Q1 2020 Earnings Call

Company Participants

- Ajay Banga, Chief Executive Officer
- Michael Miebach, President and CEO-Elect
- Sachin Mehra, Chief Financial Officer
- Warren Kneeshaw, Investor Relations

Other Participants

- Bryan Keane, Analyst
- Craig Maurer, Analyst
- Darrin Peller, Analyst
- Harshita Rawat, Analyst
- Jason Kupferberg, Analyst
- Lisa Ellis, Analyst
- Ramsey El-Assal, Analyst
- Sanjay Sakhrani, Analyst
- Tien-Tsin Huang, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Mastercard's Q1 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. And after the speakers' presentation, there will be a question-and-answer session. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your presenter today, Executive Vice President of Investor Relations, Warren Kneeshaw. Please go ahead, sir.

Warren Kneeshaw {BIO 16549173 <GO>}

Thank you, James. Good morning, everyone, and thank you for joining us for our first quarter 2020 earnings call. We hope you and your families and coworkers are all safe. With me today are Ajay Banga, our Chief Executive Officer; Michael Miebach, our President; and Sachin Mehra, our Chief Financial Officer.

Following comments from Ajay, Michael and Sachin, the operator will announce your opportunity to get into the queue for the Q&A session. It is only then that the queue will open for questions. Due to the length of our prepared comments today, we plan to allow for an additional 15 minutes for questions, if necessary. You can access our earnings release, supplemental performance data and the slide deck that accompany this call in the Investor Relations section of our website, mastercard.com. Additionally, the release was furnished with the SEC earlier this morning.

Our comments today regarding our financial results will be on a non-GAAP currency-neutral basis, unless otherwise noted. Both the release and the slide deck include reconciliations of non-GAAP measures to GAAP reported amounts. Finally, as set forth in more detail in our earnings release, I'd like to remind everyone that today's call will include forward-looking statements regarding Mastercard's future performance. Actual performance could differ materially from these forward-looking statements. Information about the factors that could affect future performance are summarized at the end of our earnings release and in our recent SEC filings. A replay of this call will be posted on our website for 30 days.

With that, I will now turn the call over to our Chief Executive Officer, Ajay Banga.

Ajay Banga {BIO 4676567 <GO>}

Thank you, Warren, and good morning, everybody. Our first quarter started off strong and kind of continuing to build off the solid trends and performance that we had in 2019. But as you all know, as the pandemic developed and spread, it impacted our first quarter performance, but the strength in our services-related revenues shows that the strategy we have perused over the last decade to diversify our revenue streams is paying off. Now, this virus has created a truly extraordinary challenge that we need to address together. And like everyone else, we're trying to do our part. Post the execution of our grow, diversify and build strategy, we've built on the solid foundation of our technology, data, brand and our wonderful people. That's put us in the fortunate position of being able to support our clients and partners throughout this difficult period. And you will hear me and Michael and Sachin talk more about this later.

At it's core, this is a health crisis and therefore the public health response is the most important policy response in the near-term. It is the critical first step to getting the world's economies back on track. And as we've all been reading, coordinated efforts, such as the sustained implementation of social distancing and the scaling of our healthcare capacity to address increasing needs are having a positive effect. The company over the middle and longer terms will be dependent on the implementation of successful testing processes and the development of effective prophylactics, therapeutics and vaccines. Now, we are contributing through our investment in the Therapeutics Accelerator together with The Gates Foundation and Wellcome Trust.

In the mean time, fiscal stimulus packages are being introduced across many markets and this will be a critical effort to provide relief during the downturn for individuals, to small businesses and for others who are particularly hard hit. We're also seeing very strong efforts of monetary policy across a number of countries, which would be particularly supportive as the recovery takes hold. Ultimately, the shape and speed of the recovery will be determined by the effectiveness of these policy initiatives. But again in the mean time, we are helping out. We've joined forces with OnwardUS, a coalition of tech partners and foundations that are addressing displaced workers across the United States. Definitely, we are providing necessary resources to support the unique needs of small businesses with a commitment of $250 million in technology, product and insight assets, as well as philanthropic support.

Now, let me shift gears for a moment to tell you how we are looking at this on the ground. We have spent some time together as a team on developing a framework that really helps the entire company. Think about the progression through four distinct phases, containment, stabilization, normalization and growth. Containment is a mitigation initiative like travel restrictions and social distancing and work from home orders are implemented by public authority in an effort to bend the curve and contain the growth in new COVID cases. From our perspective, from a payment volume perspective, this phase is characterized by rapid contraction in spending levels. What follows is stabilization, where these mitigation initiatives are by and large complete and spending stabilizes around a new lower level due to mobility limitations with a focus on buying necessities and, of course, aided by e-commerce. We believe we are currently in the stabilization phase in most markets.

The next phase is normalization, where governments gradually relax mitigation practices and the environment becomes safer for the citizenry, enabled by the broader availability of testing and tracing and improved therapeutics even before the rollout of an effective vaccine. This phase we think will be characterized by a gradual path to recovery in spending to pre-COVID levels. We anticipate spending will begin to rebound during this phase, but not necessarily evenly. We would expect some sectors, particularly where there is pent-up demand, like home improvement, or clothing, or healthcare, or domestic and intra-regional travel to normalize earlier. Other areas like mass entertainment and long-haul travel will probably take longer to recover. It's possible that we will see early signs of normalization in some sectors and geographies throughout the rest of this year.

And the final phase is growth, where spending levels gradually trend higher than pre-COVID levels. We believe a widely available vaccine and proven therapeutics will help to bring this change to fruition. So containment, stabilization, normalization and growth is the framework we are using. It's not necessarily linear, as we've seen in Japan and Singapore recently and frankly it's impossible to say how long these trends [ph] will last. We think this framework makes sense. We are running this business with this common lexicon across the company. You will hear us talk about progress in these terms as we move forward.

Now, bringing all this back to our business. It is clear that our metrics are being impacted, you've seen those, but our business drivers are rooted in more than just PCE trends. The secular shift from cash and check to electronic forms of payment is important and we expected to accelerate coming out of this crisis. We have worked hard to grow a balanced portfolio across credit, debit, prepaid and commercial payments with a focus on strengthening share in debit and prepaid, which tend to be more resilient in times like this. We've also diversified our business in terms of our customer base and geographies as demonstrated with our presence around the globe. Now, our services lines, a significant portion of which are not linked to transaction levels, they help us to further diversify our revenue stream and they are very much in demand. All this on a foundation of a strong balance sheet and liquidity, which allows us to execute on our strategy to capture new payment flows and build new capabilities for the long-term, organically, of course, but also importantly inorganically. The near-term will no doubt look different than we expected it to be just three months ago, but we're very well positioned to make the most of these significant opportunities that we see coming our way.

So, now, let me turn to what we are doing to address the situation today. Normally, and like every other time, we are focusing on the things that we can control both inside our company, but also externally with our customers, governments and society at large. Let me start with the most important issue, the health and well-being of our employees. Our offices remain open wherever they have been allowed to do so, but the vast majority of our employees are working from home. Many people are dealing with new circumstances and unexpected challenges. We are helping our employees in every which way that we can. We're providing them with additional health benefits, take time off for those in need to care for themselves or their loved ones. We have assured our employees that there will be no COVID-19-related layoffs this year.

Our network and systems remain fully operational based on the resilient core infrastructure that we have built and that is regularly tested. We are helping our customers mitigate risk as well. We are engaging with them in scenario planning. We're leveraging AI tools in financial institutions and others to help them fortify their business continuity plans as they navigate the downturn to ensure that they can come out strong on the other side.

