

Q3 2023 Earnings Call

Company Participants

- Jennifer Como, Senior Vice President and Global Head, Investor Relations
- Ryan McInerney, Chief Executive Officer
- Vasant Prabhu, Vice Chair, Chief Financial Officer

Other Participants

- Andrew Jeffrey
- Ashwin Shirvaikar
- Bryan Keane
- Craig Maurer
- Dan Perlin
- Darrin Peller
- Harshita Rawat
- Jason Kupferberg
- Ken Suchoski
- Lisa Ellis
- Ramsey El-Assal
- Sanjay Sakhrani
- Tien-Tsin Huang
- Timothy Chiodo

Presentation

Operator

Welcome to Visa's Fiscal Third 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. If you have any objections, you may disconnect at this time.

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, Jordan. Good afternoon, everyone, and welcome to Visa's fiscal third quarter 2023 earnings call. Joining us today are Ryan McInerney, Visa's Chief Executive Officer; Vasant Prabhu, Visa's Vice Chair and Chief Financial Officer; and Chris Suh, Visa's Chief Financial Officer-Designate.

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 Forms 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>}

Good afternoon, and thank you for joining us.

Our financial performance in the third quarter of 2023 was strong, with net revenues up 12% year-over-year. Non-GAAP earnings per share was \$2.16, up 9%. Overall, our global quarterly payments volume was up 9% year-over-year. In the U.S., quarterly payments volume was up 6%, as expected, primarily due to moderating inflation. Outside the U.S., international payments volume was up 12%. Excluding intra-Europe, total cross-border volume remained strong, up 22%, with cross-border travel volume at 136% of 2019. Process transactions grew 10% year-over-year.

As I mentioned on our previous earnings call, my priorities are focused on doing everything that we can to accelerate our growth by executing our strategy, including supporting our go-to market teams, delivering for our clients, shipping innovative products even faster, and selling our solutions even more effectively.

With those priorities in mind, I would like to review our progress across our three growth levers, consumer payments, new flows, and value-added services. We continue to make great strides growing and expanding our consumer payments business, winning with new and existing clients, and shifting volume to Visa from a wide array of local, regional, and global competitors around the world. Our clients tell us they're choosing to deepen and expand their partnerships with us for a number of reasons, including our people, our products, our value-added services, our new flows, and our brand.

I'll share a few examples. First, our people. We consistently hear from our clients that they deeply value the advice, local support, and partnership they receive day in and day out from our outstanding team members around the world. They also appreciate our thoughtful industry leadership on important and complicated issues across the ecosystem. In fact, in our latest global Net Promoter Score survey, our clients rated us a 73.

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In the U.S., we retained our position of serving 8 of the Top 10 credit unions by recently renewing one of the largest players in the space, Pentagon Federal Credit Union. While there are many reasons for our success with PenFed, our people and our local market relationship model made the difference, just like it has for over 350 U.S. community bank and credit union renewals this year to date.

Payments is a local business, and our priority to invest locally with great talent has paid off. For example, across Eastern Europe, Intesa Sanpaolo will issue Visa Debit in Croatia, Hungary, Romania, Slovakia, and Slovenia, representing over 3 million Visa credentials. Second, our payment products and innovations consistently help us win. Our clients tell us they choose Visa, because our innovative products help ensure they are delivering leading-edge payment solutions to their customers.

For example, in Korea, we recently renewed our partnership with Hyundai Card. As part of our new partnership, Hyundai will be taking advantage of our digital payment solutions like data and analytic services to launch a series of new innovations. Hyundai will grow their share of Visa cards in credit and debit for consumer and business. Our innovation also comes from targeted value propositions in traditional products. And we are very pleased to have signed a new long-term partnership with the NatWest Group for consumer debit and credit.

The third, our value-added services are helping us win in consumer payments. Our value-added services such as consulting and analytics, AI driven data solutions, risk solutions, and processing are a critical differentiator that helps our clients innovate and grow often without having to use their most scarce resources, technology and engineering.

For example, Rakuten Card, a subsidiary of Rakuten Group, which operates the largest e-commerce marketplace in Japan, has signed a new credit deal with Visa to further their strategy to become a top global player. As part of our partnership, Rakuten Card will utilize Visa's processing capabilities and dedicated Visa consulting, data science, and analytics teams to support them on strategic initiatives.

Fourth, our new flows capabilities. Increasingly, our new flows capabilities such as Visa Direct are an important differentiator to our clients when they're making consumer payments decisions. A great example is Cash App. With 53 million monthly transacting actives, Cash App has renewed and expanded its agreement globally, encompassing card issuance, Visa Direct, and value-added services.

And last, but certainly not least, our brand. In many cases, our clients ask their customers, which brand do you prefer? Would you spend more if we issued this brand or that brand? And our clients consistently tell us that consumers overwhelmingly prefer Visa. We see this particularly play out with co-brands. For example, for many of the largest airline co-brands in the world, we remain a partner of choice. And we recently renewed with Korean Air and signed a new agreement with Breeze Airways.

