net revenue growth would accelerate versus Q3. Just wondering if that's still the case, given some of the quarterly moving parts here, including on the incentive line. Thank you.

A - Vasant Prabhu {BIO 1958035 <GO>}

I don't think we gave you quarterly revenue growth outlooks. So I don't know exactly where that came from. I mean, we said, we gave you some sense of our planning assumptions for the full year and said that we would give you one quarter out, our best sense of the quarter out, which we've done for Q3. And we'll give you our best sense of Q4 when we get to July.

A - Jennifer Como {BIO 20121273 <GO>}

Next question.

Operator

Our next question comes from Lisa Ellis with MoffettNathanson. Your line is open.

Q - Lisa Ellis {BIO 18884048 <GO>}

Hey, good afternoon, and thanks for taking my question. Just a question on the upcoming official launch of FedNow [ph] in July. Ryan, you mentioned in your prepared remarks, of course, that Visa Direct works with dozens of other networks around the world, are you anticipating connecting into FedNow? And can you just update us again on how you see the rollout of FedNow affecting Visa, particularly your ability to win in new flows? Thank you.

A - Ryan McInerney {BIO 17310000 <GO>}

Thanks, Lisa. We want to connect to any real-time payment network in the planet -- on the planet, and that's been our track record so far. That's the short answer to the first part of your question. Just back up, I'll just take a minute on this. Before I dive into FedNow, let me put it in context as it relates to Visa. Today, start with Visa debit. Visa debit is a feature-rich, widely adopted, safe, simple, secure payment option. We've got global broad-based acceptance. We've got dual message capabilities, as I mentioned earlier, well-established disputes and charge-back processes, well-understood rules and accepted rules, not just in the U.S. but around the world. We've got zero liability fraud protection, tokenization capabilities, risk management tools, security services, and it's a really, really good customer experience. It's a great buying experience. It's a great selling experience. So that's Visa Debit. On Visa Direct, Visa Direct builds on all those features, the scale, the ubiquity. The great experiences to deliver push payment solutions, both domestically and around the world, as I mentioned earlier, to 7 billion endpoints. And there are two, it's a really, really good customer experience, both for the user and for the kind of enabler of the experience. So, if you put FedNow in context of all of that, so just to talk specifically about FedNow, the first thing I'd say is that modernizing the payments infrastructure in the United States is a smart thing to do. It's a necessary thing to do and it's good for Americans.

So that's -- it's something that is a good thing happening in the US. And I'd also say that any force that digitizing money movement is a catalyzing force for all of us. And I expect that the FedNow like TCH, it's going to take some time, it will eventually get traction, but it will take some time to build adoption. And one of the most -- I'd say this way, one of the most powerful capabilities and payments is ubiquity. RTP doesn't have that yet in the US, it will happen, but it's going to take time. And the other thing I'd say is that an RTP transaction is a relatively simple transaction type. It's instant, it's permanent, and it's irrevocable, right? I think over time it will get enhanced, but that's kind of where we are, so if you take all that and say, what does it mean? I think the most instructive thing to do as we think about real-time payments in the US is look around the world. And if you go to the UK and we've had faster payments in the UK for 15 years now, we haven't seen much if any impact on Visa Debit. And the UK is also -- it's a robust and growing market for Visa Direct. So I just -- I think we'll see what happens. We'll see how things expand in the US, but kind of like I was saying earlier, we like our products. We love our clients. We love the capabilities and teams that we have and we feel good about our ability to continue to add value and grow the businesses in the US.

A - Jennifer Como {BIO 20121273 <GO>}

Next question.

Operator

Our next question comes from Rayna Kumar with UBS. Your line is open.

Q - Rayna Kumar {BIO 17409639 <GO>}

Good afternoon. Thanks for taking my question. B2B Connect seems like it could be a bigger opportunity to capture B2B cross-border. I know, Ryan, you mentioned that over the last six months, Visa has signed nearly 30 banks or B2B Connect. Can you talk about the competitive environment and the sales process with those customers? And if you can give us a sense of how much volume has been flowing through B2B Connect? Thank you.