And we're also reaching out beyond our four walls to support governments, much of we've worked with them in the past with an increased focus on their specific needs in light of today's pandemic crisis. We are uniquely positioned to help them provide emergency payments to both people and businesses through our multirail solutions. We are facilitating specific COVID-related social disbursement programs around the world, reaching millions of some of the hardest hit people, including in the United States through the Direct Express prepaid program or account-to-account rails, which enable about 90% of payroll and support, almost all state benefit payments in the UK and now also being leveraged to support payments to displaced workers and financial assistance to businesses in that market. And we're involved in work like this in markets as diverse as Israel and Chile. So there's a lot going on, but we're always thinking about what more we can do.

So before we move on, let me just say, we will get through this. I have tremendous confidence in the ability of mankind to find innovative solutions in the face of difficult circumstances. And then confidence returns and it will. We expect the fundamental growth trends that have driven the company will return in force. We have a resilient business model that benefit from diversification, that benefits from our ability to optimize existing products and solutions and benefits by the fact that we can introduce new value prop, all of which contribute to our ability to grow over the longer term.

So with that, I'm going to turn this call over to Michael, who, as you know, has all the operating teams reporting to him. And I think I'm very fortunate to have him working side-by-side with me, as we've navigated through this unique time together. So, Michael?

Michael Miebach {BIO 22831201 <GO>}

Thank you, Ajay. Likewise. Yes, these are clearly difficult times, which is why we're leaning in, leaning in with our customer to be the best partner we can possibly be, especially now as we work through the containment and stabilization phases together and compare for normalization and ultimately growth. We're staying closely connected and anticipating the needs of banks, merchants, governments, fintechs as well as the end consumers, while executing on our strategic priorities, driving a secular shift to electronic payments, building new revenue streams and capturing new payment flows, diversifying our customer base and geographic reach. All these have been critical parts of our strategy and they will continue to be key enablers driving our success coming out of this crisis. All of this while remaining agile on how we manage expenses to ensure long-term growth.

So let me take each of these three in turn to give you an idea on how we are doing this. First off, the secular shift. Now with trillions of dollars of payments still being made by cash and check despite our best efforts, there's clearly an opportunity to drive new transactions to our products, both online and in store. We've seen a dramatic increase in e-commerce in this time of low mobility and we expect some of these behaviors to persist going forward.

When we look at our switched volumes in April, card not present accounts for over 50% of volume, which is up from 40% last year. So our drive to offer our customers expanded digital capabilities online and in app is increasingly important and we are doubling down on these efforts. For example, by leveraging our Payments Gateway services, merchants are able to accept digital payments securely and easily. And our Simplify Commerce platform makes it easy for small and medium-sized businesses to set e-commerce options up within just a few days, which of course matters more now than ever. Underlying these digital transactions are our tokenization capabilities, which enable safe and secure purchases across every digital channel and bring benefits like improved approval rates, again, really matters us today.

We have new commitments with SC [ph] in the US and large e-commerce retailers such as JD.com from China to tokenize the cards on file. Now, in-store. Contactless is the fastest, easiest and safest and as of late as announced by the WHO the healthiest way to pay and is a key driver in the conversion of cash to electronic payments, especially now with consumers looking for a quick way to get in and out of stores without exchanging cash, touching terminals or anything else. We have seen over 40% growth in contactless transactions worldwide in the first quarter. Our recent consumer insights indicate that habits are being created today. It will last beyond the current situation, more than half of new tappers are saying they will continue to use contactless once this pandemic is over. And we are helping to enable this by increasing contactless limits around the globe. And in our conversations with banks, we see a renewed commitment to accelerate the issuance of new contactless cards.

Now, moving on to the grow pillar. We continue to win important credit, debit, prepaid and commercial deals around the globe. Let me give you just a few recent examples, including our expanded partnership with Sberbank in Russia, an expanded global commercial agreement with Brex including new products and services. We've also extended our long-term relationship with Banco Inter in Brazil in the consumer and commercial credit space. And Afterpay has agreed to make Mastercard its preferred commercial prepaid and issuer processing partner. In the US, Dow will be moving its commercial card business over to us, including T&E and purchasing cards as well as the new virtual card program. And I'm really pleased to announce that we've won credit and debit programs with Live Oak Bank, a significant provider of small business loans in the US, again, very important in these times.

I'd like to come back to the debit trend that Ajay mentioned. We've increased our consumer debit share globally over time and our lead -- and are leaders in a number of markets such as Brazil, India and several markets in Continental Europe. We believe that this along with our global leadership in prepaid will serve us really well in the current environment and of course beyond. Further, we have products like digital debit, which enable issuers to offer their customers credentials that can be used online, even when their current cards don't have these capabilities. We have several examples this quarter. Most notably, the cooperative banks in Germany are working exclusively with Mastercard to enable more than 20 million customers with access to digital card -- debit cards.

Let's shift the focus to our diversification strategy. Now, we continue to make good progress in expanding our customer base, particularly with fintechs, where we moved early and we've developed a leadership position. Some examples of recent wins include a new prepaid co-brand program with Credit Sesame in the US and expanded relationship with N26, otherwise known as N sechsundzwanzig across 18 markets around the globe. Now, on to diversifying geographies. As you all know, we have been looking forward to switching domestic transactions in China. We're really pleased to have received the preliminary approval for our license application, which will allow us to set up our JV with our local partners in UCC. We expect this process will play out over the next year.

Now, this takes us to the build pillar of our strategy. As you know, we've made a concerted effort to invest through a combination of organic and inorganic means to build new revenue streams. This has not only accelerated our growth, but also diversified our revenue, which is particularly valuable in these times and will continue to be important over the long run. First off, services. Our services lines are holding up well, despite the downturn as a significant portion are not linked to transaction levels. So let me bring this to life for you. For example, our customers are using our differentiated insights and analytics to help them assess, react and plan during the current crisis. Now, we have implemented our unique test and learn capabilities acquired through our APT acquisition a few years ago to address industry-specific needs. Here's an example this could be engagements like working with grocers on inventory levels and promotions in real-time and many more use cases.

We're also working to address frauds, which is even more important as more transactions are moving online. The capabilities that we have acquired through companies like NuData, Brighterion, Ethoca and most recently RiskRecon help us bring significant value to the ecosystem and will continue to position us well as behaviors are likely to shift in the post-COVID-19 world. With RiskRecon, we are providing cyber vulnerability assessments for small businesses and healthcare organizations and Ethoca of issuers and merchants prevent fraud before it even occurs. And it helps to reduce costs and the operational burden of charge back resolution. This breadth of our cyber intelligence services allows us to assist even beyond payments, as we are doing by creating a digital identity framework.

And finally, here are a couple of updates on our progress in new payment flows and real-time payments, in particular. Our real-time payments implementations are progressing as planned, including in the Philippines, Saudi Arabia and in the Nordics with P27. I do want to point out that our account-to-account rails are particularly resilient in times like these, given the breadth of use cases they address and the recurring nature of these payments. In the UK alone, we process more than 2 billion real-time transactions annually, which are growing at double-digits of our account-to-account rails. And as you know, we're involved in account-to-account rails in many more companies -- countries around the world.

Now, as you would expect, the social distancing measures are pushing more day-to-day activities like person-to-person payments and home delivery services to digital platforms, which in turn use Mastercard Send. We continue to see very strong volume growth here. Even with the slowdown in some aspects of the weak economy like ride-sharing, strong growth persists. We have also seen strong growth across our cross-border assets, including Transfast. There's momentum in both, in P2P flows and in B2C flows of disbursement use cases, including as of late with First Abu Dhabi Bank, which has gone live with cross-border account-to-account remittances.

