Q3 2019 Earnings Call

Company Participants

- Alfred F. Kelly, Chief Executive Officer
- Mike Milotich, Senior Vice President of Investor Relations
- Vasant Prabhu, Executive Vice President and Chief Financial Officer

Other Participants

- Ashwin Shirvaikar, Analyst
- Bryan Keane, Analyst
- Dan Perlin, Analyst
- Darrin Peller, Analyst
- David Koning, Analyst
- David Togut, Analyst
- Harshita Rawat, Analyst
- James Friedman, Analyst
- Jim Schneider, Analyst
- Lisa Ellis, Analyst
- Tien-Tsin Huang, Analyst

Presentation

Operator

Welcome to Visa's Fiscal Third Quarter 2019 Earnings Conference Call. All participants are in a listen-only mode until the question-and-answer session of today's conference. 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, Mr. Mike Milotich, Senior Vice President of Investor Relations. Mr. Milotich, you may now begin.

Mike Milotich {BIO 20581476 <GO>}

Thank you, Jordan. Good afternoon, everyone, and welcome to Visa's fiscal third quarter 2019 earnings call. Joining us today are Al Kelly, Visa's Chairman and Chief Executive Officer; and Vasant Prabhu, Visa's Vice Chairman and Chief Financial Officer.

This call is being webcast on the Investor Relations section of our website at www.investor.visa.com. A replay will be archived on our site for 30 days. The 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 a result of many factors. Additional information concerning those factors is available in our most recent reports on Forms 10-K and 10-Q, which you can find on the SEC's website and the Investor Relations section of our website.

For historical non-GAAP financial information disclosed in this call, the related GAAP measures and the reconciliation are available in today's earnings release.

Now, let me turn the call over to Al.

Alfred F. Kelly {BIO 2121459 <GO>}

Mike, thank you. And good afternoon everyone and thank you for joining us. It is clear from our strong results today that the business continues to perform well, as we simultaneously invest to deliver growth in the medium to long term. Given that it was a busy quarter, I'm going to streamline my comments on the business performance and only offer a few headlines. Then I'll discuss how we are enhancing our capabilities through our recent acquisitions and investments. And finally, I'll review our progress in building partnerships around the globe with FinTechs as well as our traditional clients.

So let's start with our third quarter results. Revenue growth was better than expected at 11%, or 13% on a constant dollar basis. Payments volume growth was 9% on a constant dollar basis, or almost 10% excluding China, which continued to be impacted by some run-off of our dual branded cards that captured domestic volumes and had limited impact on our revenue. Cross-border growth rebounded up 3 points from last quarter, and client incentives were lower than anticipated. Processed transaction growth accelerated to 12%. Adjusted expense growth was 10%, reflecting marketing investments, the impact of the new revenue accounting standard and a number of non-recurring items. And adjusted EPS growth was 14%, lapping a low adjusted tax rate of 18% last year. Vasant will share more details in his remarks.

As we look ahead to the future, we're pursuing our strategy by: A, investing in growing and enhancing our network, including capturing new payment flows, building out our acceptance footprint and expanding our base of clients. We're building our arsenal of value-added capabilities that could be components on our network or on other networks, what we call network agnostic. And C, we're fortifying key bedrock pillars of the business: talent, technology, security and the brand.

Against this backdrop, this quarter, we announced several strategic acquisitions and investments that will accelerate our progress in capturing new payment flows and extend the boundaries of our capabilities and our network. First, we assumed control of Earthport in early May, and I'm pleased to say that as of July 4th, we've obtained full legal ownership. Earthport provides cross-border payment services via a network that connects with local ACH systems with direct connections in 88 countries. Before Earthport, through our Visa Direct capabilities, our Debit credentials and ATM network, Visa could reach about half of the bank accounts. With Earthport, we've become a network of networks and extended our reach to over 99% of bank accounts in the 88 countries, including the top

50 markets. Our integration efforts are well underway, and we are actively working to launch our first fully integrated experience prior to the calendar year end, which will provide a single connection for clients to push funds to cards via VisaNet and bank accounts via Earthport.

Also in the quarter, we announced the acquisitions of Verifi and a tokenization business from Rambus, which will help us in our development of network agnostic services and will be integrated with our existing suite of tokenization, fraud management and risk solutions. This tokenization acquisition will enable Visa to extend the security and convenience of tokenization to all types of transactions, including the ability to support domestic card networks, account-based and real-time payment systems. Before this acquisition, Visa could turn a 16-digit Visa credential into a token. But now, we can tokenize a bank account, a domestic card network credential or a ticket.

Verifi's best-in-class dispute resolution tools enable issuers to connect with merchants' data immediately when a consumer calls to dispute a transaction so that the issue is settled within one phone call. Verifi is the industry leader with 25,000 merchant connections, helping to decrease the time spent on resolutions, while at the same time decreasing the percentage of chargebacks. Verifi adds to existing Visa tools which are aimed at reducing customer friction across the entire payment experience.

Last week, we announced the acquisition of Payworks, a point-of-sale software solution, which enables acquirers to support merchant terminal payments via the cloud. This enables merchants to seamlessly and quickly implement new functionality such as adding new payment types, thereby creating better customer experiences and lower merchant operating costs. Payworks will add in-store payment processing to CyberSource's e-commerce payment platform to create a fully integrated omni-channel payment acceptance solution. As part of CyberSource's solution to acquirers, these capabilities will be white-labeled to drive more innovation in the payments ecosystem.