We also won the co-brand portfolio with Allegiant Travel Company, the parent company of Allegiant Air. In addition, in Latin America, we expanded our relationship with LifeMiles,

Avianca's Frequent Flyer Program from our existing portfolios in nine countries with 18 issuing banks, to an additional four countries in the Caribbean region. And finally, we signed a co-brand agreement with Indian conglomerate Adani, serving 400 million customers through retail, airports, and online travel services, among others.

Let me now turn to new flows, again, with a focus on how effectively we are delivering on our priorities. Total new flows revenue was up 20% in constant dollars. Commercial volumes increased 9% in constant dollars to total \$405 billion. In terms of how we go to market, we are focused on adding commercial products to our existing consumer relationships.

PayBank[ph], a leading bank in Thailand has renewed its relationship across debit and co-brand, as well as signing a new deal to launch a new business debit card to serve SMEs and microbusinesses. Porto Seguro, a key Brazilian FinTech client already leveraging our consumer credit and prepaid and commercial prepaid products, will expand in the commercial space with the launch of Visa Business credit for their base of 28 million clients.

As we do in the consumer space, we are also constantly working with commercial clients as a strategic partner to develop and deploy unique and innovative solutions. A recent example is with SAP, the global market leader in enterprise application software, which has signed a deal with us across multiple countries in Asia-Pacific.

We will integrate Visa's virtual card and business solution payment provider capabilities into SAP's business technology platform. SAP serves more than 46,000 customers across Asia-Pacific. This deal will create an embedded finance solution for their customers to make B2B payments helping to improve their working capital positions and enhance their supply chains.

For Visa Direct, third quarter transactions grew 20% and were \$1.8 billion. In Latin America, we had a bank client transition its on-us domestic P2P transactions to an internal ledger system. And while it could be impactful to our transactions over the next several quarters, the impact to revenue is expected to be minimal. At the same time, for their other transactions, this client will continue to utilize our interoperability capabilities provided by YellowPepper.

I'm very excited about Visa Direct, particularly as we enter new markets and increase our cross-border presence. Recently, we have expanded or entered several key markets, including in France with Lydia, the leading P2P provider with over 7 million users. We renewed our issuance relationship, and we have signed a Visa Direct deal to enable their users to top-up their wallets using an eligible card.

In Bolivia, with FinTech Libelula's new app called Lula, Visa Direct will be enabling domestic P2P transactions within the app, and YellowPepper will be providing alias directory services. In Mexico, with FinTech Alchimia Pay, Visa Direct will enable B2B cross-border supplier payments for thousands of SME clients in industries including textiles,

software, hardware, and electronics across multiple corridors, and we've also continued to expand corridors with important cross-border partners.

For example, Revolut, with over 30 million users has expanded its remittance service with Visa Direct to 89 markets after just launching in July of 2022. Similarly, TransferGo, a cross-border provider in the UK, serving 6 million customers, has expanded its Visa Direct-enabled corridors from 32 in 2020 to over 160. New flows continue to be an important part of Visa's growth story and our teams are effectively selling and activating our solutions.

Now, I will touch on value-added services. Our go-to-market approach remains focused on three growth areas: deepening client penetration of existing products, expanding geographically, and building and launching new solutions. Unlike our core business, our growth in value-added services is often driven by selling a larger number of smaller solutions. This quarter, we succeeded in selling more than 300 new issuing services, 600 new acceptance services, and almost 500 new risk and identity services, in some cases, even within the same client.

Our sales teams continue to work day in and day out with our clients to understand and resolve their pain points and realize new growth opportunities. Altogether in the third quarter, we generated \$1.8 billion in value-added services revenue, up 19% in constant dollars. A couple of examples of new value-added services to highlight this quarter.

First, our partnership with Pay.UK, the account-to-account payments operator in the UK was recently announced. We will be piloting our new fraud capability, RTP Prevent, which is uniquely built for instant payments with deep learning AI models. Using RTP Prevent, we can provide a risk score in real time, so banks can decide whether to approve or reject a transaction on an RTP network. This is a great example of building and deploying entirely new solutions and our network of network strategy.

Second, our recent announcement of our definitive agreement to acquire cloud-native issuer processing and core banking platform, Pismo. We believe that Pismo will allow us to strategically serve our clients through additional capabilities with core banking ledger and issuer processing through cloud-native APIs, additional geographies with operations in Latin America, Asia-Pacific, and Europe, and additional products with credit, debit, prepaid and commercial cards as well as connections to local networks, including Pix in Brazil.

From a network perspective, issuer processing and core banking have become important elements to support issuers, activate card credentials, and distribute value-added services. The transaction is subject to customary closing conditions, including applicable regulatory reviews and approvals, and is expected to close by the end of 2023.

To wrap up, over the last few months, I have traveled across the globe meeting with clients, partners, and regulators, and I continue to see enormous opportunity and momentum. Our brand, capabilities, innovation and partnership approach continue to position us well for Visa's future growth. But the most important aspect is our people.

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And with that in mind, I would like to welcome the newest member of our Executive team, Chris Suh, who will become Visa's Chief Financial Officer on August 1st. Chris brings to Visa more than 25 years of finance leadership experience from global high-growth companies. His deep experience in finance and technology, plus his leadership in growing and scaling businesses will be extraordinarily valuable to us as we continue to drive growth and better serve our clients and customers around the world.