And over to the open banking front, we continue to rollout a set of comprehensive solutions and services that we believe work for all players in the ecosystem. Further to our efforts in Europe that we launched last year, I'm very excited that we will be expanding our longstanding relationship with Tesco to work with them on open banking, which is particularly notable, given the UK is a leading market in this space. We see the ability to facilitate the exchange of real-time information, while protecting data privacy as a significant opportunity for us and as the landscape evolves and open banking makes its way around the world.

With all of this as a backdrop, we are actively managing our expenses. As the situation developed, we quickly advanced the framework for prioritizing our spending with a focus on how to best support our customers and drive the long-term interests of the company. We looked at each expense line and made adjustments based on factors, such as market readiness and customer demand. At the same time, we have preserved our ability to invest in strategically important areas, such as digital, services, geographic expansion and the enormous opportunities we see in real-time payments. And these are critical to our long-term growth. The flexibility in our model enables us to adapt quickly and adjust as circumstances warrant, we will continue to manage this closely.

For more detail on expense management and our financials overall, let me now turn the call over to Sachin.

Sachin Mehra {BIO 15311008 <GO>}

Thanks, Michael. As Ajay and Michael mentioned, this truly is an unprecedented time for us all. Before I get into the numbers, I would like to take a moment to acknowledge the resiliency of the team here at Mastercard. We have maintained their focus in supporting our business, our customers and partners and each other during this challenging period. In light of the current circumstances, I will focus most of my comments today on the trends that we have seen recently, but I will start by walking you through our Q1 results.

So turning to page three, here are a few highlights on a currency-neutral basis and excluding both special items and the impact of gains and losses on the company's equity investments. Net revenue grew 5% with acquisitions contributing approximately 1 ppt to this growth. Total operating expenses increased 8%, which includes a 6 ppt increase related to acquisitions. Operating income grew by 2% and net income was up 3%, both of which include a 3 ppt reduction due to acquisitions. EPS grew 6% year-over-year to $1.83, which includes $0.05 of dilution related to our recent acquisitions, offset by a $0.04 contribution from share repurchases. During the quarter, we repurchased about $1.4 billion worth of stock.

Let's turn to page four, where you can see the operational metrics for the first quarter, each of which was impacted by the pandemic starting in February and March. Worldwide gross dollar volume or GDV growth was 8% on a local currency basis and was favorably impacted by an additional processing day due to the leap year, has partially offset the declines due to the pandemic. US GDV grew 6%, down approximately 3 ppt from last quarter with credit and debit growth of 7% and 5%, respectively. Outside of the US, volume growth was 9% down 5 ppt from last quarter. Cross-border volume growth was approximately 15% through January, driven by double-digit growth in most regions, but began to decline progressively through February and March as travel restrictions were put in place globally. This resulted in overall cross-border volume decreasing by 1% for the quarter on a local currency basis. I will get into more detail on the trends we are seeing in a moment.

Turning to page five, switched transaction growth was approximately 20% through February, reflecting the strong recent trend supported in part by the ongoing adoption of contactless. We then saw declines in March, as stay at home practices were implemented, which resulted in growth of 13% globally for the quarter. In addition, card growth was 5%. Globally, there are 2.6 billion Mastercard and Maestro-branded cards issued.

Now, let's turn to page six for highlights on a few of the revenue line items, again, described on a currency-neutral basis unless otherwise noted. The 5% net revenue increase was primarily driven by transaction and volume growth, as well as strong growth in our services offerings, partially offset by a decrease in cross-border volume and higher rebates and incentives. As previously mentioned, acquisitions contributed approximately 1 ppt to this growth.

Looking quickly at the individual revenue line items. Domestic assessments grew 8% in line with the 8% growth in worldwide GDV. Cross-border volume fees decreased 2%, while cross-border volume decreased 1%. The 1 ppt difference is mainly driven by mix. Transaction processing fees grew 16%, while switched transactions grew 13%, the 3 ppt difference is primarily driven by the strength in services, partially offset by mix. Other revenues were up 28%, including a 6 ppt contribution from acquisitions. The remaining growth was primarily driven by our Cyber & Intelligence and Data & Services solutions, which held up well this quarter. Finally, rebates and incentives increased 26%, reflecting recent deal activity, as anticipated. If you look at rebates and incentives as a percentage of gross revenues, you will see that they increased sequentially to 35% this quarter reflecting recent deal activity and the impact of the amortization of fixed incentives over a smaller gross revenue base.

Moving on to page seven, you can see that on a currency-neutral non-GAAP basis, total operating expenses increased 8%. This includes a 6 ppt increase related to acquisitions, partially offset by a 3 ppt benefit related to the differential in hedging gains and losses versus the year ago period. The remaining 5 ppt of growth related to our continued investment in strategic initiatives, such as digital enablement, safety and security, geographic expansion and new payment flows.

Now turning to page eight and given the circumstances, I thought it would be worthwhile to update you on where we stand from a capital allocation standpoint. As you may recall, our capital allocation priorities are to maintain a strong balance sheet, invest for the long-term growth of our business, return excess capital to our shareholders and migrate our capital structure towards a more normalized mix of debt and equity over time. And these priorities have not changed. Despite the impact of COVID-19 through the strength of our business model and prudent expense discipline, we have generated strong operating cash flows in Q1. This strong operating cash flow, the temporary suspension of our share repurchase program and the $4 billion of debt that we raised in the first quarter further strengthened our liquidity position.

At the end of the first quarter, we had $10.7 billion in cash, cash equivalents and investments. We believe that maintaining a strong liquidity position is the prudent thing to do, given the current economic environment. It gives us tremendous flexibility to not only meet our obligations, but to also capitalize on new organic and inorganic opportunities that may present themselves in this environment. We have deals in the pipeline that we are examining actively, as you would expect at a time like this. Lastly, as it relates to the share buyback program, we will reevaluate this as macroeconomic visibility improves and will opportunistically execute on the program as we have historically done.

Now, turning to page nine, let's discuss what we've seen through March and the first three weeks of April from an operating metrics standpoint. We are providing additional detail here to help you better understand the recent trends. Essentially, what you see is that through March, we were in the containment phase, with cross-border volumes and domestic spending declining as travel restrictions were implemented, followed by social distancing measures being put in place across various jurisdictions. The rates of decline have recently stabilized as these restrictions have taken hold indicating early signs of the stabilization phase.

It is important to point out that social distancing measures have been implemented at different times and to different degrees around the globe and even within countries. So, not every location is in the same phase. Part of Asia moved first, followed by much of the developed world in March, and the balance in the last few weeks.

So looking at this a little bit more closely, let's start with switched volumes, where you can see the impacts of the social distancing measures on overall spending, starting progressively in March. The impacts have varied by category with spending on essentials, such as groceries, pharmaceuticals and utilities holding up pretty well. Spending on items that are either discretionary or require mobility are down significantly. This includes categories, such as travel, restaurants, clothing, recreation and gas. We have also seen people defer healthcare services other than those related to COVID-19. Not surprisingly the way in which people have been making purchases have shifted, specifically as Michael mentioned earlier, card not present spend now accounts for over 50% of switched volume in April, up from about 40% in 2019 as e-commerce spend excluding travel has actually grown. We have also seen merchants accelerate their omnichannel distribution efforts, most notably in restaurants and department stores to accommodate the shift. In total, switched volumes have leveled and are down approximately 25% versus year ago in recent weeks, indicating early signs of the stabilization phase that Ajay alluded to. The third week of April numbers have actually improved across all regions, perhaps in part due to the early impact of fiscal stimulus, but it's still early days. We are seeing the stabilization continue over the last several days as well.