Across Southeast Asia, we have partnered with and invested in Go-Jek, a ride-hailing service that has become a mobile super app, featuring over 18 different verticals spanning payments, delivery, laundry, cleaning, tickets and more. To give you a sense of the magnitude of Go-Jek, they have 108 million app downloads and half have been used in the payment service Go-Pay. We are working together to make digital payments easier for both Go-Pay and Visa users, while expanding to new used cases.

In the B2B space, we recently announced an investment in PayMate, a leading B2B payments FinTech in India, who we have been partnering with in India and our CEMEA region since last year. PayMate operates a portal connecting 35,000 buyers and suppliers to provide buyers with a consolidated view of their accounts payable across all payment types. Through the use of Visa credentials, buyers and suppliers have access to better reconciliation data. Our partnership and investment seek to drive incremental volume to our network by helping big and small businesses bring more efficiencies to their payment processes, as well as transition from cash and checks to digital payments via a Visa credential.

Visa Direct continues to deliver transaction growth of over 100% and opens up opportunity for additional payment flows. In the US alone, over the last 12 months, more than 60 million Visa credentials have sent or received funds via Visa Direct, 75% of which have completed more than one transaction using Visa credentials. About 70% of these users have received funds, which can drive additional spend in our C2B business.

In cross-border remittance, we've announced a new strategic relationship with Western Union. Western Union adds to our growing list of partners in this area, including MoneyGram, Remitly and EMQ, allowing their customers to make cost-effective cross-border payments to a Visa credential with speed, convenience and transparency.

In addition to cross-border remittance, Visa Direct has also grown in the insurance disbursement space. Today, five of the top 10 insurance companies in the United States either are using or in the process of enabling Visa Direct to facilitate quick and secure claims payouts to their customers. In Europe, we recently added our first insurance use case with insurance as a service provider, Setoo, in partnership with SafeCharge, a global payment service provider.

Another disbursement use case that is gaining traction in small business merchant settlement, which allows acquirers to transfer funds in real time at the request of the merchant, helping with cash flow needs of small businesses. Visa Direct is enabling the recent launch of Instant Transfer by PayPal in Canada, in addition to the United States, for same-day settlements to small businesses and individual consumers.

As we continue to drive new and existing payment flows, we remain focused on providing exemplary user experiences to ensure that Visa remains the preferred way to pay. Tap-to-pay significantly improves the point of sale experience and consumers are adopting it quickly. This quarter, outside the United States, tap-to-pay surpassed 50% of face-to-face transactions that run over our network up from less than 30% just two years ago. There were now almost 50 countries where contactless is at least a third of all face-to-face transactions, up from 35 countries at the end of last fiscal year in September. We know that when contactless is introduced to a market, it increases the number of transactions. For instance, this past quarter while UK payments volume grew in the low to mid-single digits, processed transactions grew much faster in the double digits. Transaction growth was 2.5x the rate of payments volume growth as consumers made more small dollar tap-to-pay transactions with their Visa card instead of cash. Canada has also seen a similar dynamic.

In the United States, we are well underway to reaching $100 million tap-to-pay Visa cards, and for us by the end of 2019, an early adoption is similar to what we've seen in other successful tap-to-pay markets. We expect to surpass 3 million Visa cards by the end of 2020. As we've discussed previously transit continues to be one of the best ways to habituate the use of tap-to-pay. The New York MTA launched an open-loop payments and a pilot on May 31 at a limited number of stations as part of an 18 month rollout and results to date have been very encouraging.

Other areas where we are making progress to improve the user experience include tokenization, secure remote commerce and the installation payment solution we are piloting. All of these enhancements reflect a fundamental truth, that a simple, consistent, secure and frictionless user experience leads to incremental volume in transactions. We know that it takes strong partnerships across the ecosystem to deliver these great user experiences. Therefore, we are actively listening to client and customer feeds and working to support their success. Partnerships and that's simply additive to our business model, they are fundamental to our business model, whether it'd be our traditional financial institutions or FinTechs.

And on FinTechs, they continue to be key enablers around the world and helping to expand access to electronic payments and opening up new acceptance. And these as a natural partner because we bring global scale, a recognizable brand security, reliability and sophisticated capabilities. This quarter was no exception in our ability to develop partnerships with FinTechs. So I'd like to highlight a few. In India, we launched a co-brand credit card with the largest cab app aggregator, OLA Cab and SBI cards, the second largest credit card issuer in the country, with a simplified application process and a seamless card management through their app. This product will offer a rich rewards proposition across all those 150 million users.

Across Asia Pacific, we partnered with Razer, a global lifestyle brand for gamers with 60 million users to offer a prepaid credential in the Razer Pay e-wallet. In Latin America, Rappi, a leading non-demand delivery platform is now using Visa debit cards as the preferred way for its customers to pay in Colombia, Mexico and soon also in Brazil. They have also implemented our CyberSource solutions across their seven operating markets to drive more secure and seamless transactions. Rappi currently has more than 20 million registered users and 90,000 delivery drivers who fulfill post to 5 million orders a month.

In Turkey, we partnered with one of the largest FinTechs, ininal, in an effort to reach the 40% of the Turkish population that is unbanked, with the launch of a nationwide program for general purpose, reloadable Visa prepaid card. We're also excited about the opportunities these new partnerships can bring for sure, but we also continue to build and deepen relationships with our more traditional merchants and issuers. And I'll call out for this quarter, in Europe, we renewed the credit and commercial portfolios with Bank Leumi, the largest bank in Israel and Credit Mutuel, one of the largest issuers in France.

