Q1 2023 Earnings Call

Company Participants

- Michael Miebach, Chief Executive Officer
- Sachin Mehra, Chief Financial Officer
- Warren Kneeshaw, Head of Investor Relations

Other Participants

- Andrew Jeffrey, Analyst
- Bryan Keane, Analyst
- Darrin Peller, Analyst
- David Togut, Analyst
- Harshita Rawat, Analyst
- Jason Kupferberg, Analyst
- Lisa Ellis, Analyst
- Ramsey El-Assal, Analyst
- Rayna Kumar, Analyst
- Sanjay Sakhrani, Analyst
- Tien-tsin Huang, Analyst

Presentation

Operator

Good morning. My name is Audra, and I will be your conference operator today. At this time, I would like to welcome everyone to the Mastercard Inc. Q1 2023 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions)

Mr. Warren Kneeshaw, Head of Investor Relations, you may begin your conference.

Warren Kneeshaw {BIO 16549173 <GO>}

Thank you, Audra. Good morning, everyone, and thank you for joining us for our first quarter 2023 earnings call. With me today are Michael Miebach, our Chief Executive Officer; Sachin Mehra, our Chief Financial Officer; and Devin Corr, our incoming Head of Investor Relations and my successor.

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

Our comments today regarding our financial results will be on a non-GAAP currency-neutral basis unless otherwise noted. Both the release and the slide deck include reconciliations of non-GAAP measures to GAAP reported amounts.

Finally, as set forth in more detail in our earnings release, I would like to remind everyone that today's call will include forward-looking statements regarding Mastercard's future performance. Actual performance could differ materially from these forward-looking statements. Information about the factors that could affect future performance are summarized at the end of our earnings release and in our recent SEC filings. A replay of this call will be posted on our website for 30 days.

With that, I'll now turn the call over to Michael.

Michael Miebach {BIO 16087573 <GO>}

Thank you, Warren. Good morning, everybody. Another quarter. Let's jump right in.

The headline is that in Quarter 1, consumer spending has remained remarkably resilient and that despite continued economic uncertainty. We kicked off the year with strong revenue and earnings growth. Quarter-1 adjusted net revenues were up 15% and adjusted operating income was up 17%, both versus a year ago, as always on a non-GAAP currency-neutral basis excluding special items.

Focusing on the macro for a moment. Let's talk both the positive and negative factors we have been monitoring. First, the labor market in aggregate remain strong, while savings remain above historical levels and consumers continue to access credit, which all are key drivers of consumer spending. Second, central banks continue to combat elevated inflation levels with higher interest rates. Although we are seeing signs of inflation cooling, additional stresses on the banking sector have emerged. We will continue to monitor how banks respond to these evolving conditions. And finally, economic growth around the globe continues to vary by country and sector. The reopening of China is a positive catalyst. However, the impact of monetary and fiscal tightening in many countries will likely be with us for some time.

So, overall, many moving pieces, but even so, consumer spending levels have remained resilient, while the mix of spending has continued to rebalance towards experiences.

Looking at our switched volume trends. Domestic volume growth has remained relatively stable with some recent moderation in the U.S., in part due to lower tax refunds. Cross-border travel in Quarter 1 reached 148% of 2019 levels with all regions above 2019 levels.

This includes notable improvement in Asia. Cross-border card-not-present ex travel continues to hold-up well. We will continue to watch the environment closely. And as we have demonstrated in the past, we are prepared to adjust investment levels appropriately, while maintaining focus on our key strategic priorities. And as a reminder, these three priorities are expanding in payments, extending our services and embracing new networks.

Now, I've been on the road for much of the quarter, meeting with customers, partners, government leaders and of course, our teams. These conversations reinforce the energy we have for our collaborative approach and show the importance that many place on digital payments and driving much of today's economic activity. And it's with that in mind that I'll share some examples of how we are progressing against our three strategic priorities,

First, we're expanding payments by winning deals across a diverse set of customers, innovating in and growing acceptance and expanding solutions to address new payment flows. We see our partnership evening with a diverse set of co-brand partners, financial institutions and fast-growing fintechs around the world. This quarter, we had a significant win with Costco Wholesale in Taiwan, the largest co-brand portfolio in the market. The dealer is a competitive flip that ensures exclusive co-brand issuance and exclusive acceptance of Mastercard co-brand cards in stores, effective in August this year.

We also announced our exclusive partnership with Wells Fargo and Choice Hotels to launch their new credit card program in the United States. In the Middle East, we think the renewal with National Bank of Egypt, the largest issuer in the country. And on the fintech front, we renewed our deal with N26, one of the largest neo banks in Europe for Mastercard to be the exclusive provider for issuing and processing services.

And in Latin America, we expanded our relationship with Uala, one of the fastest-growing fintechs in the region, to be the exclusive network on prepaid, debit and credit. So, we are continuing on our trajectory, delivering another solid quarter of new and renewed wins. An important element of our growth algorithm. Beyond new wins, we are driving growth in payments through the development of innovative solutions like our installment offerings.

In Australia, we're scaling our solutions with some of the largest banks in the market, including Commonwealth Bank of Australia, National Australia Bank and Westpac.

Providing the way to pay is central to what we do. So true is making sure people and businesses can use those payment tools when and where they want.

Along those lines, we are continuing to drive growth in acceptance, expanding connectivity and trust across all forms of comp payments. Our acceptance footprint has now surpassed 100 million locations, effectively doubling over the past five years. And that's just the start. Our innovative contactless Cloud Commerce and Click to Pay solutions give more merchants the ability to accept electronic payments with simple technology connectivity. To us, that's an opportunity to bring more physical and digital transactions onto our network.