Plus, as I'm sure you will soon learn, Chris is a real hands-on business builder with a passion for technology and an intense focus on people who will fit in well with the culture of Visa. I've asked Chris to join the Q&A portion of our call today, but please remember, he isn't our CFO for a few more days.

Before the Q&A, let me hand it over to Vasant to provide financial highlights for the quarter and our thoughts on the rest of the year. But first, Vasant, I know I speak on behalf of all of Visa and our investors that we are deeply grateful to you for your outstanding strategic and financial leadership. I have worked shoulder-to-shoulder with Vasant for the past eight years, and I continue to be in awe of him. He is a world class CFO. And if there is a CFO Hall of Fame, I am confident he will be a first ballot inductee. Vasant, we wish you all the best.

So for likely the last time on an earnings call in your career. Over to you, Vasant.

Vasant Prabhu {BIO 1958035 <GO>}

Thank you, Ryan. Good afternoon, everyone. Fiscal third quarter net revenues were up 12% and GAAP EPS, up 25%. Non-GAAP EPS was up 9%. In constant dollars, net revenues grew 13% and non-GAAP EPS grew 11%. We have now lapped the impact of Russia. A few key highlights.

In constant dollars, global payments volume was up 9%[ph]. Indexed to 2019, global payments volume was up 48%. U.S. payments volume was up 6% year-over-year, consistent with expectations, and stable since March. Transactions growth has remained steady at pre-COVID levels of 8%. Average ticket size is down 2%, largely due to declining fuel prices and the general moderation of inflation across multiple categories.

Relative to 2019, U.S. payments volume was up 54%. International payments volume growth was up 12%. The uptick in international payments volume since the last quarter is the result of lapping the discontinuation of Russian operations. Relative to 2019, international payments volume was up 43%. The cross-border travel recovery continues at the pace we expected, with volume ex-intra-Europe indexing at 136 versus four years ago, a six-point improvement from the second quarter.

Summer travel across most regions picked up with travel in and out of Asia seeing strong gains along with travel inbound to SEMEA and outbound from Europe. Travel into the U.S. is still hovering at 2019 levels.

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Our new flows and value-added services businesses continue to grow at almost 20% in constant dollars. In the third quarter, we bought back approximately \$3 billion in stock at an average cost of \$229.19, and distributed \$937 million in dividends. We also added \$500 million to the litigation escrow account, which has the same effect as a stock buyback.

Now on to the details. In the U.S., credit grew 5% year-over-year, debit grew 6%, generally in line with March growth rates, post the uptick in January and February due to lapping of Omicron in 2022. U.S. card present spend grew 3%. Adjusted for fuel, which saw a significant price increase last year, U.S. card present spend was up 5%. U.S. card not present volume excluding travel grew 8%. U.S. process transactions growth was stable at 8%.

The step down in U.S. payments volume growth since March was driven by a 2% decline in average ticket size. When we look at spend by category, ticket sizes are declining most significantly in fuel, and to a lesser extent in retail goods, travel, and food and drug. As you know, fuel prices spiked last year due to the Ukraine war; travel prices spiked as the world reopened post-Omicron; goods prices spiked due to supply chain bottlenecks and commodity inflation. Excluding these four categories, average ticket size growth is positive.

Consumer spend across all spend bands, from affluent to low spend, remains stable since March. Our data did not indicate any behavior change across consumer segments. Putting all this together, we continue to believe that the primary driver of the step down in U.S. payments volume growth since March is moderating inflation and that the consumer has remained resilient so far.

Moving on to international markets. In constant dollars, international payments volume growth rates were strong through the quarter in the major markets. Latin America was up 20%. Our SEMEA region grew 28%. We're now lapping the impact of Russia. Europe was up 10%. Excluding the UK, Europe volumes grew 23%. Asia-Pacific, excluding China, grew 12%. Global process transactions were up 10%. Constant dollar cross-border volumes, excluding transactions within Europe, were up 22% year-over-year, up 49% versus four years ago.

Cross-border card not present volume growth, excluding travel and excluding intra-Europe, grew 9% year-over-year and 74% above 2019. Adjusted for cryptocurrency purchases, cross-border e-commerce spending grew year-over-year in the low-double digits in line with pre-COVID growth rates. Cross-border travel related spend, excluding intra-Europe, grew 34% year-over-year. The cross-border travel excluding intra-Europe index to four years ago went from 134 in March to 139 in June. Travel into Asia continued to improve, indexing at 118 for the quarter, up more than 10 points from Q2, while travel out of Asia was up almost 10 points to 107.

Looking at Mainland China specifically, cross-border travel continued to improve, but remains well below 2019 levels. Travel outbound from the U.S. to all geographies continued to be strong in the month mid-150s, indexed to 2019. The inbound travel

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recovery remains sluggish still just under 2019 levels, while some of the mitigating factors ease this quarter, the dollar remains quite strong relative to pre-COVID levels.

In Europe, excluding intra-Europe, inbound and outbound travel remains robust, with the indexed to 2019 in the low 140s for outbound, improving 10 points from the second quarter and in the low 150s for inbound. Travel into Latin America and the Caribbean also remained very strong, indexing in the low 160s to 2019 levels. Travel out of SEMEA indexed in the 140s versus four years ago, and inbound improved more than 10 points to the low 160s.