Across Europe, our deal volume and win rate is significantly higher on a year-to-year basis -- year-over-year basis. In Brazil, we've teamed up with Itau and MercadoLibre to launch a contactless co-branded card targeting MercadoLibre consumers with installment capability and a unique app for managing loyalty points. MercadoLibre has 38 million buyers in Latin America and Brazil, representing 60% of their marketplace's volume.

In the United States, we're pleased to announce that we have extended our long-standing partnership with JPMorgan Chase through the end of 2029. This long-term extension will enable us to work together to accelerate the growth of electronic payments, deliver enhanced payment experiences such as our recent collaborations to enable tap-to-pay in the New York City subway system. Additionally, we work together to support and innovate our world-class co-brand partners and to further expand into the commercial space with B2B solutions.

Our pipeline of partnerships is robust and we expect to sign several other significant renewals and new deals in the remainder of this fiscal year. So in summary, it was an exciting quarter for Visa with strong results, strategic acquisitions and growth and partnerships. As we look ahead, our focus continues to be expanding our network with a wide variety of new payment flows and acceptance options, growing our value-added services portfolio to enhance all networks, not just Visa's. Investing in foundational elements that make Visa world-class partner, superior talent, innovative and reliable technology, unmatched security and a powerful brand.

We remain open-minded, innovative and flexible to meet the needs of the growing ecosystem in a rapidly evolving payments landscape. As we're committed to our goal to be the best way to pay and be paid to everyone, everywhere. Now, let me turn it over to Vasant.

Vasant Prabhu {BIO 1958035 <GO>}

Thank you, Al. Despite strong currency headwinds, our business trend accelerated in the third quarter as net revenue and EPS growth were both higher than expected. Net revenue grew over 11% on a nominal dollar basis and over 13% in constant dollars. While adjusted EPS grew 14% in nominal dollars, and approximately 18% on a constant dollar basis. Through three quarters of fiscal 2019, net revenue was up 11%, and adjusted EPS up 17% in nominal dollars and over 12% and 19% respectively in constant dollars.

A few highlights. Growth across all key business drivers, payments volume, processed transactions and cross-border volume, accelerated from last quarter. Payments volume growth in constant dollars improved to 9%. Global constant dollar growth excluding China and the UK was over 10%. Chinese domestic volumes are impacted by dual-branded cards, which have minimal revenue impact. The UK economy remains weak due to Brexit uncertainty, ex-UK global payments volume trends remain robust.

Processed transaction growth accelerated to 12% primarily due to faster US growth, and a full quarter of processing gains in Argentina. Adjusting for cross-border volume within Europe, constant dollar cross-border growth was 9%, up almost 4 points from last quarter, exceeding our expectations. As a reminder, cross-border volume within Europe has revenue yields similar to Europe domestic volumes and continues to be impacted by e-commerce platform, reorienting within the EU. Growth was consistently strong each month after factoring Easter timing in April and the improvement from last quarter was broad based. Every region's outbound growth improved by at least 1 point, mostly benefiting Europe and US inbound volume.

Net revenue growth was 11.4%, despite 2 points of exchange rate drag and the lowest currency volatility we've seen in five years. Growth was helped by stronger cross-border momentum and lower client incentives than expected. The impact of pricing was higher than last quarter. Client Incentives were better than expected due to lower incentives for some deals and programs than we had estimated. Lower volumes in some markets and some deal delays. At this point, we have a very robust pipeline of significant renewals and new deals that we expect to get done by the end of our fiscal year.

We have closed on Earthport and Payworks as well as signed definitive agreements to acquire two other companies. These acquisitions significantly enhance our capabilities, extending our reach to over 99% of global bank accounts in 88 markets, facilitating tokenization of all types of transactions beyond our own, streamlining dispute resolution, and enabling omni-channel payment processing through CyberSource. We expect all these acquisitions to close before the end of the year. We also added significant new partners like Go-Jek, MercadoLibre and OLA Cab, while renewing our enduring partnership with JPMorgan Chase through 2029. We repurchased 12.9 million shares of Class A common stock at an average price of $1 -- of $163.59 for $2.1 billion in the third fiscal quarter. Including our quarterly dividend of $0.25 per share, we returned $2.7 billion of capital to shareholders in the quarter.

Now, some details on our key business drivers. Payments volume growth on a constant dollar basis, accelerated to 9%, credit was up 7%, debit was up 11%. Growth remained strong in most parts of the world with CEMEA growing 22%, Latin America 16%, Asia Pacific excluding China growing almost 10%, and Europe excluding the UK growing 12%. US payments volume growth was 9%, up 1 point from last quarter. The improvement was driven by the timing of Easter, as well as higher consumer credit growth. Fuel prices were ultimately a drag on growth in the quarter as a strong start in April faded in May and June. Double-digit growth was sustained in debit at 11% with Visa Direct contribution similar to last quarter. Credit grew 7% as the impact of the Cabela's conversion continues and we start to lap commercial card wins from last year.