Over 100 markets have now reached at least 50% contactless penetration, double the number three years ago. Contactless drives higher consumer engagement and helps accelerate the secular shift to digital payments by accessing lower ticket size purchases and have historically been cash-based.

In Quarter 1, our tokenization capability was selected as part of a mobile payment launch in South Korea, and even a significant number of private-label cards for contact-less and thereby giving us the opportunity to deliver services on those transactions. We continue to see momentum in Tap on Phone with programs across more than 70 markets globally. We continue to scale, including with Stripe who announced in Quarter 1 that they have enabled Tap to Pay on Android in multiple markets.

In addition to helping our partners bring Tap on Phone to market, our Cloud Commerce Acceptance Technology is now live in Europe. Our Cloud Commerce capabilities make it easier and quicker for businesses of all sizes to accept payments and on virtually any device. And Click to Pay is now live in nearly 30 markets globally, including key markets such as Australia, Brazil, U.K. and U.S. We're partnering with payment service providers like Nexi in Italy to further expand our presence.

This is all complemented by our work with partners to grow acceptance by integrating the payment experience where their customers are. You see that in the social commerce space with what's happened in Brazil, enabling consumers to make purchases directly from small businesses right within a chat. Further, we remain focused on expanding our set of new payment capabilities to capture a prioritized set of new payment flows.

I'll highlight a couple of areas we are targeting. Starting with commercial. We've had a strong growth in this space with volumes across our commercial credit and debit products in Quarter 1, up 21% versus the prior year on a local-currency basis. We see substantial opportunity to grow in commercial, particularly with our virtual cards and small-business solutions. With virtual cards, where we are the market leader, one of our initiatives is to integrate our solutions with leading B2B technology platforms.

This quarter, we signed a partnership agreement with Coupa to enhance their Coupa Pay solution, which embeds virtual cards to address accounts payable floats. On the small-business front, today, only a small fraction of payments are captured on card. We are enhancing the value propositions from programs like Easy Savings, which offers automatic merchant-funded rebates to nearly 14 million enrolled cardholders in over 80 countries.

And we are growing by establishing new issuance deals through partners like Galileo in United States. The Mastercard will be the preferred brand for small-business and commercial programs. Now, beyond commercial disbursement and remittances, flows represent a significant opportunity for growth through geographic expansion, new distribution partners and an expanding set of use cases.

In terms of new markets, our gaming use-case is now live in Canada and Peru. And we have added cross-border origination to the UAE and Uzbekistan. By connecting with MFS Africa, a leading digital payment company, we have enabled mobile payouts across 10 markets in Africa. We are working with distribution partners like Checkout.com to increase reach to even more customers in Asia and the United States.

And we're enabling our cross-border services solutions to small and mid-size banks through Cross-Border Services Express with a simple-to-use digital-first solution. Participating financial institutions can offer their customers the ability to send money or pay vendors across the globe quickly and securely.

In terms of expanding use cases, we have enabled cash-in at U.S., in Europe and the U.K., facilitating under-bank customers to safely load cash into their accounts from a non-bank location, which can also help drive follow-on card spend. So as you can see, we continue to make broad-based progress in addressing our prioritized set of new payment flows.

Turning now to services. We love services, where we are focused on growth and resiliency through scaling our existing solutions and adding new capabilities. As merchants and consumers shift to digital, our comprehensive set of cyber security solutions becomes even more critical. For instance, RiskRecon helps an enterprise identify their own cyber security vulnerabilities, as well as for the ecosystem partners.

With our acquisition of Baffin Bay Networks this quarter, we now have a solution to help these customers act on this information, specifically Baffin Bay's AI-enabled cloud-based threat protection helps us stop cyber attacks related to malware, ransomware and DDoS attacks. The acquisition also complements our other cyber offerings including our simulation and assessment tools, as well as our cyber security consulting practice.

You all are familiar with our comprehensive set of data analytics, marketing and loyalty assets. These are about helping our partners make smarter decisions to drive better outcomes. For example, Agoda, one of the world's fastest-growing online travel platforms in Asia, is leveraging our economic insights to inform their strategic planning.

MediaMarktSaturn, the largest electronics retailer in Europe, is utilizing our Test & Learn capabilities to support the assessment and optimization of new business initiatives. We also continue to make progress signing deals with retail and commerce partners, like Europe and PUMA, to utilize our recently-acquired personalization platform, Dynamic Yield.

We continue to look for ways to combine all these assets to deliver valuable end-to-end solutions. We just announced Element, a suite of applications which brings insights from Mastercard data analytics to enrich Dynamic Yield's personalization experience.

Our third key priority area is embracing new networks, where we are making progress in the areas of open banking and digital identity. In open banking, we continue to work with a broad set of banks and fintechs who are interested in its potential across a wide range of use cases. In addition to the Pay By Bank solution with JPMorgan that we announced last quarter, we are working with payment risk and identification company, GIACT, member of the London Exchange Group, to embed a secure account verification solution. Also, Saxo Bank will use our open banking technology for account opening and top-ups in Europe.

Further, we are developing capabilities on top of our open banking platform. We have advanced analytics, partnering with fintech innovators like upSWOT, NAF, Enigma and Gen Equity to expand access to capital with better data for making lending decisions. This is another great example of how our technology supports small business.

Moving next to digital identity. We continue to see strong adoption of our intelligent identity solutions powered by machine learning. This quarter, we secured a key partnership with Southwest to embed our Intelligent Identity solutions from (inaudible) to reduce fraud and friction in digital interactions. Still early stages with open banking and digital identity, but we are making progress scaling our technology to new markets and use cases with notable partners.