Looking forward, as social distancing measures are relaxed, we expect that some of the sectors that have been hardest hit will begin to show signs of normalization. Early signals will include spending on gas as people return to work and spending on deferred needs, such as health and personal care. We expect some sectors, particularly where there is pent-up demand, such as clothing, home improvement and domestic and intra-regional travel to normalize earlier. Other areas will take longer to respond. For instance, long-haul travel spending and mass entertainment. Trends in switched transactions are similar to what we are seeing in switched volumes, as they are impacted by the same factors for the most part. We are seeing an increase in the use of contactless and card present transactions, supported in part by the increased spending limits that we have facilitated around the world. We think this trend will continue.

Turning now to page 10, I would like to provide a little bit -- little more color on the cross-border trends we have seen recently. In total, if you look at the gray line, cross-border volume appears to be leveling off, down approximately 50% year-over-year, again, indicating the early signs of the stabilization phase. However, to get a better understanding of these numbers, the best way to think about cross-border is to split it between card present and card not present. Each accounted for about a half of our cross-border spend last year. Not surprisingly, if you look at the orange line, card present spend dropped significantly as the travel restrictions and social distancing measures were implemented and has since bottomed at a minimal level. So there is very little room left to see further deterioration.

On the other hand, card not present, which is the yellow line of the chart has been more resilient, down approximately 25% in April. However, you should know that this includes significant declines in online travel related spend. So looking at the green line, if you exclude online travel, you can see card not present spend is actually up approximately 20% in April, demonstrating the resiliency of this aspect of cross-border. So in summary, the normalization of cross-border spend is dependent on the relaxation of travel restrictions and returning to the growth phase is dependent on an improvement in consumer confidence that is in turn related to the availability of effective therapeutics and ultimately vaccines.

Turning now to page 11 and our outlook going forward. For net revenues, given current uncertainties, we will not be providing a forward view for either the second quarter or the year at this time. We do intend, however, to provide periodic updates to our operating metrics throughout the quarter to help you understand the trends we are seeing. Consistent with this approach, we are also withdrawing our 2019 to 2021 performance objectives at this time and we'll reconsider these as we have better visibility.

I do, however, want to make a few additional comments to help you with your modeling. First, with respect to cross-border, inter-regional travel has been more significantly impacted than intra-regional travel in Europe. As a result, an increased percentage of cross-border volume is made up of intra-Europe transactions, which are lower yielding than inter-regional transactions. Second, while some portion of our services revenue are linked to transaction levels, a significant portion of the revenue we generate from services is not. This helps our service lines diversify our company's revenues, something we expect to continue to benefit from over the longer term. Overall, we have seen strong demand for our data analytics and cyber solutions.

In the second quarter, we expect services growth will continue to outperform our core products. You should, however, expect the growth rates to come down sequentially in the second quarter, but remain positive overall. These declines are due to the dependence of some of our Cyber & Intelligence services on switched transactions, which we expect to be lower sequentially and the impact of social distancing measures on our ability to execute projects at customer sites, and will impact both the transaction processing and the other revenue lines. We would expect services-related revenues to accelerate, as switched transactions begin to normalize and mobility restrictions are relaxed. Separately, we expect rebates and incentives as a percentage of gross revenues to continue to increase sequentially, reflecting deal activity and amortization of fixed incentives over a smaller gross revenue base.

Now, turning to operating expenses, as Michael mentioned, we are managing expenses carefully to ensure we can invest strategic -- in strategically important initiatives. We have ramped up our efforts in this area and now expect operating expenses on a currency-neutral basis, excluding acquisitions, to decline at a low single-digit rate in Q2 versus a year ago. Other items to keep in mind. Foreign exchange is expected to be a 1 ppt headwind to revenue for the quarter and the year. Foreign exchange will be a tailwind to operating expenses to a similar extent. Acquisitions will contribute about 1 ppt to revenue and 6 to 8 ppt to operating expenses for both the second quarter and the year, assuming the transaction with Nets closes in the third quarter.

In the other income and expense line, we will now be at a quarterly expense run rate of approximately $100 million, given our recent debt issuance and prevailing interest rates. This excludes gains and losses on our equity investments, which are excluded from our non-GAAP metrics. With respect to tax, you should assume a tax rate of approximately 17% to 18% for the year, assuming the geographic mix of the business does not change significantly. Ultimately, as Ajay said, we will get through this. We are seeing early signs of stabilization and the impacts of fiscal stimulus. We are in a very strong position to navigate through this period of uncertainty and emerge well positioned to address the significant opportunities that lie ahead.

And with that, I will turn the call back over to Warren.

Warren Kneeshaw {BIO 16549173 <GO>}

Thanks, Sachin. James, we're now ready for the question-and-answer session.

Questions And Answers

Operator

(Operator Instructions) And our first question comes from the line of Craig Maurer with Autonomous. Go ahead, please. Your line is open.

Q - Craig Maurer {BIO 4162139 <GO>}

Yeah, thanks for taking the questions and especially for the additional detail, hope everyone is well. So wanted to focus on two things. One, if you could talk about the exit rate at April 21st? You know that saw a nice improvement. How much do you think is related to recent stimulus efforts and how sustainable do you think that is or dependent on continued stimulus efforts? And second, when we think about cross-border, I was hoping you could help us understand how much of that, the card not present, non-T&E cross-border spend is related to B2B versus consumer activity. Thanks.

A - Ajay Banga {BIO 4676567 <GO>}

Great, thanks. The first part, the part of our fiscal stimulus, while it's tough to exactly figure out what impact that's had, remember that only started to go relatively recently. And remember, that's a fair amount of money in the United States, but outside of the United States, which as you recall 65% of our revenue of 60%-plus comes from outside of the US and the trends when Sachin was speaking were that this third week of April and the continuing trend for the first few days of the next week are global and they're across every region. So I don't know if I could give you a clear answer, but I don't think you can assume that only the fiscal stimulus that's pouring through the system.

A - Sachin Mehra {BIO 15311008 <GO>}

Yeah. And Craig, it's Sachin. I'll just quickly add to that back to what Ajay was just saying. Right? So even beyond the week ending April 21, we've seen the same trends continue for the next few days coming into this week. Actually if you look around the globe and you start to see in various countries, where there is a slight relaxation taking place in terms of social distancing measures which were put in place as well as cross-border restrictions which are put in place, we're starting to see a little bit of that stabilization impact come through, for example, in markets like Italy, Germany, Poland, Australia -- Austria. We're seeing this come through. And so the point really being that as people start to get out and are getting back to, I wouldn't call it their normal ways, but getting back to being able to move around, we're starting to see that level of spend come through as well.

On your second question around cross-border, here is what I'd tell you. That cross-border, card not present excluding travel, that lift you're seeing, which is taking place in the third week of April, there are a few factors which are contributing to this. And you should kind of -- just kind of keep that in mind. One is timing of Easter globally is having an impact, but equally if not more important, what we're starting to see is the omnichannel prevalence coming through at various merchants across the globe. So with the crisis hitting, more and more merchants are coming to realize the importance of going into online channels. And as they're going into online channels, they've enabled themselves and they're starting to see the impact of that come through. Other categories where you're seeing some level of spend come through is in areas like clothing, in general retail, I would tell you, in subscription services, in the marketplace activity you're seeing. So you're seeing that come through in all of those metrics there. That's kind of the color I'd like to share with you as it relates to how we are seeing those cross-border trend -- card not present trends kind of play out.

