Q4 2023 Earnings Call

Company Participants

- Chris Suh, Chief Financial Officer
- Jennifer Como, Investor Relations
- Ryan McInerney, Chief Executive Officer

Other Participants

- Ashwin Shirvaikar, Analyst
- Dan Perlin, Analyst
- Darrin Peller, Analyst
- David Koning, Analyst
- David Togut, Analyst
- Harshita Rawat, Analyst
- James Faucette, Analyst
- James Friedman, Analyst
- Ramsey El-Assal, Analyst
- Sanjay Sakhrani, Analyst
- Tien-Tsin Huang, Analyst
- Trevor Williams, Analyst
- Will Nance, Analyst

Presentation

Operator

Welcome to Visa's Fiscal Fourth Quarter and Full Year 2023 Earnings Conference Call. All participants are in a listen-only mode until the question-and-answer session. Today's conference is being recorded. If you have any objections, you may disconnect at this time. I would now like to turn the conference over to your host, Ms. Jennifer Como, Senior Vice President and Global Head of Investor Relations. Ms. Como, you may begin.

Jennifer Como {BIO 20121273 <GO>}

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

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

Ryan McInerney {BIO 17310000 <GO>}

Good afternoon, and thank you for joining us. Before we begin, I wanted to take a moment to acknowledge the tragic loss of life and suffering in Israel and Gaza. We are in constant contact with our teams in Israel and throughout the region, and I have the deepest admiration for their commitment to each other and their clients during this exceptionally challenging time. We continue to monitor the situation, prioritize the safety of our people, and stay close to our clients to ensure the continuity of business operations.

Turning now to our results. At the beginning of 2023, there was a lot of uncertainty around the macroeconomic environment with fears of a recession. There were many unknowns around FX, volatility, interest rates, and inflation. There was also some noise in our growth rates in early 2023 due to the effects of Omicron and the suspension of operations in Russia. Against that backdrop, Visa delivered. Total full fiscal year net revenues grew 11%, with GAAP EPS up 18% and non-GAAP EPS up 17%. Prudential's grew 7%. We also surpassed 7.5 billion tokens. Total transactions, including cash and payment transactions were $276 billion, which means that Visa credentials were used on average 757 million times a day during the fiscal year. We signed over 500 commercial partnerships with fintechs globally from early-stage companies to growing and mature players up 25% versus last year.

Merchant locations were up 17%, helped by strong growth in Latin America and CEMEA. Global Tap to Pay penetration excluding the U.S. grew 5 points from last year to 76% of total face-to-face transactions, and in the U.S., penetration expanded 13 points to surpass 40%. Global Tap to Ride transactions were 1.6 billion for the full year 2023, up over 30%, and we added nearly 150 new transit systems throughout the year, such as in Philadelphia and Bangkok, bringing the footprint to more than 750 systems. More than 40% of our transit system launches this year also included our value-added services' Acceptance Solutions. On the new flow side, total revenue grew 17% in constant dollars for the full year. I'll note a few highlights. Total commercial volume was $1.57 trillion, up 12% in constant dollars. We have increased the number of banks that have signed on to Visa B2B Connect by more than 70% this year and activation continues to happen with the number of transacting banks more than doubling.

Visa Direct had 7.5 billion transactions, up 19% year-over-year and nearly 30% excluding Russia, across 65 plus use cases and over 2,800 programs, helped by more than 500 enablers. Cross-border P2P transactions grew 65% year-over-year and reached a new record for payments volume in the fourth quarter. Value-added services revenue grew 18%

for the full year in constant dollars. Across our hundreds of products, our top 265 largest clients used 22 products on average, up 8% from last year versus our overall clients who used 11 products on average. With all of this strong momentum in performance, we finished the fourth quarter with net revenue growth of 11% and GAAP EPS growth of 22%. Other highlights from the fourth quarter include the following in constant dollars. Global payments volume grew 9%. U.S. payments volume grew 6%. International payments volume grew 11%. Cross-border volume excluding intra-Europe grew 18% with cross-border travel up 26% year-over-year, and processed transactions were up 10%.

Across all our growth levers, we continue to drive progress in innovation and money movement. As I mentioned last quarter, when asked why Visa, our clients tell us they are choosing to deepen and expand their partnerships with us for a number of reasons including our people, our products, our value-added services, our new flows capabilities, and our brand. We continue to see that play out in our fourth quarter. I'll walk through each one and highlight some examples. First, Our People. We have the best team in the business and our clients tell us that they deeply value the advice, local support, and partnership from our outstanding teams who are laser-focused on helping our clients grow their businesses. Our clients also appreciate our thoughtful leadership on important and complex industry issues across the ecosystem. An example this quarter was with U.S. Bank, one of the largest issuers in the United States. They have renewed our long-term agreement for their consumer and commercial portfolios.