So with that, I'll wrap it up. And in summary, we delivered another strong quarter of revenue and earnings growth, reflecting a resilient consumer and a continued recovery of cross-border travel. We will continue to watch the environment closely and are prepared to act as circumstances dictate. We see significant opportunity ahead, having now surpassed 100 million acceptance locations worldwide. And our focused strategy, diversified and resilient business model and strong relationships around the globe position us well through economic cycles.

Sachin, over to you.

Sachin Mehra {BIO 15311008 <GO>}

Thanks, Michael. Turning to Page 3, which shows our financial performance for the quarter on a currency-neutral basis excluding special items and the impact of gains and losses on our equity investments. Net revenue was up 15%, reflecting resilient consumer spending and the continued recovery of cross-border travel. Operating expenses increased to 12%, including a 2-ppt increase from acquisitions.

Operating income was up 17%, which includes a 1-ppt decrease related to acquisitions. Net income was up 2%, which includes a 1-ppt decrease related to acquisitions. EPS was up 4% year-over-year to $2.80, which includes a $0.07 contribution from share repurchases. Of note, the respective growth rates of net income and EPS were negatively impacted by a low tax rate in 2022 as a result of a sizable discrete tax benefits last year. During the quarter, we repurchased $2.9 billion worth of stock and an additional $602 million through April 24th 2023.

So now let's turn to Page 4, where you can see the operational metrics for the first quarter. Worldwide gross dollar volume, or GDV, increased by 15% year-over-year on a local-currency basis. On the same basis, if you exclude Russia from the prior period, GDV increased by 16%. In the U.S., GDV increased by 9% with credit growth of 15%, reflecting in part the recovery of spending on travel. Debit increased 3%. Excluding the impact of the roll-off of a previously discussed customer agreement, debit increased approximately 6%.

Outside of the U.S., volume increased 18% with credit growth of 17% and debit growth of 19%. Cross-border volume was up 35% globally for the quarter on a local-currency basis, reflecting continued improvement and travel-related cross-border spending.

Turning to Page 5. Switched transactions grew 12% year-over-year in Q1. Excluding Russia from the prior year, switched transactions grew 20% year-over-year in Q1. Both card-present and card-not-present growth rates remained strong.

Card-present growth was aided in part by increases in contactless penetration, as contactless now represents over 58% of all in-person switched purchase transactions. In addition, card growth was 9%. Globally, there are 3.2 billion Mastercard and Maestro-branded cards issued.

Turning to Slide 6 for a look into our net revenues for the first-quarter, which were above our expectations. As a reminder, we recently revised our disaggregated revenue disclosure. Net revenues are now broken down into two new categories; payment network and value-added services and solutions. Now getting into the numbers, described on a currency-neutral basis. Payment network net revenue increased 10%, which would have been 1 ppt higher if we excluded the Russia-related special item, which benefited Q1 2022. The growth in payment network was primarily driven by domestic and cross-border transaction and volume growth and also includes growth in rebates and incentives.

Value-added services and solutions net revenue increased 21%, including a 1-ppt benefit from acquisitions. The growth was primarily driven by the continued strong growth of our cyber and intelligence solutions, driven by underlying driver growth, higher demand for our fraud solutions, as well as the scaling of our identity and authentication solutions. And we saw a healthy demand for our data analytics, consulting and marketing services, as well as our Loyalty Solutions.

Now let's turn to Page 7, starting with key metrics related to payment network, again described on a currency-neutral basis unless otherwise noted. Looking quickly at each key metric. Domestic assessments were up 9%, while worldwide GDV grew 15%. The difference was primarily driven by mix and the under-reporting of volumes from sanctioned customers in Russia last year, which accounted for approximately 2 ppt of the variance.

Cross-border assessments increased 39%, while cross-border volumes increased 35%. The full ppt difference is primarily due to favorable mix and higher-yielding ex intra-Europe cross-border volumes grew faster than intra Europe cross-border volumes this quarter. Transaction processing assessments were up 14%, while switched transactions grew 12%. The 2-ppt difference is primarily due to FX-related revenues.

Other network assessments related to licensing, implementation and other franchise fees were $212 million this quarter. It's important to note that these other notebook assessments may fluctuate from period to period.

Moving now to Page 8. You can see that on a non-GAAP currency-neutral basis, excluding special items, total adjusted operating expenses increased 12%, including a 2-ppt impact from acquisitions. Excluding acquisitions, the remaining increase was primarily due to increased spending on personnel to support the continued execution of our strategic initiatives. Operating expenses were higher than expected, in part due to personnel costs to support higher-than-expected revenue, as well as unfavorable foreign-exchange related expenses due to the remeasurement of monetary assets and liabilities.

Turning to Page 9, let's discuss the operating metrics for the first three weeks of April. As a general comment, our metrics are holding up well in April. As expected, the year-over-year growth rates are being impacted by two opposing factors. One, more difficult comps as we began lapping the effects of Omicron; and two, the lapping of the drag created by the suspension of our operations in Russia in March of last year.

To aid in your understanding of the underlying spending trends and eliminate some of the noise induced by the lapping effects, we have also included the metrics Index 2019 levels on the slide. Let's discuss each of the metrics in turn. Starting with switched volumes. Through the first three weeks of April, we grew 17% year-over-year, down one ppt versus Q1. This reflects more difficult comps and some modest slowing in the U.S. due to lower tax refunds.

This started in March and continued into April. This was partially offset by a 3-ppt benefit from the lapping of Russia. Switched transactions grew 18% year-over-year through the first three weeks of April, up 6 ppt versus Q1. This includes an 8-ppt benefit from the lapping of the suspension of operations in Russia.

As a reminder, Russia had a relatively low average ticket size, which results in a larger relative impact to this metric. In terms of cross-border, volumes grew 29% on a year-over-year basis, down 6 ppt from Q1. This reflects the continued recovery in cross-border travel, as well as the positive impact of lapping the suspension of our Russian operations, but is more than offset by a tougher year-ago comp, as travel surged after the passage of Omicron last year.