International payments volume growth in constant dollars was 9%, growth in CEMEA remained robust at 22% with strong momentum across Russia, the Middle East and Africa. Latin America growth accelerated 2 percentage points to 16%, driven by improvements in Brazil and Mexico. Growth in the UK remained weak. However, growth in the rest of Europe accelerated to 12% with particular strength in Central and Eastern Europe. Asia-Pacific growth excluding China was almost 10% in line with last quarter.

Processed transaction growth of 12% is up 1 point from last quarter. Growth in the US accelerated almost a point in line with volumes. Also helping growth was a processing gain in Argentina, which had a full quarter impact. Growth improved in Brazil and was stable in Europe, Asia-Pacific and CEMEA. After getting off to a strong start in April, mostly due to Easter timing, cross-border volume growth remained healthy through the quarter, resulting in 7% growth on a constant dollar basis, up 3 points from last quarter.

Constant dollar growth adjusted for cross-border volume within Europe was 9%, up 4 points from last quarter with strength across both travel-related online spending. Of the 4 point improvement, approximately one point was driven by the lack of cryptocurrency drag that impacted each of the past two quarters due to the spike in cryptocurrency purchases in late 2017 and early 2018. Another couple of points was driven by broad-based spend increases. Outbound commerce accelerated from Canada, Japan, Australia and across most of Latin America and our CEMEA region. Europe was the biggest beneficiary of inbound commerce with growth in the mid-teens.

Moving on to a quick summary of third quarter financial results. Net revenue grew at a better than expected 11.4%, driven by higher processed transaction and cross-border volume growth, as well as lower client incentives. This growth rate includes a 2 point headwind from exchange rate shift, and a sizable drag from low currency volatility. The adoption of ASC 606 lifted revenue by approximately 1.5 points. Service revenue grew 10% benefiting from pricing. Data processing revenues were up 13%, international revenue increased 8% with pricing actions and a favorable country mix i.e., slower growth within Europe being significantly offset by lower currency volatility.

Other revenue grew 49%, a little over half of which is driven by the adoption of ASC 606 and the remainder as a result of clients increasingly utilizing our value-added service capabilities. Incentives as a percent of gross revenues of 20.9% were lower than we expected this quarter due to lower incentives for some deals and programs, some deal delays and lower volumes in some parts of the world. We expect to see an uptick in incentives as a percent of gross revenues in the fourth quarter based on the deals just completed in the third quarter and the current pipeline of significant new deals and renewals expected to be signed in Q4.

Operating expenses declined 18% on a GAAP basis due to the litigation provision last year associated with the interchange multi district litigation. Excluding the special items, expenses grew 10% primarily driven by marketing costs, a number of non-recurring expenses captured in G&A and technology-related investment driving growth in network processing and depreciation expenses. Marketing expenses grew 18% driven by investments related to the FIFA Women's World Cup and the adoption of ASC 606.

General and administrative expenses grew 37%, primarily due to several non-recurring items, ASC 606 impacts, and indirect taxes. The adoption of ASC 606 added approximately 2.5 points to expense growth. Non-operating expenses were $78 million higher than last quarter, as investment gains were $9 million in the third quarter versus $84 million in the second quarter. Year-to-date, we have recorded $89 million in investment gains or over $0.03 of EPS, largely due to the change in accounting rules. As you know, this is a non-recurring item. We continue to benefit from higher interest income on our cash balances as well as from forward contracts swapping some of our US dollar debt to euro-denominated debt, which reduces our interest expense.

Moving now to our outlook for the fourth quarter and the entire fiscal year 2019. First, let me share our business driver growth for the first three weeks of July, which are relatively consistent with the third quarter. Through July 1st, US payments volume growth was 8% with US credit growing 7% and debit over 9%. Processed transactions grew 11%, cross-border volume on a constant dollar basis grew 8% or over 9% excluding cross-border volume within Europe. Our fourth quarter outlook assumes growth trends across our key business drivers in line with what we experienced in the third quarter. The exchange rate drag is expected to ease to 1.5 points on net revenues. Currency volatility will likely remain a significant headwind.

The impact of pricing will be higher than Q3. Based on our current deal pipeline and the recognition of deals signed in this quarter, we expect client incentives as a percent of gross revenue to be 1.5 points to 2 points higher than Q3. When you put all this together, we expect fourth quarter net revenue growth to be moderately better than the third quarter. On the expense front, we continue to invest in our growth programs. Fourth quarter expense growth is likely to be in the mid to high single-digit range. The fourth quarter will include a full quarter of expenses including integration costs and purchase accounting for Earthport and for Payworks, which closed last week. The exchange rate drag on EPS will ease to 2 points. We expect the acquisitions of Verifi and the tokenization business of Rambus to close during our fourth quarter. Depending on timing, they could add a small amount of revenue and 1 point to 2 points to our expense growth.

When we report our fourth quarter results, we will quantify the revenue and EPS impact of all four acquisitions. We are updating our full-year fiscal year 2019 outlook. Our net revenue growth, low double digits on a nominal basis with approximately 1.5 percentage points of negative foreign currency impact and over 1 percentage point of positive impact from the new revenue accounting standard. The change in the ASC 606 impact is driven by deals that were not anticipated at the beginning of the fiscal year. Client incentives as a percent of gross revenues in the 21.5% to 22% range. Expense growth in the low single-digit decrease on a GAAP basis and an approximately 10% increase adjusted for special items in fiscal 2018, including approximately 2.5 percentage point increase from the new revenue accounting standard.