Q - Craig Maurer {BIO 4162139 <GO>}

Thank you so much.

Operator

Our next question comes from the line of Bryan Keane with Deutsche Bank. Go ahead, please. Your line is open.

Q - Bryan Keane {BIO 1889860 <GO>}

Hi guys, good morning. I guess, I'm a little bit surprised or is it more variability in the rebates and incentives line with the lower volumes, why isn't there -- I know there is -- the contracts are structured and there is a little bit of more of an impact on a reduction in the rebates and incentives as volumes decrease. And then secondly just on cross-border and about the higher yields there and how it impacts margins. Maybe you can just give us some thoughts on that as well. Thanks so much and stay safe.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure. So, Bryan on rebates and incentives, you're well aware about how rebates and incentives are constructed. Right? So there is a variable component and there is a fixed component. And the variable component, which is there moves back and forth based on levels of volumes which are going through the system. The fixed incentives are fixed, they remain fixed. And -- so to the extent you're going to see variability is going to be on that variable component. The fixed piece is going to be there. The reality is in the first quarter, you can see from our volumes, we were still growing volumes in the first quarter and you're going to see the impact of that come through. The other aspect you've got to keep in mind is the impact of what I would call new and renewed deals. We had mentioned to you in our prior earnings call that -- and you quote about the various deals, which we've kind of entered into, you're seeing the impact of that come through on the rebates and incentives line as well. So really that's what you should kind of keep in mind as to what we're seeing there. Obviously, the variable component will change depending on where volumes ultimately trend out for the rest of the year. The fixed will be what it is.

The second question which you've got is around cross-border. I mean, we've tried to provide you as much transparency as we can as it relates to what we're seeing in terms of volume trends. I think the thing to keep in mind in cross-border is there are three different kinds of categories of cross-border. And there's what you will think about in the nature of intra-Europe cross-border, where -- which is generally lower yielding. Then there is the inter-regional cross-border. And I would break that up into two buckets. The two buckets are there is a long-haul inter-regional stuff and then there's the short-haul inter-regional stuff. And I'd bring that up only because even as you think about how we move from stabilization to normalization, you should think about the fact that you would expect intra-Europe and short-haul inter-regional to come back sooner than normal. And that's just kind of by definition. So for example, if you're in Europe and you can do ground transport between one country and the other country, that would happen more naturally as border restrictions are relaxed and you don't have to get on planes to go -- to the various locations. So that's the way you should think about it. From a yield standpoint, intra-Europe low yielding, inter-regional high yielding. So as inter-regional starts to come back, you've got to factor that into the mix in terms of how you're modeling.

A - Ajay Banga {BIO 4676567 <GO>}

One little comment about margin. I know you asked about cross-border margin, but remember our company has various aspects to its margin mix and one of those which is in -- was services, if you remember a few years ago when services were a smaller percentage of our revenue, their margin contribution was also lower and the average margin for our company. That is not the case today. Our services business, all the different lines in it together when you kind of conglomerate [ph] them and look at them, they're very profitable for us as they should be because scale allows us to leverage the fixed cost that we put into building those businesses over a larger volume. So I think as a company, we feel relatively good about where we are on margins. We feel good about some of the revenue diversification. Of course, cross-border is down today and it will be to some extent, as Sachin said, until long-haul intra and inter-regional kind of stuff fix up. That's obvious. And so, we're going to keep doing what we can to keep growing our business in the meanwhile.

Q - Bryan Keane {BIO 1889860 <GO>}

Okay, thanks so much.

Operator

Our next question comes from the line of Tien-Tsin Huang from JPMorgan. Go ahead, please. Your line is open.

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

Thanks a lot. Really thoughtful presentation. Just to follow-up to Bryan's question that rebate and incentive line. Would deal -- can we assume that deal activity, that side of it, could there be a pause there here as people sort through the pandemic or could it actually accelerate as we see some of your clients embrace contactless and some of your other products? And then somewhat related on the M&A front, it sounds like your appetite is up. Have your priorities changed because of the pandemic or have valuations changed such that you might have more deals in the opportunity set that weren't there before? Thanks.

A - Sachin Mehra {BIO 15311008 <GO>}

Thanks, Tien-Tsin. So on rebates and incentives, the point really is we're running our business as we would run our business. You know one of our imperatives is to grow market share. We're constantly interacting with our customers. We're going to do deals. We're going to do new deals. We're going to do new deals. That's just part of the course. And so what you're going to see come through is that activity and to the best I've done and the nature of visibility and pipeline and things which are going on, which is a pretty active pipeline, to be completely honest with you, we factor all of that in terms of how we share with you our kind of thoughts around where rebates and incentives will play out.

A - Ajay Banga {BIO 4676567 <GO>}

On the M&A side, Tien-Tsin -- and hi. It's -- let me put it this way. There are a couple of things, which we were looking at even before the pandemic hit. Those conversations are continuing and developing, and that's a good thing. There are others that will come up, I'm sure as we go along. I don't know that you should view us as jumping in just because valuations may go down. I think what's more interesting here is that the willingness of the other parties to be able to feel that they may be in a better home with a company like ours that gives them access to distribution, capabilities, geography and capital and liquidity are what creates for a better conversation. I view the valuation comment as interesting, but if all you do is jump and the valuations are down, is that really the kind of acquirer you want to be or do you want to be an acquirer of the right type for the right reason. And I think you will find us trying to find the right balance there and get the deals done for what value they bring to us. So we are keeping our powder dry to be thoughtful at a time like this.

A - Michael Miebach {BIO 22831201 <GO>}

And Tien-Tsin, Michael here. The areas of focus haven't really changed, so we're staying true to the strategy, data analytics, cyber, new payment flows, open banking, those are still top of mind for us as we engage in a manner that Ajay just described.

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

Right. Terrific, thanks so much.

Operator

Your next question comes from the line of Lisa Ellis with MoffettNathanson. Go ahead, please. Your line is open.

Q - Lisa Ellis {BIO 18884048 <GO>}

Sure. Good morning, guys. Glad to hear all your voices, glad everyone is well. Can you, and maybe this is for Ajay or for Michael, talk a little bit about -- this is related to cross-border and cross-border travel. As you are in dialogue with governments, your major issuing partners, your major co-brand partners, et cetera, what does the path to long-term recovery and cross-border travel look like like? So in your view, what conditions have to be in place under which you think you'll see both governments be willing to reopen borders and then also people be willing to get back on planes and start traveling? Thank you.

A - Ajay Banga {BIO 4676567 <GO>}

Yeah. Hi, Lisa. Nice to hear you guys' voice too. We kind of get a little lonely after this locked up thing here. So, here's the thing. What you're asking is the crux of -- a crystal ball issue that's a little difficult to get into. But let me give you some thoughts that I've picked over time. The first one is, I actually believe that what you will see that seems is happening in China is you will begin with -- China I think is in more of a normalization phase than, say, the United States and Europe that is more in a stabilization phase. Although, even there, if parts of the US begin to open up as we're hearing some governors speak, you may see a change in that over the next two, three, four, five weeks. I just don't yet know how to predict that well.