Cross-border volume is indexing at 171% of 2019 levels in April up from 168% in Q1. To further assist your understanding of the trends in the business ex Russia, where we suspended our operations in March 2022, we have included an appendix to show all data points from this schedule, if you excluded activity from Russian-issued cards from current and prior periods.

Turning to Page 10, I wanted to share our thoughts on the remainder of the year. Let me start by saying that our business fundamentals remain strong, and our diversified business model and our momentum with our customers position us well for the opportunities ahead. Consumer spending overall remains healthy, albeit with some recent moderation in domestic spending in the U.S. in part due to lower tax refunds this year.

At the same time, as Michael noted, the recovery in cross-border travel continues with inbound travel to all regions now well above 2019 levels. Within Asia, in Q1, China outbound cross-border travel increased to approximately 65% of Q1 2019 levels, while inbound reached 45% on the same basis. As a reminder, China made up 2% of outbound and 1% of inbound cross-border travel in 2019. We remain well positioned to capitalize on this growth with our travel-oriented portfolios and related service offerings.

While we are monitoring a number of macro and geopolitical factors, our base-case scenario assumes consumer spending remains resilient and cross-border travel continues to recover. All the year, our outlook has improved modestly, reflecting our stronger-than-expected performance in Q1. We expect net revenue growth for the full-year 2023 to be at a low-teens rate on a currency-neutral basis, excluding acquisitions and special items.

This growth rate would be higher by approximately 1.5 ppt, if you exclude Russia-related revenues from 2022. Warning change is expected to be a tailwind of 1 ppt for the year and we expect minimal impact from acquisitions. Our expectations for operating expense for the year are unchanged, with growth expected to be at the high end of a high-single-digit rate on a currency-neutral basis, excluding acquisitions and special items.

Acquisitions are forecast to add about 1 ppt to this growth, while foreign exchange is expected to have a minimal impact for the year. Again, we are prepared to proactively adjust our operating expenses, if we see meaningful changes to top-line growth.

With respect to the second quarter, year-over-year net revenue is expected to grow at the high end of a low-double-digit rate, again on a currency-neutral basis excluding acquisitions and special items.

Coming off of a strong Q1, this sequentially reflects a tougher year-ago comp, lower anticipated FX volatility, partially offset by lapping the suspension of operations in Russia. Foreign exchange and acquisitions are not expected to have much of an impact for the quarter. From an operating expense standpoint, we expect Q2 growth to be at the high end of a low-double-digit rate versus a year-ago on a currency-neutral basis, excluding acquisitions and special items.

This includes cost of approximately 2 ppt associated with the wind-down of our efforts related to the P27 project, given their decision to withdraw their license application in the Nordics. Acquisitions are forecast to add approximately 0 ppt to 1 ppt to this growth, while foreign exchange is expected to be a tailwind of approximately 0 ppt to 1 ppt.

Other items to keep in mind. First, on the other income and expense line, we forecast an expense of approximately $100 million for Q2, given the prevailing interest rates and debt levels, which includes a sequential increase due to our recent debt issuance. This excludes gains and losses on our equity investments, which are excluded from our non-GAAP metrics.

Second, we expect the non-GAAP tax rate of between 18.5% and 19% for both Q2 and the full year based on the current geographic mix of our business.

Before I turn the call back over to Warren to begin the Q&A session. I wanted to express my deep gratitude to Warren for the thought leadership, dedication and friendship he has demonstrated over his last six-plus years at Mastercard. As previously announced, Warren will be handing over the Head of IR role to Devin Corr effective May 1 and will be with us through year end in an advisory capacity.

Thank you, Warren, and over to you for the Q&A session.

Warren Kneeshaw {BIO 16549173 <GO>}

Thank you, Sachin. I have to say, it's been a distinct pleasure.

With that, let's turn it over to questions. Audra, we're ready to go.

Questions And Answers

Operator

Thank you. (Operator Instructions)

We will take our first question from Lisa Ellis at MoffettNathanson.

Q - Lisa Ellis {BIO 18884048 <GO>}

Hey, good morning. Thanks for taking my question. And Warren, you will be missed, of course. I just had a question about FedNow coming in July. Of coursem Vocalink has been involved in The Clearing House's RTP network. Can you just kind of give your perspective on how you expect the rollout of FedNow to effect Mastercard's business in the U.S., positively or potential pressures? Thank you.

A - Michael Miebach {BIO 16087573 <GO>}

Good morning, Lisa. Thanks for your question. And thank you for missing Warren. So on FedNow. Important development, of course, where we've been watching closely. As you know, for years we've been involved in real-time payments. So, yeah, it's been our learning over the years that it's really critical that there is a proposition for merchants, there is a proposition for consumers, for -- really for these systems to grow.

On the merchant side, criticality is reach and for the consumers, it's got to be a proposition that's an easy experience. And it's got consumer protection in it. So, those are all aspects that the card systems have demonstrated over the years and we'll have to see where these B2B systems go with that. Fundamentally, we appreciate competition, it makes us a better company as we try to make our proposition even better.

Now, on FedNow very specifically here. A technical go-live is different from being available for consumers and merchants, as I've just discussed that we have to see where that goes and what the features will be, what is the user experience, what are any kind of protections that would be in their forecast for consumers and so forth.

We will continue to seek ways to partner with B2B systems, and the same applies here in the United States. The flows that this my target, which are currently flows on account-to-account, you will recall the announcement that was made in the last quarter with Chase on Pay by Account. So, those are alternative solutions that would be in the market to capture some of these new inflows.

So opportunity, threats, we'll have to see how it plays out. I think we're well positioned.