Effective tax rate in the 19.5% to 20% range, EPS growth low 20s on a GAAP nominal dollar basis, and mid to high teens on an adjusted non-GAAP nominal dollar basis, including approximately 2 percentage points of negative foreign currency impact. We have several acquisitions that will be completed this year. As I mentioned earlier, we will quantify for you, the revenue and EPS impact inclusive of integration costs and purchase accounting on our fourth quarter results. We will also give you our best estimates for the revenue and EPS impact of these acquisitions on fiscal year 2020 when we provide our 2020 outlook in October.

In summary, business momentum accelerated in the third quarter. We exceeded our revenue and EPS expectations despite strong headwinds from currencies. More importantly, we are substantially enhancing our capabilities through four acquisitions, new strategic partnerships and significant renewals of longstanding relationships with several key renewals, and new deals to be executed in the fourth quarter. We continue to invest on a healthy clip to drive long-term growth and capture the extraordinary opportunities available to us to drive payments digitization globally.

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

Mike Milotich {BIO 20581476 <GO>}

We're now ready to take questions, Jordan.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Jim Schneider from Goldman Sachs. Your line is now open.

Q - Jim Schneider {BIO 15753052 <GO>}

I was wondering if you could provide any more detail on the extension of the JPMorgan partnership, whether there is any substantial change in the terms of that agreement outside of the length and in terms of the scope, anything that would show up in the economics of the business going forward? Any color around that would be very helpful. Thank you.

A - Alfred F. Kelly {BIO 2121459 <GO>}

Well thanks, Jim. We're obviously not going to discuss the details, but I think both companies are very satisfied with it. JPMorgan is a big and sophisticated issuer. And I think as I talked to the senior leadership team there, we thought it was a good idea to renew our deal and kind of focus on all the various things that are happening in payments and make sure that we weren't distracted by a negotiation that would happen over the next year or two. I'm not going to add much more color than that.

A - Mike Milotich {BIO 20581476 <GO>}

Next question please.

Operator

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

Q - Darrin Peller {BIO 16385359 <GO>}

Thanks guys. Look, it's great to hear the momentum in the pipeline on the wins and renewals, including obviously the JPM deal. It sounded like you were saying out that the win rate, especially in Europe, is stronger than before. And I guess, first of all, is there anything that's changed in terms of why you think you're winning at this rate? Is it actually better than it was before? And then maybe just comment on even in the back of that, how rebates and incentives, the guide is actually a little bit lower than it was before despite these renewals and this pipeline? Thanks guys.

A - Alfred F. Kelly {BIO 2121459 <GO>}

I'd say a couple of things, and I'll let Vasant talk a little bit about the incentives. First of all, in Europe, we're now on our front foot. We are past the integration. We've got our management team in place. We're not all the way there. But we've been moving more resources into the markets, and we've been able to focus much more on running a very good commercial organization in Europe, and I think that it really is starting to pay dividends to be able to be not distracted by any of the integration activities.

I think the second thing that's happening in Europe but is also happening around the world is that we've gotten our act together as it relates to FinTechs. I'd be the first to admit that we were a little bit slow out of the chute a year and a half ago, but over the last five quarters or so, we've been very, very focused on FinTechs and making sure that we are easy to do business with, easy to integrate with, easy go get on-boarded. And I think that FinTechs appreciate the various assets that Visa brings to the table from our global reach to our fabulous brand to a lot of our experience and capabilities and our scale.

So I think that those would be the two big factors that would come to mind for me when I think about your question about what is different recently. I don't know if Vasant want to add to that or certainly talk about the client incentives.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah. I think on the client incentives front, there is a variety of reasons why they're running lower than we might have expected. Several items that are good things, where some -- we make estimates on the terms under which deals might be renewed, and in some cases, we haven't had to use up the incentives we thought we might have needed to when we sort of give you a general view of things. So that's a good thing and that is actually permanent and continues. Secondly, volumes have been lower in some parts of the world, and that does lead to lower incentives. Thirdly, exchange rates that impact the gross revenue line, as you know, help the incentive lines. So to some degree, that is reflected also when you do a year-over-year comparison.

And then as it relates to the wins, which we are very -- as we said, we're very happy about what has already happened, but we also have a very robust pipeline, many of which we will be able to tell you about next quarter, and a lot of that is incorporated into our outlook for the fourth quarter. Those wins, they play out over time. The volume comes in over time and the incentives will play out over time. So you won't see the impacts right away. So those are some of the reasons.

And in terms of sort of the activity now and the things and their contribution to volume, as you know, conversions take time. They play out over time. So the volume will sort of layer in over a year or two. So you won't see the full impact for at least a couple of years from things that we are winning right now.

A - Mike Milotich {BIO 20581476 <GO>}

Next question please.

Operator

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

Q - Lisa Ellis {BIO 18884048 <GO>}

Hi, good morning guys. A question about the strategy, Al, that you've -- you talked about with the acquisitions of Earthport and Rambus and some of the other organic investments. You've highlighted that you're adding more of these network of network type of services that extend beyond the boundaries of VisaNet. Can you just talk a bit about this strategy more broadly, meaning like what market opportunity specifically are you going after? And is this sort of ancillary to the core business or do you expect it to become more core over time? And then finally, how do you think about maintaining the quality of the Visa network and brand as you sort of extend and expand into the sort of network of network models -- model?