Moving now to a quick review of third quarter financial results. Service revenues grew 15% versus the 10% growth in second quarter constant dollar payments volume. Exchange rate drag was more than offset by business mix and pricing. As a reminder, third quarter service fees reflect second quarter payments volume growth, which was helped by lapping Omicron in fiscal year '22. Data processing revenues grew 15% versus 10% process transactions growth. We have fully lapped the Russia impact and the key drivers of performance were value-added services and pricing.

International transaction revenues were up 14% versus a 22% increase in constant dollar cross-border volumes excluding intra-Europe. Revenue growth lagged volume growth, primarily due to declining currency volatility and exchange rate shifts. Other revenues grew 15% led by pricing, consulting services, and card benefits. Client incentives were 28.1% of gross revenues in line with our expectations. Revenue growth was robust across our three growth engines. Consumer payments growth was driven by stability in domestic volume growth and transactions as well as growth in cross-border volumes.

New flows revenue grew 20% in constant dollars. Commercial volumes were up 9% in constant dollars and 58% over four years ago. Visa Direct transactions grew 20%, and as Ryan mentioned, were impacted by a bank client that transitioned its domestic P2P transactions to an internal ledger system. While it could be impactful to transactions over the next several quarters, the impact to revenue is expected to be minimal.

Value-added services revenue grew 19% in constant dollars driven by higher volume, strong advisory services, and select pricing actions. GAAP operating expenses decreased 1%. Non-GAAP operating expenses grew 10% driven primarily by personnel expenses from headcount additions over the past year. Excluding gains from our equity investments of \$85 million, non-GAAP non-operating income was \$37 million benefiting from higher interest income due to rising rates.

Our GAAP tax rate was 19.2% and non-GAAP was 19.4%. GAAP EPS was \$2, non-GAAP EPS was \$2.16, up 9% over last year, inclusive of a nearly 1.5 point drag from the strong dollar. We have signed a definitive agreement to acquire Pismo for \$1 billion in cash, subject to customary closing conditions. We will keep you posted on closing timing and financial impact. In May, we upsized our revolving credit facility to \$7 billion and renewed it for five years.

Through the first three weeks of July, U.S. payments volume was up 6%, with debit up 6% and credit up 6%. Compared to four years ago, they are up 56%, 65% and 47%, respectively. Reg II has not measurably impacted volumes so far.

In several key markets around the world growth was in line with the third quarter. Process transactions grew 10% year-over-year and up 54% about four years ago. Constant dollar cross-border volume, excluding transactions within Europe, grew 20% and was 51% above four years ago. Card not present non-travel growth was 72% above four years ago. Travel related cross-border volumes were 41% over four years ago.

Moving now to our outlook for the fourth quarter. Growth in domestic payments volumes remains stable around the globe. As such, we are assuming recent trends will sustain in the U.S. and key international markets for the rest of the quarter. On the cross-border front, the travel recovery trend has been steady, and generally in line with our expectations so far for fiscal year 2023.

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 pace of recovery continues into the fourth quarter. The region to monitor closely is Asia, especially travel in and out of Mainland China. On the cross-border e-commerce front, we are also assuming recent trends continue, adjusted for crypto-related volatility.

It is important to note that just as we saw in the third quarter, even as the cross-border business continues to recover relative to 2019, the year-over-year growth rate will continue to slow down. Also, currency volatility is moderating, and we are now lapping very high currency volatility from the fourth quarter 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.

In the fourth quarter, we expect incentives as a percent of gross revenues to be between 27.5% to 20.5% to finish the year at the high end of the 26.5% to 27.5% range. When you pull all this together, we expect fourth quarter net revenue growth of around 10% in nominal dollars with minimal impact from exchange rate shifts. The sequential slowdown is driven by three factors: the quarter lag in recognizing service fees; the expected slowdown in cross-border growth; and moderating currency volatility lapping very high levels reached last year.

As we indicated previously, non-GAAP operating expense growth in Q4 will likely be another two points to three points lower than Q3. Non-GAAP results exclude certain acquisition-related items from the fourth quarter last year. Non-operating income will continue to benefit from the attractive rates, when earning on our cash balances.

Interest income from cash will more than offset interest expense from debt by around \$30 million in the fourth quarter. Our tax rate is expected to remain in the 19% to 19.5% range in Q4. Assuming the performance expected in the fourth quarter, we will deliver low-double digit net revenue growth and mid-teens EPS growth in fiscal year '23, despite concerns about a slowdown and an exchange rate drag. This once again demonstrates the

resilience of our business, the large opportunity that remains available to digitize cash globally. And the opportunity to accelerate our growth by developing vast new use cases, while layering on additional value-added services.

To finish, this will be my last earnings call as CFO of Visa. I want to thank all of you for your trust and support. At all times, you kept us on our toes with our nose to the grindstone. Hopefully, we've delivered for you. This is also my last call as a public company CFO. I started this journey in September 2000, almost exactly 23 years ago.