But let's stick to the idea of with China being in more in the normalization phase than the rest of us. There is a long journey for China through that phase. It's not done, they've just begun. But their local travel has begun. Trains have got bookings. Planes locally have got bookings. Restaurants and bars are open in Shanghai and Beijing and Guangdong and places. Wuhan is still challenged. So, that's -- we are learning a little bit from China's experience here. And now you got Australia and New Zealand beginning to think of opening up, so I think we'll get some more data from countries that are a little ahead of the curve than the rest of us.

Talking about cross-border travel, China is beginning to talk about corridors of cross-border being opened up, which is to your question about does the government feel comfortable about what kind of connections with certain countries they can reopen. So they're talking about reopening traffic obviously to Hong Kong and Taiwan and Singapore. We're also at a point of time they were thinking about Japan, which has since been a little more challenged, but Japan seems to be improving as well. So I think what you'll find is cross-border travel in corridors or within Europe, which will open first before you get situation of longer haul going. There is the issue of planes having been grounded for quite a while, of crews and planes having to be reactivated. That will also take its own time to come through. The airlines are obviously watching this very carefully and they are very keen to get back on stream, but they need to see some bookings. We know that in domestic in the United States, the TSA actually cleared more people through their security systems over the last day or two than they had for the previous couple of weeks.

Now, that's at a very low level compared to the peak that we saw prior to the crisis, but that's all indicators of how this will get back into shape. I don't know. My general view in life is that we will probably end up with a reliable therapeutic somewhere over the summer, whether it's available in large enough quantities across the entire world literally for those who are disadvantaged, I don't yet know. So the work that we have seen with The Gates Foundation work and with a bunch of others seems to point in that direction. I suspect the availability of the therapeutic will be some kind of a inflection point in the curve.

The fact is that without a real vaccine, can you actually get people confident about getting on to long-haul planes and can you get countries confident for letting people in from another country at that point of time without testing them and quarantining them in their entry point. I don't know, I don't think so. And so to me, that probably is still sometime next year, unless there's a miracle and we find a vaccine earlier, which I don't have good scientific reason to believe.

So we're kind of running the company through this stabilization, normalization and growth phase, and we are preparing ourselves to have our expenses and our view of the medium and long-term very focused through these lenses. And I think that's what you'll see us doing. We're pretty confident on what we are trying to do here. We are confident about our deal flow, we're confident about our competitive advantages to keep growing share and working well in debit and working with fintechs and real-time payments and open banking and what we're doing with services and digital analytics and cyber security. So I have a lot of faith in what we're up to, but I don't know how to tell you when cross-border will come back.

Q - Lisa Ellis {BIO 18884048 <GO>}

Okay. Yes. Fair enough. On a related point just for my follow up that the non-T&E cross-border e-commerce I think is a little bit of a black box at least to us. Can you just comment generally speaking what the composition of that is, like meaning, does it moves and grow in similar ways to domestic e-commerce like non-T&E e-commerce or are there aspects of it that are similar or different like certain regions or certain -- is it more media heavy than retail heavy, is there anything unique or comments that you can give about that? Thank you. Thanks a lot guys.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure. Sure, Lisa. I'll take that question. Look, I mean, I think first you should recognize that's not an insignificant portion of what the cross-border component is. So it's actually a pretty meaningful portion of the card not present component.

A - Ajay Banga {BIO 4676567 <GO>}

We're trying to stay away from giving you a percentage regarding (inaudible) good try. But that is very good try. Very good.

Q - Lisa Ellis {BIO 18884048 <GO>}

That's all right. We're already doing all the math on the little lines on chart 10.

A - Sachin Mehra {BIO 15311008 <GO>}

Let me give you a little bit of color what that comprises of. Right? I mean, there's a whole bunch of stuff, as you would imagine in that, which relates to everything from subscription services, to gaming, to purchases in clothing, appliances, there's all the stuff which kind of sits in that category. So to your point about whether it's more akin to what you would see in card not present in the domestic environment, it's actually some very similar categories would sit in there. The one point I want to make sure that I kind of bring out is we are starting to see a lot of the smaller merchants who were previously not present in the online environment activate themselves to get ready to participate and are actually participating in the online environment. We're starting to see that come through.

A - Ajay Banga {BIO 4676567 <GO>}

I mean, you see it in your daily life right now, right Lisa? People who never provided food and grocery delivery online are all getting online in the last 3.5, five weeks in the United States alone. And that's a big change from before the crisis. That's true for cross-border as well.

Q - Lisa Ellis {BIO 18884048 <GO>}

Wonderful, thanks guys. Glad everyone is healthy and safe. I mean that.

A - Ajay Banga {BIO 4676567 <GO>}

Thank you.

A - Sachin Mehra {BIO 15311008 <GO>}

Thank you.

A - Michael Miebach {BIO 22831201 <GO>}

Thank you.

A - Ajay Banga {BIO 4676567 <GO>}

So far.

Operator

Our next question comes from the line of Darrin Peller with Wolfe Research. Go ahead, please. Your line is open.

Q - Darrin Peller {BIO 16385359 <GO>}

Hey. Thanks, guys. Glad everyone is doing okay. Look, it's I think more than second quarter, which -- or even recent trends, which a lot of investors are looking through. It seems clear there has been -- there is going to be impacts from this that have a more pronounced impact longer term structurally. And so, can you guys just talk through with us if we think of the benefit -- the beneficial opportunities from coming out of this, which may include contactless being more accelerated or use of real-time payments versus the potential for things like cross-border to be maybe structurally changed, what are your thoughts of sort of netting it all out? If you just list off what you are seeing accelerated now and can structurally be something that could actually help the payments industry and you guys more pronounced near-term, is it enough to offset some of the potential challenges of folks that may not travel as much?

A - Ajay Banga {BIO 4676567 <GO>}

As you can imagine, Michael is kind of devoting his attention to that, that's his future. So here he is. Michael, go ahead.

A - Michael Miebach {BIO 22831201 <GO>}

Thanks, Ajay. Hey, Darrin. So when we look at what is changing in terms of, let's say, consumer behaviors or business behaviors, it is little early. As you were saying, it's a little earlier to cast a vote on when and how travel is coming back, but we are engaging out there trying to understand commissioning research, all of that. But there is a few things that are pretty obvious, pretty clear and they're coming through in the numbers already, at least on a relative basis. And the first is this push to e-commerce and digital. So here, people are getting used to, let's say, virtual entertainment, e-sports, people are getting used to consuming via delivery service, while they might have gone outside before, so there is some behavior patterns moving towards digital and we believe that will continue to persist. So anything that we do that's related to our digital capabilities, be it in the cyber space, be it in our underlying digital solutions, we should benefit from that. We look at that as a continuous tailwind. Even for the displacement of cash, it's not only displacing existing electronic payments, there's a net increase that we explained -- that we expect versus cash.

Now, talking about cash, one other thing that I expect coming out of this is that the attitude towards cash will be more negative than what it was before. But even in the most hold out countries, I gave you the example on the German cooperative banks earlier, you start to see a shift to online in e-commerce away from cash even where you could use cash. And that is, to your question Darrin, clearly contactless is going to be the way that will help benefit from that trend. The numbers are astounding, the last quarter 30% to 40% increase. That's really quite significant. The first rounds of consumer research tell us that people do want to spend less cash -- are spending less cash actually right now. We've just done a study in the United States, where 60% of people said exactly that. So anti-cash, more contactless is going to be something that we'll benefit from.