A - Alfred F. Kelly {BIO 2121459 <GO>}

Thanks, Lisa. So today, we process about three quarters of the transactions that have the Visa brand on the credential being used, whether it's a virtual credential or a real card. We recognize that there are other situations where we may not be able to process, whether it's a real-time payment network that a country decides to build out or a domestic card network, payments network that somebody decides to build out. And when we look at those kinds of networks, we see a lack of sophistication in some of the capabilities, and we believe that we have an opportunity to take our toolbox of capabilities and provide additional value to those networks, either on a licensing type basis or pay-as-you-go type basis. And I see it as very additive to our ability to grow the company and grow revenue and be involved in as many transactions in some way, shape or form as we possibly can.

In no way are we stepping back from continuing to invest in VisaNet. We -- it is a very important asset for us. And we have a number of projects ongoing right now and we will continue to make sure that VisaNet is the best possible network in the world in terms of capabilities and in terms of security and in terms of reliability, all which are very, very important.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah. If you look at each of these, you look at Verifi, it clearly enhances our network because we can streamline dispute resolution on our network, but it's also network agnostic, and therefore, we can help other networks also provide or streamline dispute resolution. And it not only takes a lot of the time and cost out of it, but it's a much better consumer experience. So there's value both to our network as well as the ability to go beyond our network.

If you look at Earthport, clearly, that allows us to substantially enhance our reach. And to the extent that a portion of how we get the money from point A to point B might not be on our network does not mean that it isn't a Visa-branded transaction with all the security, reliability, et cetera that our brand offers. And so it allows us to be network agnostic where it makes sense to be network agnostic in the interest of serving our customers.

And then if you go to Payworks, CyberSource now has a substantially enhanced capability to serve what is an incredibly high demand, which is merchants desire to approach their business in a omni-channel kind of way where they can see the customer at the same time between both their online business and their in-store business. So, in every case, it enhances an existing business, but it also allows in every case the opportunity to extend our business beyond, let's say our proprietary network.

A - Mike Milotich {BIO 20581476 <GO>}

Next question.

Operator

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

Q - Bryan Keane {BIO 1889860 <GO>}

Hi guys, good afternoon. Al, just wanted to ask on Facebook's Libra, there is some confusion in the market on how to think about that. Is it a strategic partner for Visa or a potential disruptive threat? Just curious, your thoughts and level of expected Visa involvement in Facebook Libra. Thanks.

A - Alfred F. Kelly {BIO 2121459 <GO>}

Well Bryan, the first thing I'd say, I think it's important to understand the facts here and not any of us get out ahead of ourselves. So we have signed a non-binding letter of intent to join Libra. We're one of, I think it's 27 companies that have expressed that interest. So no one has yet officially joined. We are in discussions and our ultimate decision to join will be determined by a number of factors including obviously the ability of the association to satisfy all the requisite regulatory requirements. So, Bryan in my estimation, it's really, really early days and there's just a tremendous amount to be finalized. But obviously, given that we've expressed interest, we actually believe we could be additive and helpful in the association.

A - Mike Milotich {BIO 20581476 <GO>}

Next question please.

Operator

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

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

Thank you so much. Good to see the revenue acceleration. I wanted to ask also on M&A. So you stepped up a number of deals, you said for, I think you did last year one deal. So I'm just curious, is the appetite for Visa to do more deals going forward. I'm just curious if this is the, maybe the new norm for deal activity. And separately just want to clarify maybe with you, Vasant aside from FX accounting in the 606 accounting change and also tax, what's changed in your outlook, if you were to adjust for those items? Thank you.

A - Alfred F. Kelly {BIO 2121459 <GO>}

Let me handle the first part, and then I'll let Vasant to answer the question that's directed to him. No, we have not changed our posture as it relates to M&A. And the reality is, when we see an asset that we think is going to add value or bring incremental value for our clients, or they are our customers or our investors, we're going to pursue it. This quarter simply was a much busier one in terms of deals closed or deals where we reached definitive agreements.

A - Vasant Prabhu {BIO 1958035 <GO>}

In terms of outlook engine, if you look at our guidance for the full year, our net revenue growth, it's changed -- it's unchanged in the low double digits. The FX impact as you saw, was about 0.5 point higher than we had expected at the beginning of the year. And the accounting impact is also 0.5 point higher roughly. So it's sort of a wash. So the underlying revenue trends, you know, low double digits and generally, as good as we thought as you saw somewhat better in the third quarter. Client incentives as you -- as you pointed out have come down for all the reasons we talked about. Expenses higher than we had expected at the beginning of the year. Some of it is the accounting impact going up a bit, some of it is, we've continued to invest at a healthy clip.

Tax rates might be lower than what we expected at the start of the year, and net-net, I think our EPS you know is starting from the mid, I think they were mid-teens when we started. Now we are mid to high teens. Other than the fact that the cross-border business started the year softer than we expected but has picked up well. The other big thing that has sort of been negative is the fact that currency volatility as I pointed out is now running in the last quarter at the lowest levels we've seen in five years and that has continued into the fourth quarter. But that's fine, as you can see we've absorbed it pretty well. If currency volatility had not been this low, clearly, our international revenue growth would have been higher. So it did have a different impact on our international revenue growth, but despite all that and despite the currency headwinds being as high as they've been we're delighted that our nominal dollar growth is going to be in the low double digits.

A - Mike Milotich {BIO 20581476 <GO>}

Next question.

Operator

Our next question comes from David Koning from Robert W. Baird. Your line is now open.