To use a Cricketing term, some of you will understand. I did not hit a century of earnings calls. I fell as I entered the 90s. On October 1st, I will be switching over to your side as a shareholder of Visa. Cheering from the stands as Ryan, Chris, and the team lead Visa to another double and triple. Thank you, Ryan. We've had a great run together. It's over to you, Chris. I'm going to miss my finance team and the wonderful people of Visa. And as far as the CFO Hall of Fame goes, I'm sure no CFO would invest in that business proposition. And now, Jennifer, it's time for some Q&A.

Jennifer Como {BIO 20121273 <GO>}

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

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) Our first question comes from Harshita Rawat with Bernstein. Your line is open.

Q - Harshita Rawat {BIO 18652811 <GO>}

Good afternoon. Thank you for taking my question. I wanted to ask about the Block lawsuit. They have been close partner of yours and also issuers of Cash App, Visa cards, on which they also benefit from interchange. And Ryan, you talked about the growing partnership there. Any comments you have on the lawsuit would be helpful. And also, just broadly, how should we think about the relationships with FinTech and Cash App [ph]? Thank you.

A - Ryan McInerney {BIO 17310000 <GO>}

Yes. Thanks for the question. We have a wonderful relationship with Block, a deep partnership across many different elements, as I mentioned. As it relates to the lawsuit, there was some confusion in the market by the lawsuit. There's really nothing new here. The lawsuit is included in the MDL 1720, and thus, the lawsuit itself is covered litigation under our share class structure. So I would really put it in the category of nothing new here.

And all the way back to the beginning of your question, we deeply value our relationship with Block and feel great about the deep and extended partnership we have with them.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

Our next question comes from Dan Perlin with RBC Capital Market. Your line is open.

Q - Dan Perlin {BIO 1758057 <GO>}

Thanks. Good evening. I wanted to just touch base real quickly on value-added services from the standpoint of penetration for a second. I think, it's around 20% or so of the company's net revenues. It's clearly yield enhancing. So it seems like a pretty large business. But Ryan, every time you talk about it, it sounds like there's so much room for growth. And it's hard for us to kind of pinpoint where you are in terms of penetration within your existing business. So any way you could frame that either anecdotally or quantitatively would be great? Thank you.

A - Ryan McInerney {BIO 17310000 <GO>}

Yes. Thanks for the question. I mean, the truth is we are at the beginning of the journey across all of our value-added services businesses. They all have enormous TAM. We all have -- they have enormous runway in terms of the opportunity to continue to penetrate. Our Acceptance Solutions business, whether it's, CyberSource or Verifi or Visa Acceptance Cloud. I mean, enormous amounts of runway there.

In Issuing, we've talked about the opportunity we have now with Pismo, when we close on that deal and the same thing with DPS, Risk & Identity, Advisory. I mean, it really is -- they're all businesses that have enormous TAM. We're in the very early innings of our penetration, and we don't see in any of those businesses anywhere close to running out of runway anytime.

Q - Dan Perlin {BIO 1758057 <GO>}

Thank you.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

Our next question comes from Craig Maurer with FT Partners. Your line is open.

A - Jennifer Como {BIO 20121273 <GO>}

Craig, are you there?

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Q - Craig Maurer {BIO 4162139 <GO>}

Yes. Thanks for taking the question. Sorry, I wasn't quick enough on the unmute button. So I wanted to ask about the loss of what I think I heard was a Visa Direct client in LatAm. And why the transition to an internal system for them?

And that leads to my follow-on, which is, can you discuss the trends you're seeing globally in terms of domestic payments moving away from or back to domestic networks? Your comments in the beginning of the call seemed to indicate that there might be an acceleration toward the global networks to take advantage of what has clearly been greater investment levels into the capabilities. Thanks.

A - Ryan McInerney {BIO 17310000 <GO>}

Yes. Hey, Craig, thanks for the two questions. I'll take the second one first. We are continuing to see the benefits of our investment all around the world. As I mentioned in my prepared remarks, we're seeing issuers, consumers shift share to Visa, shift their preference to Visa. And it happens in different ways in different countries versus the domestic schemes, but it is coming back to what you said, which is our ability to consistently invest in security features and tokenization and new digital use cases, we believe is what's helping us win in that space.

If you go back to the first part of your question, these types of things are going to happen when you're building out a new platform like we are in Visa Direct. It's still the very early days of building out Visa Direct. We're expanding in geographies and use cases. And as different partners use Visa Direct and they start to try it for different use cases, they'll find some of them work great and other ones, they'll find opportunities to use it differently.

In the case of the situation in Latin America that I mentioned, they started the journey of what they were working on using Visa Direct. They found it to be a more efficient way to get going in their journey. And then they found that they built an internal ledger system that they didn't have originally. But as I mentioned, they're going to continue to use our services for a number of things that they do. And listen, I think as we all talk over the coming quarters and years as we build out this platform, there's going to be ebbs and flows. There's going to be use cases that grow faster than others and things that stick and others that don't. And that's what building a new global business that has the reach of our platform is going to have.