A - Ryan McInerney {BIO 17310000 <GO>}

Yeah, thanks for the question. We are building out a new network. We know how to do that and we also know it takes time. If I give an example, and then come back to your question, we're excited to talk with all of you about the success we're having with Visa Direct. The billions of transactions, the use cases, everything that we're seeing now, that journey started many, many years ago, country-by-country, client-by-client, working with our issuing clients especially to get into their tech queues, build-out the functionality, and then you can fast-forward many years and we're having the success that we're having with our platform today. B2B Connect is in the early stages of that. So to your question on the sales cycles, we know how to do it. We've done it with other networks as we've built out, but it takes time, country-by-country around the world. We're working with our banks. We're helping them understand the value of the product and the solution which almost unanimously is the easiest part of the sales process. Like, when you compare B2B Connect versus the alternatives that are out there, I mentioned in my prepared remarks, side-by-side almost any other alternative that's out there, Visa B2B Connect is a far superior product, but it takes out. So we're working on it country-by-country. I mentioned some of the numbers in my prepared remarks. I don't have any numbers to share today beyond those. And we expect over time, we'll share more with you about the success we're hopefully having.

A - Jennifer Como {BIO 20121273 <GO>}

Next question.

Operator

Our next question comes from Dave Koning with Baird. Your line is open.

Q - David J. Koning {BIO 7310416 <GO>}

Yeah. Hey, guys. Thank you. And my question, just personnel expenses up 24% year-over-year, it was one of the biggest increases we've seen, which is kind of in the face of a lot of tech companies that are cutting, why was it up so much? I guess it's just a question.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah. It's additions we have made over the last 12 months in headcount. There's also some unusual items that flow through there that are offset. This was the deferred comp. It hits you on the personnel line, but it's offset on the non-operating income line. So that distorts it a little bit, but you will see that that growth rate start to decline quite a bit, because we've been moderating headcount increases as we went through the year. And it's all incorporated in the outlook we gave you for expenses, in which we told you, the growth of expenses will flow through the year. It's two to three points lower than last quarter. This quarter it will be two to three points lower next quarter and another two to three points lower in the fourth quarter and they're on-track for that.

A - Jennifer Como {BIO 20121273 <GO>}

Last question, Jordyn.

Operator

Our final question comes from Darrin Peller with Wolfe Research. Your line is open.

Q - Darrin Peller {BIO 16385359 <GO>}

Hey, thanks, guys. Vasant, we heard your comments on third quarter growth expectations, but would just love to hear a little bit more on full year. You've obviously outperformed so far, especially on -- really on both reported and constant currency basis, the first fiscal quarters. And then guidance seems to be shaping up better than your full year outlook. So just maybe a little more comment on how you see the full year versus guidance? And then, I guess, Ryan, on the yields, it looks so strong, do you see a long runway for value-added services to keep growing as a percentage of the yield of average transaction revenue mix going forward, so that that keep being sustainable?

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah, look. I think we'll stick with what we said earlier. I think you have a good sense of the trends and if the trends continue, you have been -- it's very easy for you to assess what the fourth quarter would look like. And as it relates to value-added services, I don't know, Ryan, if you want to add anything, but clearly, I mean the approach to value-added services is the yield enhancer. If you have the transaction, the more value-added services you can provide, the higher the yield you can get on the transaction, and that is clearly the objective.

A - Ryan McInerney {BIO 17310000 <GO>}

Yeah. We've got a great sales team, great product teams all around the world. They're doing a great job sitting with our clients, helping them understand these products and services, and getting those products and services embedded into our clients. And we've got a very robust product pipeline across all of our various types of value-added services and we're optimistic about the ability to continue to grow that business.

A - Jennifer Como {BIO 20121273 <GO>}

And with that, we'd like to thank you for joining us today. If you have additional questions, please feel free to call or email our Investor Relations team. Thanks again and have a great day.