Q - David Koning {BIO 7310416 <GO>}

Yeah. Hey guys, thanks. And I guess on days. I know, Q2 was a little light with Easter and processing days timing end of the quarter. Q3 picked up a little. I think Q4 you actually get maybe another extra day. So what I'm wondering, you talked a little bit about US de-sell through the first three weeks of July, and a little bit of transaction de-sell. But do you actually pick back up because of the number of days in the quarter and get back to kind of more stable with fiscal Q3?

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah, on the processing days, the easiest way to explain it to you is, this quarter was a normal number of processing days. Last quarter was below normal and next quarter is above normal. So you're right, because of the way this quarter ended and next quarter is going to end, it will help us processing days wise in the way that processing did hurt us last quarter. This quarter was more normal. And as it relates to the three weeks, we always tell people three weeks don't make a trend. I wouldn't read too much into it. I think our outlook is that the trends will be roughly in line with the third quarter. So if something is slightly higher, slightly lower in the first three weeks. I don't think it tells you much.

A - Mike Milotich {BIO 20581476 <GO>}

Next question please.

Operator

Our next question comes from our Harshita Rawat from Bernstein. Your line is now open.

Q - Harshita Rawat {BIO 18652811 <GO>}

Hi, good afternoon. And thank you for taking my question. I want to ask about PSD2 the implementation deadline for Strong Customer Authentication this fall. So my question is how your thoughts evolving and whether the current ecosystem in Europe is ready for this deadline? And what are the long-term benefits and trade-offs of this directive could be?

A - Alfred F. Kelly {BIO 2121459 <GO>}

Harshita, how are you? You're absolutely right that we've been engaged actively with European and certain nation authorities and trade associations throughout Europe to raise awareness that we think less than half of the merchants are going to be ready by the deadline, which is September 14th when Strong Customer Authentication is supposed to get into place. We're certainly pleased that the European Banking Authority had a recent opinion, that's going to allow for extensions as set by the local regulators. And I think that most everybody is going to largely kind of look to the -- aside from people not being in compliance. We -- it's our understanding that regulators in the UK and France, for example, have already communicated that they're not going to win for us, the September deadline. It would be very, very bad for particularly small merchants. So there is a reluctance to move the deadline date. But I think where we're landing is that people will look past it and allow for exceptions for some time to come.

In the meantime, we are working with merchants and issuers as much as we can to help them make sure they will be ready. We are also working on various solutions to help identify exempt to non-exempt transactions and trying to figure out how to optimize secure customer authentication. We've got these trusted listing capability, which allows consumers to identify merchants that frequently shop and therefore they trust them. There is a Visa delegated authorization that allows acquirers to identify merchants that already are performing strong authentication as spelled out in the regulation. So there's any number of things we're doing to try to help merchants and issuers be ready. But I think that this won't really come to the place where people will be required until we get well into 2020.

A - Mike Milotich {BIO 20581476 <GO>}

Next question please.

Operator

Our next question comes from Ashwin Shirvaikar from Citigroup. Your line is now open.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Thanks. Hi, Al. Hi, Vasant. Questions on B2B Connect, that's recently joined -- launched it globally. I know it's early days, but I was hoping to get a couple of things answered. First, it seems you are finding now have -- what looking like holistic offering based on your organic and inorganic investments in the ecosystem? So is that a fair assessment, and if not, what parts need to be added? And secondly, can you comment on any early traction you might be seeing in this area?

A - Alfred F. Kelly {BIO 2121459 <GO>}

Ash, it's Al. It's just too early. We're just getting past the pilot stage. We're talking to various banks around the world about connecting. And I just don't expect to be able to share results probably for a good six months, I think it's going to take that long before we really see the traction with B2B Connect. So there is still some technical work banks would have to do and obviously still some sales work that has to be done to make sure that people understand the capability and what it can do.

A - Mike Milotich {BIO 20581476 <GO>}

Next question please.

Operator

Our next question comes from David Togut from Evercore. Your line is now open.

Q - David Togut {BIO 1496355 <GO>}

Thanks, good afternoon. Piggybacking a little bit on Ashwin's question. All three mega mergers this year in bank tech and payments have really highlight B2B payments as an important growth objective. And of course you've signed up FIS in bottom line to B2B Connect and just closed Earthport. So I'm curious if you could expand upon your game plan specifically to build out distribution into the enterprise B2B market especially for cross-border, which you've highlighted as a lucrative growth opportunity for Visa?

A - Alfred F. Kelly {BIO 2121459 <GO>}

Well, I think David you've hit the nail on the head. I mean the enterprise level volume that has traditionally been wires and checks. This is going to require a whole different approach than the approach in the carded area where we rely on issuers and we rely on P-cards and corporate cards and small business cards, and virtual cards, in order to be successful. We in that -- in the enterprise space you've got to be integrated into some of the large enterprise systems, and you've got to build a network of partners that have the ability to generate the kinds of distribution with credibility that we need. So we're going to continue to look for ways to build partnerships and look at investments, like the one we made in PayMate and one we made earlier in BillDesk and we're going to continue to try to forge investments and distribution partnerships wherever we can because I think that's going to be a key to unlocking the volume in this -- the non-carded space of B2B.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah, I mean our B2B strategy has many components and B2B Connect is one component. B2B Connect addresses, as you said, high value transactions on a cross-border basis. Through Earthport and Visa Direct, we can address B2B transactions but low value transactions that are high volume also on a cross-border basis. We also have initiatives that go beyond cross-border to domestic AR and AP. So it's a broad range of things happening on multiple fronts. I'm sure you've heard about our partnerships with Billtrust and so on that deal with AR. We have other partnerships that deal with AP. So it's a variety of initiatives on multiple fronts.