Q - Lisa Ellis {BIO 18884048 <GO>}

Thank you.

Operator

We'll go next to Tien-tsin Huang at J.P. Morgan.

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

Hey, thanks. Yeah, and my thanks to Warrent as well. I forgot that May 1st crept upon us. I want to ask a macro question because, Michael. I think you asked for more questions last quarter. So, I'll ask you one on generative AI, if that's alright. And you guys have...

A - Michael Miebach {BIO 16087573 <GO>}

Hi.

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

Hi, yeah. So, I know you have a data analytics and consulting business within your VAS. And so just curious, how are you thinking about generative AI and ChatGPT get a lot of attention, so your thoughts on impact on VAS, maybe on the broader business as well?

A - Michael Miebach {BIO 16087573 <GO>}

All right. Thank you, Tien-tsin. This is certainly a topic that got a lot of attention, particularly since the latest model of ChatGPT was out there. (inaudible) gets attention. Every day, there's a whole set of headlines. For us, we've been using AI for the better part of the last decade. So, it's embedded in our whole range of our products. Just now, I talked in my prepared remarks about Baffin Bay Networks, which, you will all be surprised, is actually not in Canada, but in Sweden, the company. They using AI-enabled threat protection solutions. So, you'll find it embedded in a whole range of our products, including generative AI. So, we have used generative AI technology, particularly in creating datasets that allow us to compare and find threats in the cyber security space. You will find AI in our personalization products. So, there's a whole range of things that we -- set us apart. We use this as foundational technology. And internally, you can see increasingly so that generative AI might be a good solution for us when it comes to customer service propositions and so forth. So, we're actively engaged on that. Fundamentally though, I think we all have to be aware that the application of AI needs to be done in a principled way.

We approach data privacy in a principal way, we approach crypto space in a principal way and the same thing applies here. So, trustworthy AI is clearly the focus. We've encouraged our employees to experiment with the technology, but we said very clear guardrails, don't do it in production. But it's something that we cannot afford to ignore. We will not. We will lean in, but make sure that we are a trusted party when it comes to scaling it up.

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

All right.

Operator

We'll go next to Darrin Peller at Wolfe Research.

Q - Darrin Peller {BIO 16385359 <GO>}

Hey, thanks guys. Maybe you could just give a quick update on business activity. Obviously, incentives and rebates not reported the same way, but I know we have a pickup in the year. And so going back '15 and '16 -- 2015 and '16 when you had a big incentives, rebates year, it tended to be followed by an acceleration in volume and revenue growth in the years after.

So maybe just give us a sense of what's driving the increase this year, what kind of activity levels you're seeing now, and if we can expect a similar follow-through in the years to come?

A - Michael Miebach {BIO 16087573 <GO>}

All right. Darrin, let me start on that. We see very encouraging activity. In fact, it was tough to make choices here what not to tell you in the 15-minute overview that I gave you. So, solid activity in deal wins. And you recall some of the bigger deals that we have announced in 2021 and 2022, which are behind some of the share gains that we're seeing, particularly if you look at the Europe numbers. So, that is having some impact on how the R&I plays out, but I'll defer to Sachin to say a little bit more, but overall, the activity is very healthy.

A - Sachin Mehra {BIO 15311008 <GO>}

Hey, Darrin. Good morning. Look, it's like Michael said. Right? I mean, we compete everyday in the market, we are being successful in what we're doing in terms of winning new business and retaining existing business. That's very much the (inaudible) we've adopted as a company. That's very important part of the growth algorithm, which we have laid out for ourselves to drive growth for us.

Because at the end of the day, we believe very firmly that being in the floor is important because you get the benefit of PC, you get the benefit of secular shift, but you also get to deliver additional services by being in the floor. And so, really what we're trying to do is we're trying to do win profitable market share and at the same time, drive an accretion in our overall net revenue yield, which is really about taking it together in the composite because payments and services and our new (inaudible) are very tightly integrated together.

They -- One relies on the other, and we have to look at this from an overall net revenue yield basis. And so, that's really what's going on. To your specific question about rebates and incentives, look, I mean, we've always kind of shared with you rebates and incentives and we're sharing with you what the rebates and incentives on our payment network are even now. The reality is, as and when deals come up, we will compete for them. We'll do that in a smart manner.

For Q2, I can tell you that rebates and incentives, as a percentage of Google payment network assessments, will be roughly similar to what we had in Q1. So, that based on everything we can see from a line-of-sight standpoint in terms of details and activity and so on and so forth, that's what I can you share with you at this point in time.

Q - Darrin Peller {BIO 16385359 <GO>}

All right, very helpful.

Operator

We'll go next to Rayna Kumar at UBS.

Q - Rayna Kumar {BIO 17409639 <GO>}

Good morning. Congratulations, Warren and Devin. I want to ask about Europe. You saw 31% volume gain in the quarter, that's outstanding. Can you talk a little bit about some of the market dynamics you're seeing in that region, and whether your stuff is more reflective of market share gains or just strength in the overall shift to electronic payments?

A - Michael Miebach {BIO 16087573 <GO>}

Rayna, I think I almost partially answered your question just now. So deal activity is strong. But here to the second half of your question there. Through the last three years, you saw some European markets, some large European markets that had been historically less digitized and more cash-focused to really catch up. The stats I gave earlier on contactless penetration includes a good number of European markets jumping ahead in the ranking. So, strong secular shift, that's an opportunity. You start to see some of the payment service providers driving more acceptance into more parts of the economy and that's also reflected in some of the acceptance growth that we talked about. $100 million, a good chunk of that is coming from Europe. So, it's a mix of the share wins than we have seen very specifically in the U.K. and the secular shift. So, we feel very well positioned in Europe.