Looking a little closer into our ecosystem, so directly our customers. So this -- these underlying trends will also change some of the behaviors there. We believe that our current exposure from our services portfolio into the world of data analytics, it's a more complex world, there is going to be more change. Everything I just talked about might evolve in 10 different ways going forward, understanding that and using our data points and data analytics will matter more, so we'll expect more demand there. And then Cyber & Intelligence, this world, a world of more online, more of -- world of more digital economy is only going to drive what we do in that space.

The question in a world of more digital on who is actually transacting the question of digital ID is a significant opportunity. We had an early start on that and we perceive that to be something that is going to get a lot of our attention going forward. Ajay talked about the government role in getting through the crisis, stimuli packages and so forth. What we expect as a result of that is that the interest that we saw from governments over the last couple of years to look at payments as critical national infrastructure is going to only increase because if the economy is more digital, you will see more governments taking an active role, a multi-rail position will give us a seat at the stable and we already have that dialogue going and we'll see that coming strongly out of that. So those are the top lines that I think are obvious, more granular consumer behaviors, we're staying close, we're running a bunch of research right now to get the latest on that.

A - Ajay Banga {BIO 4676567 <GO>}

And the only thing I'd add there is that if you -- in a time like this, and it's clear that those who are suffering much worse than others, everybody is suffering. Those who are suffering much worse are those who had less to start out. Getting the economy somehow working better for inclusion when we come out of this I think will become an even more important issue with governments and with thinkers around the world. It's not a coincidence that it's the midst of August. We've announced our commitment to go from $500 million to -- which we've reached to a $1 billion over the next two years. 50 million small businesses in that and 25 million women entrepreneurs is what we're going to try and reach as a company to facilitate their ability to participate in a better way in the economy as it comes out of COVID. There's a reason why this is a really good time to double down on thinking of that time. We've shown we can do it because we've demonstrated the $500 million. We think we can do even more.

A - Michael Miebach {BIO 22831201 <GO>}

Hey, Darrin, one last point. One last point that I feel particularly passionate about, and that's the B2B space. So we've been talking about B2B as a significant opportunity for a number of years now. So when you think about the impact on global supply chains and so forth, what we expect is that the drive towards digitization of supply chains and creating more flexibility is going to only increase. So we believe there's going to be some tailwind in accelerating the -- our participation in B2B flows as well.

Q - Darrin Peller {BIO 16385359 <GO>}

All right. That's really helpful, guys. Thank you.

Operator

And our next question comes from the line of Jason Kupferberg with Bank of America. Go ahead, please. Your line is open.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Hey. Good morning, guys. Good to hear from you. Just wanted to talk a little bit about interchange rates and network fees. I think you had already announced plans that some of the interchange rate updates in the US were going to be delayed until July, if I'm not mistaken. Is that still the plan or should we assume the changes in either interchange or network fees for that matter are perhaps off the table this year just to help merchants from experiencing even more pressure amid the COVID environment?

A - Ajay Banga {BIO 4676567 <GO>}

Just to be clear, interchange rates, the changes were not just about increasing interchange. We were talking about categories of merchants would have different changes to their interchange, just to be clear. So the reasons that those haven't gone through is because they were linked up with a whole bunch of technology releases and right now the real challenge for any merchant, any bank who is trying to navigate their way through this with most of their people working out of home or from home or with people struggling to meet the new business models is they don't need new technology changes in the midst of this. So what we decided to do was to postpone all that. I have no idea when we'll do it again, not fixed yet, depends a little bit on how the environment goes and that's how we'll manage through it.

Q - Jason Kupferberg {BIO 6867809 <GO>}

And then Ajay just wanted to get your quick thoughts. What you've got in terms of the shape of the US recovery?

A - Ajay Banga {BIO 4676567 <GO>}

My gut should not be expanding these days, I'll try to exercise.

Q - Jason Kupferberg {BIO 6867809 <GO>}

You and me both.

A - Ajay Banga {BIO 4676567 <GO>}

I question that. It's not worth it. So not leading towards ice cream. But US recovery. Back to what I was telling Lisa a little bit, I think it all interconnects there. I actually believe that, and this is just a guess, but I believe that the next couple of quarters, you will begin to see the United States as states open up come a little bit out of this stabilization phase into the normalization phase. I do believe that the therapeutic will help enormously. I believe that Americans are actually quite resilient and their ability to sort of want to go back to being who they are, which is essentially social beings who like being with each other will lead to a certain kind of behavior pattern. We need to do it carefully because the probability post summer, if you believe, those who know the science, the probability post summer of this having some kind of a recurrence hopefully at a lower level, we'll be better prepared and we'll have the therapeutics and our hospitals will be in better shape and our reaction plans would be in better shape. I think that would probably be what happens, and so you'll see some such things come and go. And I think then by the time the year end comes around and people have been through that phase, we'll probably see more confidence. And if by then the news of the vaccine front is good, then you will see a better improvement in the early part of next year, going into the middle and latter part of next year. That's the way I think about it. I don't think we are in this in the short-term. I think this is a medium term thing to plan for. I believe that's how you should build your business and manage your liquidity and think about your employees and clients and shareholders at this point. And that's how we are running our company, in those four phases and we're all talking that language, so that our budgeting, our expense thinking, Michael's drive on prioritizing what we do and what we don't do is unbelievable. And I think that's part of what we're trying to focus on and stay focused with this four-phased thinking. It helps us all talk the same way. Otherwise when you're a global company and China is in a different state from the United States, you know what, it's very confusing to understand underlying trends. But now, we're not confused. We call them in one stage and after a different stage, we'll see how we go.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Thank you. Appreciate it.

A - Ajay Banga {BIO 4676567 <GO>}

Thank you.

Operator

And our next question comes from the line of Ramsey El-Assal from Barclays. Go ahead, please. Your line is open.

Q - Ramsey El-Assal {BIO 17528014 <GO>}

Hi, guys. And thanks for taking my question. I wanted to ask a question on China and your news that you're sort of -- things are progressing there in terms of your ability to get into the domestic market. Putting aside COVID impact, looking to sort of a future state maybe where things are more normalized, are -- how crystallized are the kind of partnerships and infrastructure that you need to generate revenue in that market? Have you kind of put pen closer to paper in terms of your -- and can you comment on your kind of strategy and even tactics that you're going to need to kind of deploy to begin generating revenue in the market?

A - Ajay Banga {BIO 4676567 <GO>}

Well, first of all, we've already got a great business in China and that's generating revenue today even though the --

Q - Ramsey El-Assal {BIO 17528014 <GO>}

I meant, domestic. I meant -- absolutely, yeah. Yeah.

A - Ajay Banga {BIO 4676567 <GO>}

Domestic, yeah. Okay. So we -- because otherwise in the current business, we're outperforming on new card growth, the new cards per share, we're doing programs with a bunch of people, we've even done something with the Shanghai Metro, which is a little more oriented there where the first transit deal actually in China is with the Metro. It's the world's third largest software system by the way, by passenger traffic volume and that's rebuilt up over the last few days. Now, we're going into third quarter this year, tens of millions of international travelers to Shanghai, which I hope there will be, will be able to pay at the fare gates with QR codes using their Mastercard in a Shanghai Metro app. That's the kind of work we're doing, not just bank issuance, but actually enabling a lot of the activity that enables us to be embedded in the payments ecosystem in China.

The domestic one. We are deep in the process of this year post getting the license application in principal approval. Over the course of a year, we will go through all kinds of things, including national security evaluation of the technology and the infrastructure on the ground, that work is progressing at pace. We have not hit that, we are not turning back on that. That's our medium and long-term future and we are keeping on running with that. There is nothing new I can tell you on that because that's like it will take it's time, it will take time to work it's way through. It's still a year away. And Mike will probably has some more to add.