As it relates to B2B Connect, since that was your question, we know that the value proposition is very strong. We bring settlement capabilities -- it addresses a whole bunch of pinpoints. We bring settlement capabilities, the security and reliability that doesn't exist today. We utilize distributed ledger technology and we do tokenization to substantially enhance the security of the transaction. I think as Al said earlier, with anything like B2B Connect, you have to get the network effect going. And that means having both ends represented at scale. That takes some time to develop, which is why as Al said, you have to wait for some time as we get both sides of the network pull together and then the volumes build. We talked about that when we talked about contactless, there are two or three years where it all builds up and then it takes off. So it will be some time before the network effect starts working for us in B2B Connect.

A - Mike Milotich {BIO 20581476 <GO>}

Next question please.

Operator

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

Q - Dan Perlin {BIO 1758057 <GO>}

Thanks. Good evening. I wanted to kind of just dump a little bit on all these discussions around these new payment flows globally. And the question is really twofold, one is, is there a need for investments like sizable investments in the coming years to increase the scale opportunities for VisaNet? And then secondly Al, can you just talk a little bit about how you do think about security vulnerabilities as you build out these networks? And your distribution points are clearly getting closer direct-to-consumer. Thank you.

A - Alfred F. Kelly {BIO 2121459 <GO>}

Dan, our new payment flows, clearly, there is always going to be investment to drive them to the level of scale that we won. I mean in the last year plus we've greatly added to the resources in Visa Direct, which are capturing [ph] all kinds of new payment flows in the various used cases that it's supporting. We've obviously built out resources in the B2B business unit as we continue to explore that space. We've got people, we've had to add people to chase down all the various wallets that are out there in the world, not all of them with financial institutions but with all kinds of organizations like Go-Jek that I talked about in my remarks. So I think from a technical standpoint, our company, your security question in a second.

From a technical standpoint. I think Visa Direct is, I'm sorry VisaNet is able to handle these various used cases today. As we get into new ones, we may have to do some augmentation of VisaNet to make sure that we can handle a new used case that we might not have anticipated, but I think really the bigger challenge in the bigger area where we have to invest is simply getting feet on the street and getting people out there to understand what our capabilities are, and realize that we could bring various solutions to them that they might not have anticipated and clearly with the acquisitions and the non-binding agreements that we've talked about, we've got new capabilities that we can bring to our clients all the new around the world that we have to go communicate. So that's, that's where I think the preponderance of the investment will be.

Security is something that weighs on my mind all the time. We have an extraordinarily robust and I'm knocking wood as I say this, cybersecurity organization we spend hundreds of millions of dollars. We have hundreds of people who work in the group. We're very conscious of anybody that any system or organization that in any way, shape or form is going to come anywhere near VisaNet goes through incredible scrutiny in terms of their security. When we look at the acquisitions we're doing now, they will be integrated into VisaNet until we are completely and totally comfortable that we've got their cybersecurity capabilities that where they need to be before we fully integrate them. So you never know the bad guys are continuing to invest as much as the good guys. And we got to stay out ahead of it.

We've got to remain vigilant and it's something that we at Visa believe that security is a critical underpinning of the trust in the payment ecosystem and given our place in that ecosystem, we believe we have an obligation to stay vigilant in our cybersecurity. It's one of the reasons we're pushing tokenization so that we can devalue data. It's one of the reasons we're building Consumer Transaction Controls. So consumers can have a role in protecting their security and their data and the use of their payment credentials over time. And we will, this is an area we'll continue to invest a lot of money in.

A - Mike Milotich {BIO 20581476 <GO>}

Jordan, we have time for one last question.

Operator

Our last question comes from James Friedman from Susquehanna. Your line is now open.

Q - James Friedman {BIO 20091873 <GO>}

Hi, thanks for sneaking me in. I just wanted to ask Al, in your prepared remarks, you alluded to the used cases of tap-and-pay and the tax rate between transaction growth and volume growth, you referenced that 2.5x accelerator, in the UK. Is there anything unique about the UK market or do we think of that as a template of things to come? Thank you.

A - Alfred F. Kelly {BIO 2121459 <GO>}

Jamie, the only thing I can say, I think a bit unique or different about the UK market is that we have been in the transit system there for longer than we have in most other big markets around the world. And as I also said in my remarks, we are finding that transit is one of those things that really creates the habit and what people are commuting home to work and home 10 times a week and they are tapping and get used to it. They realize and look to tap in all kinds of instances, particularly instances where here therefore they were using cash for lower value -- lower-ticket purchases. So I think that as we continue to pursue the 200 plus transit projects, that we have going on around the world, not certainly including the one I referenced in my remarks in terms of the MTA here in New York, where we're seeing really nice results in just a kind of a seven week period since we've been up and running. I expect that in markets where we are able to penetrate the transit system, and get high levels of adoption of tap and pay in general, I think we'll see similar type of results. That said, we'll have to see how it plays out over time.

A - Mike Milotich {BIO 20581476 <GO>}

We'd like to thank everyone 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.