Operator

And we'll move next to Bryan Keane of Deutsche Bank.

Q - Bryan Keane {BIO 1889860 <GO>}

Hi, good morning. Just wanted to ask about cross-border volume. I know, was up at 29% for the month of April -- or through April 21st. Just thinking about how that might grow throughout the year. Is that the right number to think about for our models? And just thinking about the Asia recovery, what's left there? Obviously, we talked about China and just thinking about that business as we progress through the year?

A - Michael Miebach {BIO 16087573 <GO>}

Sure, Bryan. Look, here's what I would tell you. I'd say, the things to keep in mind when you're putting a model together, and this will be no surprise to you, is we did see a opening up of economies last year coming out of COVID and as we mentioned, in Q1, we were in the face of Omicron, we started to see that recovery kind of take place as Omicron passed. And so what you should expect is, there aren't going to be lapping related issues which will be a headwind to year-over-year growth rate on all metrics. And in cross border as well.

Now, offsetting that to some extent would be the recovery from Asia-Pacific, which is something we saw happened towards the tail end of last year coming into this year. So, there are puts and takes. I'm not going to give you a specific forecast as to what that growth rate should look like from our model assumption standpoint, but I think there are these important puts and takes which you've got to kind of keep into consideration as you think about cross-border.

The most important thing, I think, is that the value prop we deliver through our cross-border proposition is still fundamentally very sound. This is really important. As you remember, over the last two or three years, it was being questioned as to whether cross-border a something which was gonna remain challenged over long term. The reality is, it has come back, it has come back strong. We have positioned ourselves really well through the pandemic period to be winning good portfolios, to be able to ride the wave back up. And you're seeing the results of that come through with some really strong cross-border performance in Q1, with 35% year-over-year growth.

And so the reality is, that cross-border proposition remains good. Just as a matter of reference, if you look at our cross-border volumes for Q1, at 168% of 2019. And you can do the math as well. The reality is that reflects approximately a 14% compound annual growth rate over the window from the theater prior to the pandemic to where we are in Q1. And so, you've pretty much got caught up for last time as part of that process, if you go back to what our historical rates in cross-border were.

So, I kind of wonder to share that with you in terms of how we see cross-border going forward.

Operator

We'll move next to Sanjay Sakhrani at KBW.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thanks, good morning. I guess -- I know you're not changing your views on the macro for the rest of the year, but you're monitoring the situation. Maybe you could just give us a little bit more color, if we parse underneath the covers, what gives you the confidence things are stable despite the slowing in April -- March and April? And then, the forward-look on just spending trends in cross-border? Thanks.

A - Sachin Mehra {BIO 15311008 <GO>}

Yeah. Hey, Sanjay. Look, I mean, at the end of the day, what we see is what you see from a consumer standpoint. And we have our bet estimates as to what we kind of think that looks like on a go-forward basis. Like Michael said, that are positive and negative factors. The health of the consumer remained strong, backed by record-low unemployment rates. And that gives us a level of confidence. On the flip side, you've got the headwinds which come along with higher interest rates, more recently the banking crisis which we're all going through. And we have no idea as to what the implications of the banking crisis are going to look like on a go-forward basis. So, our views in terms of the strength of the consumer remain pretty much unchanged at puts and takes by region. Based on the fact that at this point in time, there is no real evidence to see that the consumer is not showing good strength from a spend standpoint, they are in good shape.

The year-over-year growth rates, like I mentioned earlier, are going to change. You're going to see the lapping effect of that come through because of the recovery last year. That's got less to do with what spend levels this year are, as compared to anything else. And it's on the base of that that we have modestly increased our full-year guide on a currency-neutral basis excluding acquisitions to reflect the fact that we had a stronger Q1.

And we feel like overall from a consumer health standpoint, our assumptions are relatively unchanged between what it was one quarter ago towards where we are right now.

A - Michael Miebach {BIO 16087573 <GO>}

One thing to add here, and I'm just looking at my phone here. Can you imagine, in a conference call. But it was the reporting of the Quarter 1 GDP numbers. And if you look into that, there is -- the consumer does stand out positively. So, the resilience even in that number is reflected. I think the point on -- that I mentioned earlier on the impact of stresses on the banking sector, that's another one that we did talk about.

And here, if you think about what does this mean in terms of potentially additional regulation, what it means in terms of credit appetite for banks and so forth, those are all not near-term effects that we can judge at this point in time. So, some of the outlook that we're taking here is a near-term outlook for the year and we'll have to see how things develop over time. Again, flexibility and agility is critical. And so, we feel ready for all of that.

Operator

We'll move next to Harshita Rawat at Bernstein.

Q - Harshita Rawat {BIO 18652811 <GO>}

Hi, good morning. I have a question on value-added services. Can you unpack the competitive set for these different services; cyber intelligence, data services, other; and kind of highlight Mastercard's opportunity to increase penetration of these services within the existing client base and also continue to get new clients?

And just as a follow-up, Sachin, if you can also remind us of the profitability of value-added services versus your payments (inaudible)? Thank you.

A - Michael Miebach {BIO 16087573 <GO>}

Great. Harshita, let me start on this. So first, on the competitive on the competitive landscape. As Sachin was saying earlier, our services strategy is closely tied-in with our payment strategy. So, we're not your average service competitor as in a cyber security company that competes with a bunch of other cyber security companies. We are somewhere in the middle between both and being in the flow gives us additional data points that makes us a fairly unique competitive landscape for us, which is why we like the combination of both. But very specifically on cyber security, you have a whole set of specialty players. Baffin Bay was a specialty player and yet was dealing in threat protection. As we were ourselves at RiskRecon before, it's just a slightly different angle of that. So, we are very aware of the wide competitive landscape here, but our position, I think, sets us apart.