So thanks, Craig.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

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

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Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thank you, and congratulations, Vasant. Despite the concerns of choppy economy and disinflation, Vasant, you mentioned when we look at the July trends, and obviously the trends in general over the course of the year, they've been very encouraging. And you mentioned the different categories. But as we look across the next 12-months, anything to parse out or think about in terms of the comps or how you see things playing out, as we get maybe even preliminary views on 2024?

A - Vasant Prabhu {BIO 1958035 <GO>}

Thanks, Sanjay. Yes, I mean the general term we've used all along is stability, and we think things are still very stable. You look at transactions growth, it's been very stable in the U.S., around 8%. If you just adjust for the Omicron uptick we had last quarter and you go back to pre-COVID trends or first quarter trends, transactions growth has been very stable.

Clearly, some of the change in trend we've pointed to ticket size, I don't think I want to get into talking about next year. We'll leave that to Ryan and Chris in October, which is when we normally do talk about next year. But more -- in the more near-term, the fourth quarter, the biggest hit to ticket size has been fuel, and fuel comparisons are going to moderate. And so that should help us a bit in the fourth quarter, and that's reflected in our expectations. In general, I would say the trends we're seeing across the board are unchanged from where they've been for the past several months.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

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

Q - Jason Kupferberg {BIO 6867809 <GO>}

Thanks, guys. Vasant, best of luck to you. I wanted to actually ask about surcharging. I know Visa recently lowered the cap on the credit card surcharging to 3% from 4%. Just wanted to know, is this in response to a trend of more merchants employing surcharges, whether that might be in a compliant or a non-compliant manner? If so, are there any implications for Visa we should be considering from surcharging?

A - Ryan McInerney {BIO 17310000 <GO>}

No. No, no implications you should be considering. It won't surprise you, we don't feel great that consumers get surcharged. But of course, in certain jurisdictions in the U.S., around the world, merchants have the ability to do that. And some choose to do it, many choose to do it, and then they choose to pull back on it because it's not a great customer experience. The small adjustment that we made that you referenced was one, we're just making sure that when consumers do get surcharged, it's something that's fair and equitable. And that was the purpose of the change.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

Our next question comes from Bryan Keane with Deutsche Bank. Your line is open.

Q - Bryan Keane {BIO 1889860 <GO>}

Hi, guys. And Vasant, since it's your last earnings call, I got to ask you about incentives. You got to go out on an incentives question at least. So as incentives look like, they're going to be towards the higher end of the range. Just the puts and takes that pushed it towards the high end, was there more deal activity this fiscal year or different volumes that changed the incentives towards the high end?

A - Vasant Prabhu {BIO 1958035 <GO>}

Yes. I mean, it's generally -- well, thanks for saying those nice things. I -- in general, on incentives, they were in line with what we expected. So there were no surprises there. And incentives, everybody focuses on the percentage. If you look at what really counts, which is net revenue growth, we had healthy net revenue growth in the quarter. Even with the exchange rate drag, we were almost 12%. And the exchange rate drag would have added another point.

If you look at yields, net revenue yields are higher than they were a year ago. We did have some renewals happen earlier than we expected. So we did have some renewals come into this year and Q3 that we might have thought would happen next year, but we're happy about that. We're always happy to renew clients, even if we have to do it a little earlier. So all-in-all, no surprises there.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

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

Q - Lisa Ellis {BIO 18884048 <GO>}

Good afternoon. Thanks for taking my question. And welcome, Chris, and Vasant, you'll be missed. I wanted to follow-up on the prepared remarks call out on the partnership with Pay.UK around RTP Prevent. Can you elaborate a bit more on that? These are the types of value-added services I know we've all been eagerly waiting to see. So can you talk a little more about sort of what the scope is of the pilot and exactly how that service works and how you'll be monetizing it, if not in the pilot, then over the longer-term? Thank you.

A - Ryan McInerney {BIO 17310000 <GO>}

Hi, Lisa. Yes, thanks. So it is one of the things we've been talking about is how we can build value-added services for new networks, specifically for RTP as it starts to grow and expand around the world.

So, I guess, how it works to the core of your question. So first of all, we -- what we've done is we've built a real-time risk score. We've built it uniquely for instant payments where there's often unique cases of fraud in terms of how they work. We've built it using deep learning AI models. And what it does is it enables banks to be able to decide whether to approve or reject a transaction in real-time, which is a capability that most banks on most real-time payments networks around the world have been very hungry for.

It's a score from 1 to 99. It comes with an instant real-time code that explains the score. And what it does is it leverages our proprietary data that kind of we've used to enhance our own risk algorithms, as well as the data that we see on a lot of our payment platforms, including Visa Direct.

And one of the benefits of us bringing that to market is it integrates with the bank's existing fraud and risk tools. Because we're often providing these types of risk scores to banks and they're ingesting them from us, it directly integrates into their fraud and risk tools. So the real-time information, their systems know how to use it. It can be automated into their decisioning algorithms and those types of things.

So, you think about it -- if you back way up and think about it, it's similar to our Visa Advanced Authorization service that we offer on VisaNet, but we've built from the bottoms up, clean sheet of paper, a customized solution, leveraging deep learning AI models and integrated that directly into the bank system so that they can ingest that in real-time.