A - Michael Miebach {BIO 22831201 <GO>}

Yeah. And Ramsey, the conversations with our existing partner on cross-border obviously extending into domestic partnerships and most importantly one thing that we're using this time for while we do the technology development with our partners of NUCC is driving up the acceptance. So currently, our team is out there in the market very actively ensuring that our acceptance footprint is as good as it can be once we get approval from the PBOC to go live. So that's really the focus.

Q - Ramsey El-Assal {BIO 17528014 <GO>}

That's super helpful. I didn't know you could actually be in there selling acceptance side, so that's good to know. Thanks for giving the color.

A - Ajay Banga {BIO 4676567 <GO>}

That work has been going on. That's exactly what we're focused on because remember Mastercard acceptance in China used to be principally driven by the cross-border demand for it, which meant it was by the nature of the beast in certain markets, certain kinds of verticals. What we're doing is getting it out there into where it should be, so that it can become a real payment system domestically as well.

Q - Ramsey El-Assal {BIO 17528014 <GO>}

That makes a lot of sense. Thanks.

Operator

And our next question comes from the line of Harshita Rawat with Bernstein. Go ahead, please. Your line is open.

Q - Harshita Rawat {BIO 18652811 <GO>}

Hi, thank you very much for taking my question. So can you please zoom in further on travel and provide some color on your area of exposure on tourism versus corporate travel? And also just very curious based on all the research, et cetera, you're doing and what your customers is paying. What are the different scenarios we could be looking at here in terms of corporate travel being just very weak long-term, with tourism becoming a little bit faster? Thank you.

A - Ajay Banga {BIO 4676567 <GO>}

Well, you get two kinds of points of view. You'll get one point of view that says corporate travel will take a long time to bounce back and actually people will begin to travel on a personal basis at least intra-region and in those corridors I was referring to earlier. And the other point of view is that actually when business will start interacting again, how you rebuild supply chains, how do you rebuild business connectivity, you will need to have a degree of corporate travel recommence. And prior analytics don't serve well right now because prior analytics never had a shutdown of so long. Even 9/11, it was a few days of impact to travel of this type and then it came back. Even the financial recession that we went through in '08, '09 didn't have this kind of a shut down. I mean, oil demand in the world in the financial recession went down in the single-digits, it's down 30% right now. So we are talking of very different scenarios. I'm lost to give you a -- sort of an analytic view from prior times, prior times frankly corporate travel came back very quickly and personal travel came back a little slower. I don't know what will happen this time. Not sure yet.

Q - Harshita Rawat {BIO 18652811 <GO>}

Thank you.

Operator

Our next question comes from the line of Sanjay Sakhrani from KBW. Go ahead, please. Your line is open.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thank you. And nice to hear that you guys are doing well. I guess, I have one question and a follow-up clarification. When we think about the scope of cost containment efforts, where exactly are you guys? I'm just trying to think about how we should think about the progression of cost saving opportunities if things get worse or things get better. And then I'll just ask the second question upfront -- or second now. In terms of the relationship wins that are affecting rebates, is there a revenue contribution that comes in this year or is that more spread out over multiple years? Thank you.

A - Sachin Mehra {BIO 15311008 <GO>}

Yeah. Sanjay, I'll take -- I -- actually, I'll start with the second question first and then we'll get on to the expense piece. So on your question around the relationships, which we're either renewing and/or building new relationships with, look, you've got to think about it in the context of things which are existing customers, you probably will start to see the revenues -- we're already seeing the revenue of that come through. And to the extent that expand in deals, you will see the revenue of that come through on a sooner basis than you would see in the nature of new relationships, where you're flipping portfolios or you're starting a de novo program or something of that sort. So I think it's a little bit of a mixed bag, so you see that kind of come through. I don't see the trend on that by the way being any different than what we've done historically. When we signed deals in the past, whether they're new deals or renewals, that pattern is pretty much what we're expecting on a going forward basis.

As it relates to operating expenses, let me just give you a little line of sight as to what's going on from an operating expense standpoint. And I know Michael will share a little bit more about the various areas we're focused on. First, specifically as it relates to the numbers, you can see based on my comments earlier that in the second quarter, we are sharing our thoughts around how we are looking to take a decline in our operating expenses in the low single-digits range and that's a ramp-up from where we were obviously in the first quarter. I would tell you longer term the way you should think about expenses is the following. We have flexibility in our expense base, we're going to do the smart thing, we're going to do the prudent thing. What we don't want to do is jeopardize the long-term growth prospects of this company. We will remain nimble depending on how the economic environment is playing out and we'll exercise that prudence from an expense standpoint across the various line items as are appropriate as part of that process.

A - Michael Miebach {BIO 22831201 <GO>}

Yeah. And then Sanjay, that was a pretty comprehensive answer. But just one thing I want to say is I called it out earlier, the two guiding factors are not only the long-term growth and the strategic investments, also market readiness and customer demand. So we would not be going out right now with something that the market is not ready with because everybody's busy addressing COVID-19 and what they should do about it. So there is a couple of initiatives like that that we are deferring basically and we are keeping our broader tie to bring them back to market as and when needed and customer demands the other thing. Right now, we see huge demand for investments into improving -- further improving what can be done on the cyber, so we continue to double down there. But you can imagine like promotions in the travel space is just not what is a sensible thing to do right now. So that's kind of how we think about it. Customer demand, market readiness and then keeping the strong -- the long-term stuff in mind and I gave you the categories earlier.

A - Warren Kneeshaw {BIO 16549173 <GO>}

All right. I see we're practically at end of allotted time. So Ajay, any final comments.

A - Ajay Banga {BIO 4676567 <GO>}

Thank you all for your questions. I want to wrap up with a few closing thoughts. I know we kept you a little longer than usual, but there's not mistaking that COVID-19 has created a tough environment, but you can see that we are beginning to get to the early signs of stabilization. We believe our diversified business model will allow us to successfully navigate this and capitalize on opportunities as we come to normalization and ultimately back to growth. We are carefully managing our expenses. So we will continue to invest in the areas that differentiate our company and enable us to deliver on our grow, diversify and build strategy. So you should see us doing things like in services such as data analytics and Cyber & Intelligence that we think drive real value for our customers, they diversify our revenue base, they enable us to win market share. Or in digital solutions, like our gateway and digital debit products that enable e-commerce. Or in account-to-account capabilities, including most importantly our real-time payment rails that help us to address new payment flows and some ideas in areas which we've been investing in for a while, like open banking and digital identity. I don't have a crystal ball, you could see that I couldn't answer some of your questions about where this could go, but I do think we will see certain trends will stand out. The world will be more digital and the secular shift to electronic payments will accelerate. There will be a deeper focus on cyber security and data analytics. Cross-border activity will come back, but in phases over time. And importantly, governments will increasingly be open to partnering with the private sector in areas where we bring clear value, real-time payments and cyber security and identity services are examples of that very open view of partnership. We are heavily invested in these. We are focused on these. And as Michael said a little while back and Sachin and I did before that, we have no doubt we will be well prepared to capitalize on these opportunities as they come our way. So thank you for your continued support of the company. Be safe, be well. Thank you for joining us today. I'm looking forward to actually being able to see people and shake hands and give somebody a hug once in a while once we get past this. Thank you very much.

A - Michael Miebach {BIO 22831201 <GO>}

Thanks, everyone.

A - Sachin Mehra {BIO 15311008 <GO>}

Thank you. Bye-bye.

Operator

This concludes today's conference call. You may now disconnect.