Now, there is other potential competitors closer to the payment space who are looking at services as well. So, we're trying to keep our services set differentiated and ahead of the curve. It's the same thing for for data and services yet again, a lot of data and SaaS companies that are building their businesses. But on the other hand, we have a set of customers today, and we have a set of transactions of these customers that these companies want to understand and why did they come to an integrated provider that helps them with both.

So, that's again a unique position for us. To look at, I think, Dynamic Yield and how we're combining that with our dataset as I referred into in my earlier remarks, I think is an excellent example of that. So, that's the competitive landscape that we're looking at. It's a fast-moving one. So, we have -- we will continue to have that in focus.

A - Sachin Mehra {BIO 15311008 <GO>}

And Harshita, I'll just add a couple of thoughts to what Michael said and get to your question around how the financials play out for what we've done on the services side.

So, a couple of things. One, just even adding to what Michael said, structurally, if you think about how the world is going more digital, as the world goes more digital, there is going to be likely increasing fraud-related issues which come in in increasingly digital world. There are structural tailwinds, which we feel good about. And so long as we can continue to grow our portfolio to ride those structural tailwinds is another piece which helps us think that there is good runway on services.

The second piece which Michael said, which was around data and the power of data, is one of the ingredients which makes us successful across both C&I and D&S. But then there are others, which is, do you have the technology, do you have the AI capabilities, and can you seamlessly deliver this to your customers so that there isn't big implementation challenges, all of which when you think about our network play allow us to do that in a very efficient manner, which is what's been helping us drive the kind of growth you've seen.

On your question around the financials, I will tell you that, I mean, there is a range of what I would call incremental costs, which come depending on the nature of the service we deliver. So, things which are more, I would say, attached to the payment network, such as some of our cyber and intelligence solutions, some of our data solutions, they tend to come with lower incremental cost. There are others such as our consulting capabilities such as our marketing services capabilities, they come with a little bit higher in the nature of incremental costs. And so, the overall mix is really important because they all kind of hang together. It's important for us to provide those consulting services and marketing services in order to be able to be a full-service provider to our customers. And that's only speaking about services.

Now when you take that and you kind of tie that back to how it helps us win market-share in payments, that's the other piece, which is super important as part of this, because the economics need to be thought about in the composite as opposed to each one of these services individually.

Operator

We'll go next to David Togut at Evercore ISI.

Q - David Togut {BIO 1496355 <GO>}

Thank you, good morning. Last summer, London Heathrow Airport put some severe capacity limits on the airlines. Those limits came off a while back, but I'm curious whether you're getting any indication on advanced cross-border summer travel, as things opened up a bit more at Heathrow, and how can we think about the impact on cross-border revenue for the rest of this year?

A - Michael Miebach {BIO 16087573 <GO>}

Sure, David. Here's what I'd say. I'd say, you hear what we hear, as it relates to what the airlines' plans are from a capacity release standpoint. And the reality is, I think everybody is trying to find that right balance between bringing on more capacity and what the implications for the price procedures as part of that process.

And so, we feel generally good about the prospects of travel. I mean, the reality is there's a trend from the consumer towards more spending on experiences. Experience tends to be travel- and entertainment-related stuff. And so generally speaking, that trend is going in the right direction. As more capacity comes on, which we expect will happen, right, you will tend to see the benefit of that come through in our cross-border travel metrics.

Again, I'll remind you strong value prop, year-over-year lapping issues, which are there from year-over-year growth rate standpoint. And then the third piece is, we have the potential for recovery in Asia-Pacific and I wanted to kind of bring that whole thing into the picture beyond the capacity question you asked.

A - Sachin Mehra {BIO 15311008 <GO>}

So, hard to predict, but the fact is capacity isn't fully back. So, that's one important aspect when we gave you the outlook later on.

Q - David Togut {BIO 1496355 <GO>}

Understood. Just as a quick follow-up on Europe, just your updated thoughts on the rollout of ACH payments in Europe under open banking would be appreciated.

A - Sachin Mehra {BIO 15311008 <GO>}

All right, David. So, let me take a look at that. Conversations in Europe have been going on for years on ACH systems. As you know, when the U.K. was part of the EU, I don't even know if it's Europe right now or not, but we invested in Vocalink. So, we have an account-to-account system in Europe for a long time, we're having some stakes in other B2B systems on the continent and so forth.

The most late -- The most recent development here is the announcement around the European payment initiative, which is yet another effort in account-to-account. Europe is the land of domestic systems and domestic payment solutions. It's a very versatile competitive landscape and there's more coming. We have found ways to partner. We have found ways to compete. And in the case of API, we are partnering with the owner banks to push our solutions. At the same time, we'll have to see where API goes and then we stand ready to engage one way or another, depending on their willingness. As you can see, Europe has been a source of share growth for us and revenue growth. So, we know how to play this environment.

Q - David Togut {BIO 1496355 <GO>}

Understood. Thank you.

Operator

We'll go next to Ramsey El-Assal at Barclays.

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

Hi, thanks for taking my questions and best of luck to Warren in his future endeavors. My question is for Sachin. I wanted to ask, you called out tax refunds a couple of times, just weighing on U.S. volumes sort of more recently. Should we think about that as normalizing into Q2? Does it flip to more of a tailwind? And then I guess secondarily, how do you see the spread, which is pretty wide, between U.S. and worldwide metrics trending this year ex Russia? Will it stay pretty wide? Will it tighten as maybe tax refunds normalize? How are you looking at it?