The pilot is just getting going. It's very early days. So we'll report back as we learn more, and hopefully we'll have more examples like this to talk about around the world.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

Our next question comes from Ashwin Shirvaikar with Citi. Your line is open.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Thank you, and congratulations, gentlemen. Also, Chris, welcome, and Vasant, thank you for your help and partnership over the years. I wanted to ask about value-added services. Revenue yield there was quite solid, and I wanted to ask what's leading to that. Would you call it sort of structural at this point or is it more episodic, like in the past, you had benefits from, say, FX volatility or incentives, things like that? So that's the question.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yes. Volatility -- FX volatility would not affect value-added services. We don't count our treasury revenues in value-added services. So value-added services are benefiting from structural and secular things.

First, it's deepening our penetration of existing clients. So it's a concerted effort to sell more services to existing clients. Second is some of the services were not operating globally. We are now making these services available around the world, so it allows us to clearly increase the scope of the market. And then third, as you know, we've been adding services over time.

So this is a long-term growth engine for us. Our goal is to continue to grow it at a very hefty clip. And think about it as, to get a transaction and the more services you can layer on and the more value you can add to the transaction, the more yield you can get on it. So it's very much a growth engine, one of three, and we think it can grow for a very long time.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

Our next question comes from Ken Suchoski with Autonomous Research. Your line is open.

Q - Ken Suchoski {BIO 20676294 <GO>}

Hi. Good evening, everyone. Thanks for taking the question. I just wanted to ask about cross-border. Obviously, Visa is shaking some headwinds on the yield side in this business. Can you just talk about how much more of a headwind you think this is going to be in fiscal 4Q and fiscal 1Q of next year compared to what we saw this past quarter? Thanks.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yes. So just to correct, the way to think about value-added services yield, and I know you're looking at the revenue and dividing it by the volume, is there's the yield on the transaction and then there's the yield on the exchange rate translation services we provide. Where the yield has gone down, because it was very high last year, is on the exchange rate translation service, what we call our treasury revenues, because currency volatility last year was 30% to 40% higher than it is right now. Currency volatility right now is a little higher than the long-term average, but last year, it was at extraordinary highs.

In fact, in the fourth quarter, we will lap some of the highest levels of currency volatility reached last year. And based on where volatilities are today versus last year, volatilities are down almost 40%, so it's a sizable move. So any yield difference you see in that line is because of treasury revenues. It's not from our core cross-border yields, which remain very steady. It's going to fluctuate based on currency volatility, and really, it's still decent, it's just that it was very high last year.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

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

Q - Darrin Peller {BIO 16385359 <GO>}

Guys, thank you. Visa right now is net cash for the first time, I think, since 2016, since pre the Visa Europe deal, and gross debt below 1x. I know your target generally is 1x to 1.5x, and the buyback, frankly, was a little bit light also tracking at about 76%. Last year, you paid out about 76% of net income in buybacks, so I think you need to do a pretty big catch-up in this quarter.

So just curious to hear how you're thinking about capital allocation. I guess, Ryan, the multiple is lower versus the market than it's been in a while. Do you see this as a good opportunity for buybacks to pick up pace or are there other reasons why you'd want to allocate capital different ways, guys? Thanks, again.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yes. I'll start and maybe Ryan can add. No, there's no change in capital allocation strategy, which is, pay a dividend. The dividend has a certain set of criteria we use between -- it's a certain percentage range of our EPS. It gets to a certain yield and it's almost a \$1 billion a quarter now. We do buybacks, generally out of free cash flow. We have historically not borrowed to do buybacks. And clearly, our first priority is to invest in the core business and to do acquisitions that make sense. And as you can see, we've been doing both.

In terms of the volume of buybacks, remember that we did contribute \$850 million to the escrow account, which is also equivalent to a buyback. So if you count that in, we are probably around \$9 billion or so in buybacks if I remember right so far this year. Clearly, we have more capacity if you want to do buybacks. We've always said that if we felt there was a disruption in the market and stock was trading at levels that did not reflect intrinsic value, we would be willing to step up our buybacks and borrow money if that made sense. So obviously, we'll keep you posted if any of our plans change.

Ryan, you may want to add some things.

A - Ryan McInerney {BIO 17310000 <GO>}

Nothing to add to your very well-said comments, Vasant.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

Our next question comes from Andrew Jeffrey with Truist Securities. Your line is open.

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Q - Andrew Jeffrey {BIO 1493346 <GO>}

Hi. Appreciate you taking the question. And Vasant, best of luck to you. It's been a pleasure. Ryan, I wanted to ask about some of the commercial efforts that Visa is making. I know it's a pretty important driver of certain new flows, the non-consumer part of your business growth. And this quarter, it was a little bit slower than overall volume. Can you just comment on the pipeline and what you see as the opportunities in commercial and how we should think about that business growing over the next few years?

A - Ryan McInerney {BIO 17310000 <GO>}

Sure. Thanks for the question. We remain very excited about B2B in general. It's an enormous TAM, and we're just kind of scratching the surface, and we're very excited about commercial specifically. We have the largest commercial business on the planet, as we've talked about in the past. I think it's in the neighborhood of \$1.5 trillion of payment volume.