A - Sachin Mehra {BIO 15311008 <GO>}

Yeah, look, I mean, the data we look at for what we're seeing from a tax refund standpoint is what we see on the IRS website. Right? And so, you can take that for what it's worth, because that's the insight we've kind of gone on. What we've seen is that the tax refunds tend to happen mostly in this window around, call it, March and going into April. So, we view this impact of the lower tax refund to be relatively transitory. And I say that only because as the year progresses, if there were lower tax refunds, the implications of that would be minimal, just because the vast majority of the refunds happen around the period the we're talking about right now. So, that's why we view them as being transitory.

The other thing to keep in mind is, on account of some of the natural disasters which have taken place, there are some states in the U.S., which have -- where from a federal tax standpoint, they've been given more latitude in terms of what the tax filing date is. And so, that's the other thing to keep in mind in terms of what the potential might be for a catch-up on some of these lower tax refunds. Again, very hard to predict, but I want to kind of bring those two pieces out there.

On your second question on U.S. versus Rest of World trend, at the highest level, I'd tell you, I feel pretty good about what we're seeing on our overall operating metrics. I mean, these are pretty compelling operating metrics from a growth rate standpoint. You've got 15% credit growth taking place in the U.S., it's being driven in a large part by just consumers' desire to get back to experiences. Our portfolios; our co-branded portfolios, our travel portfolios are performing very well. And again, if you kind of want to think about the go-forward, the reality comes back to the broader questions we were talking about; how do we feel about drivers from a domestic expense standpoint and the cross-border spend standpoint?

All of that will manifest themselves in terms of what U.S. volumes look like going forward. On the rest-of-world side, obviously, we've got some really good metrics there as well, both across debit and credit. And you're seeing the impact of some of our market-share wins in those metrics. As the year progresses, you're going to start to see the impact of that market-share on some of the players start to tail-off, just because you'll be reaching the lapping stage on that. So, you need to keep that in mind. That should help you kind of model out as to how the gap between the U.S. and the rest of world plays out, as we progress through the year.

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

Super helpful, thanks.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure.

Operator

We'll go next to Andrew Jeffrey at Truist Securities.

Q - Andrew Jeffrey {BIO 1493346 <GO>}

Hi, good morning. Appreciate you taking the question. Michael, I would like to ask you about the India opportunity and specifically, the potential inclusion or inclusion of Mastercard credit products in UPI? I just wonder if you could frame that up so much to talk about rest-of-world growth in cash-based economies and especially those in which perhaps account-funded wallets have moved to the fore.

Can you just dimensionalize or give us an update on your India positioning?

A - Michael Miebach {BIO 16087573 <GO>}

Right. So, India is hugely important market for us. We have a large number of our employees based in India, serving the Indian market as well as other markets in Asia. Deep engagements with customers there. It's interesting when you look at the market from where it has gone. Under the lead of India's government, they build a tremendous digital economy. So, the India tech stack has really opened up the digital economy at a much, much different scale than before and we like that. That gives us an opportunity for us to engage with our customers, many more Indian citizens.

So, we generally see that opportunity, it's also true though that today, everyday solution around debit and credit matter. And we have now reach -- we're back to pre-embargo growth on the issuing side with our customers in India. So, that is looking very, very positive. We're back at the market there. So, we're playing both of that. It's a market where you'll see more innovation coming from us off the folks that are based there.

So, there is a financial inclusion opportunity, there is an everyday opportunity in credit and debit. And this is now the most populous country in the world. So, it's going to be the theater of the future, and we're excited to be involved there. Where is all the engagement going within your tech stack, what does it mean for it, will cards and how will cards be linked into UPI and so forth; the details is yet to be seen, but we are active in those conversations. And in the end, when we have an opportunity to partner, then we will try to do that.

Q - Andrew Jeffrey {BIO 1493346 <GO>}

Okay. I look forward to tracking that. Thanks.

A - Michael Miebach {BIO 16087573 <GO>}

Audra, we have time for one more call.

Operator

And we will take that from Jason Kupferberg at Bank of America.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Hey, thanks guys. Maybe just building on that last question a little bit. You just talked about India to some extent, but which emerging geographies are you most excited about over, say, the next five years or so, just in terms of the general cash-to-card opportunity?

A - Michael Miebach {BIO 16087573 <GO>}

Right, Jason. So here, the opportunity -- I wouldn't really point to a particular geography. I think generally, the set of countries that have a lower digitization rate is a tremendous opportunity for us. We have learned how to drive digitization. Just look at Latin America, you take a country like Mexico, tremendous opportunity in terms of driving digitization up. And part of that, we have seen in Brazil.

So, you can start to make those comparisons and you add that up across the world, that is a tremendous opportunity. In terms of large-scale country opportunities, we just talked about India. And certainly not in the category of emerging markets, but China is a market that we are very engaged on today in the cross-border business and you do note that we have a license application outbound to participate in the domestic market. And we stand ready to invest forward with the Chinese consumers and businesses and we'll see where that one goes.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Great. Thanks, Michael. Any final comments?

A - Michael Miebach {BIO 16087573 <GO>}

I do have final comments. I've made it a habit to thank the 30,000 people at Mastesrcard for what they all do and I shall do that again for this quarter. That was a good quarter and it is reflective of their work. But I do want to thank you as well, Warren. So, it's been fun three years for me and previously with RJ. So, thank you for everything that you did. I think we all talked about you. I do want to talk about Devin as well.

So, if you could picture us here in this room, here's Devin and we're looking forward, Sachin and I will work with you. And I do want to say, Warren, you have built a tremendous set of relationships with the folks on the call and I look to those folks on the call, first of all thanking you guys for your support but also to give Devin the same kind of support that you have in the past.

With that, thank you very much and speak to you one quarter from now.

A - Sachin Mehra {BIO 15311008 <GO>}

Thank you.

Operator

And that does conclude today's conference. Thank you for your participation. You may now disconnect.