And we've been releasing numbers of innovations into the market in that space. We've released Visa Spend Clarity, which helps our clients with expense management; Visa Commercial Pay, which helps with control. There's a lot of things we've done around enabling acceptance around the world. So we feel good about it.

As it relates to the volume, some of the dynamics that we're seeing in the commercial space are similar to what we're seeing in the consumer space. You have an impact from fuel and those types of things. But as we think over the next one, two, three, four, five years, we've never been more excited about the opportunities that we've got, and we've never felt better about the product that we're putting into market, and we're getting great feedback from our clients as well.

Q - Andrew Jeffrey {BIO 1493346 <GO>}

Appreciate it. Thank you.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

Our next question comes from Ramsey El-Assal with Barclays. Your line is open.

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

Hi. Thanks for taking my question, and congratulations to you, Vasant. I wanted to ask for a follow-up on Reg II. You mentioned not seeing any impact yet. I'm just wondering from your vantage point whether you're now seeing that routing choice more broadly available to kind of all merchants or are we still in the midst of an implementation and rollout?

And then just quickly and separately, your tax rate guidance would imply no impact from the recent Brazil tax rule changes that did impact Mastercard, but I'm just double-checking if that's the case?

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A - Ryan McInerney {BIO 17310000 <GO>}

Why don't I -- I'll take the first part and let Vasant take the second part. It's early days with Reg II. There's been a lot of work that happened ahead of the July 1 date, but there's also work still happening.

As it relates to our views on our ability to compete in the space, where we continue to be very excited and confident about our ability to compete. We think that many merchants are going to still choose to route to Visa. As you all know, merchants bear liability for fraud in the e-commerce space. So when they're making decisions, it's not just a cost-based decision. And we bring a lot to merchants in terms of the way we help them with managed risk. We have advanced fraud tools, advanced risk scoring capabilities. And as you know, we also have the product functionality enabled by dual messaging to enable a lot of use cases that are key in the e-commerce space.

So, we are -- we feel very good about our ability to compete, and there's a lot that's going to happen over the course of the next many months and quarters, and we'll keep you posted on how it evolves.

A - Vasant Prabhu {BIO 1958035 <GO>}

On the Brazil (Multiple Speakers) -- on the Brazil topic, you should ask Mastercard, what was unique to them. Really no change from our standpoint as it relates to Brazil.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

Our next question comes from Timothy Chiodo with Credit Suisse. Your line is open.

Q - Timothy Chiodo {BIO 16128908 <GO>}

Great. Thank you for taking the question. And Vasant, thank you for always being a gentleman, for all the help over the years. I want to dig a little bit -- actually this question is for you, Vasant. On the gap between nominal cross-border volumes, ex inter Europe, and international revenue on a nominal basis, you talked about the FX volatility part plenty. I was just hoping you could dig into a little bit about the other factors that drive that gap, meaning corridor mix and any pricing and how we should think about those over the coming quarters?

A - Vasant Prabhu {BIO 1958035 <GO>}

Yes. Thank you. Yes, it is largely volatility-driven because of the very high volatilities we had last year and, more normal volatilities we're getting to now. Beyond that, there's some FX impact, obviously. That line is always affected by FX more than any other line in the P&L. And other than that, there are always mix factors, it depends on corridors and all that. There's always some impact from that, but I would say the bulk of it is the two we talked about, volatility and exchange rates.

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Q - Timothy Chiodo {BIO 16128908 <GO>}

Excellent. Thank you.

A - Jennifer Como {BIO 20121273 <GO>}

Last question, Jordan.

Operator

Our final question comes from Tien-Tsin Huang with JPMorgan. Your line is open.

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

Hey. Thanks so much. Last question. So I won't ask it for Vasant. That's my gift and way to thank you, so I'll spare you a macro question. I'll ask Ryan instead on Pismo, if that's okay.

Ryan, you mentioned -- I think you mentioned shipping products faster in your upfront remarks. That made me think about Pismo a little bit. Is buying Pismo an indication in any way that Visa is more interested in owning tech and infrastructure that touches products, the consumer, and that gives you a chance to develop products faster? Just I'm curious to get your thoughts on that. It feels like you're widening the swim lane a little bit here. Is that fair to say? I would love your thoughts. Thanks.

A - Ryan McInerney {BIO 17310000 <GO>}

Hey, Tien-Tsin. What we're trying to do is serve our clients. I mean, that's what it all starts with. And what our clients are looking for is they're looking for innovative processing solutions. They're increasingly looking for cloud-native API-based services. Processing is certainly one of those. We've heard from clients around the world that many of them are embarking on digital transformations of their processing platforms. And so when we hear that from our clients, we immediately get to work on how we can help them, how we can serve them.

We went through a global process looking at all the different players around the world, and we identified Pismo as the best. We literally studied hundreds of companies. We met with dozens of them. And after a deep, thorough scan, we identified Pismo, and yes, Pismo is the kind of tech platform, Tien-Tsin that you were alluding to. That is the type of tech that our clients are increasingly looking for. And in this example, it was an opportunity for us to buy the leading player that could help clients serve their customers, expand globally, and deliver a lot of new leading-edge use cases to their customers. So we're very excited about it. Thanks for the question.

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. And please join me in wishing Vasant the best.

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Operator

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