In addition, we are engaging on consulting services and co-marketing projects that include leveraging our NFL sponsorship. Also in the U.S., we are very pleased to have renewed our longstanding relationship with Top 20 U.S. Issuer FNBO [ph] across consumer, commercial, and value-added services. In Brazil, credit unions or cooperatives are fast growing and we recently reached an expanded relationship with SECOVI [Ph], whose system spans nearly 340 cooperatives, and 7.5 million members. In addition to our people, our payment products and innovations consistently help us win. We are constantly driving innovation and delivering next-generation payment solutions and experiences that enable our clients to better serve their customers and grow their businesses. In terms of our capabilities to serve fintechs, in Colombia, we expanded our partnership with Nequi [ph], the first digital wallet in the country to enable their 17 million plus account holders for Tap to Pay with digital credentials. We also provide targeted offerings for certain customers. In India, we are focused on delivering market-leading offerings for affluent customers.

With that in mind, we have signed with fintech Appify for a consumer credit offering for high net worth and mass affluent customers. We also recently expanded our acceptance with fintech Razorpay to enable Visa debit cards to purchase mutual funds and securities, offering greater convenience to customers, with higher payment success rates versus traditional methods. And in the e-commerce seller space, we renewed our agreement with Shopify for the balance card, allowing Shopify's U.S. sellers to access funds from sales by the next business day and receive cash back on everyday business expenses like shipping and marketing. We also signed a new issuing agreement for small-business credit. Next, our value-added services are helping us win. They help our clients innovate and grow, provide risk management solutions, and drive better outcomes for them and in turn for Visa. Our Acceptance Solutions including Cybersource have really resonated with clients this year. We sold more than 2,600 new acceptance services in over 100 countries.

In North America, Costco has chosen Visa Acceptance Solutions including Cybersource for all of their U.S. and Canadian e-commerce transactions. Alaska Airlines has selected Cybersource to process their Kiosk payments in support of their initiative to transform the airport lobby experience. In Asia Pacific, China Merchants Bank, the largest issuer in Mainland China, has renewed its consumer and small business portfolios. In addition to our flagship risk management services, Visa Advanced Authorization and Visa Risk Manager, they will also expand their use of consulting services. Bank of China and AM Financial Service in Japan have also signed on to use VAA and VRM. In Latin America, we have been focused on expanding our processing penetration as it allows us to offer more value-added services to our customers. In Colombia, we have recently expanded our processing penetration through the addition of four more banks under our strategic agreement with Credibanco [ph], the market's largest acquirer and issuer processor. This positions us to reach nearly 80% of domestic transactions by the end of FY '24 from essentially zero in 2019.

As part of these agreements, banks have added anywhere from four to 11 value-added services, including risks and acceptance services. As part of our network of network strategy, we continue to both collaborate with and offer our solutions in the real-time payment space, most recently with FedNow. In Q4, Visa became a certified service provider for FedNow. Using our service, Visa financial institution clients can receive funds in real-time through the FedNow service with origination capabilities to follow. This means that Visa is now processing FedNow payments with the clearing house RTP to follow in the next few months. Now onto our new flows capabilities, which are increasingly an important differentiator to our clients. On the B2B side, we are pleased to have reached an expanded long-term global agreement across more than 60 countries with Citibank for their commercial card business, which also encompasses over 20 value-added services. We also recently won the IBM Commercial Card business, spanning T&E, meeting and purchasing card programs in over 60 countries also with Citibank as the issuer. In Singapore, we renewed our longstanding partnership with DBS, the largest bank in Southeast Asia, to continue offering commercial debit and credit services for consumers and expanded into new commercial products for small businesses.

On the Visa Direct side, we continue to expand Visa Direct's reach, especially to wallet endpoints. Most recently, we signed an agreement with Tencent for the Visa Direct cross-border remittance business. This will bring the total wallet reach for Visa Direct to over 2.5 billion. We have expanded our partnership with Paysend from U.S. and U.K. payments to enable all of Paysend's customers across the globe to send money in real-time to eligible Visa cards across 170 countries and territories. Paysend is also a currency cloud customer offering compelling cross-border solutions. We also recently renewed with the largest issuer in Korea, Shinhan Card, for Consumer and Business Credit, which also incorporates the provision of our data capabilities in value-added services and the enablement of Visa Direct for cross-border remittances. We have also continued to add new Visa Direct use cases with our partners such as with small ticket B2B payments and bill pay. In Brazil, Banco RB [ph] will enable Visa Direct for low-value high-velocity cross-border payments as part of their corporate banking business.

In the U.S., payment platforms everywhere will be enabling bill payments with Visa Direct. And last but certainly not least, our brand. Visa's brand strength helps deliver added value to our clients and their customers, financial institutions, merchants, and partners through a wide range of products and services as well as innovative brand and marketing efforts. We are pleased to have signed an agreement with Universal Destinations & Experiences to be the exclusive payment network for their new co-branded credit card that will be issued by FNBO. In addition, Visa is now the official way to pay at Universal Destinations & Experiences and together we will provide compelling benefits to Visa cardholders across their Orlando and Hollywood properties. Also in the U.S., we have recently renewed the Fidelity Investments co-brand credit portfolio issued by U.S. Bank. And we signed with Coupang [ph], a large retailer with 20 million customers in Korea for their inaugural co-brand card. And in CEMEA, we have signed a Saudi Airlines co-brand with Riyad Bank and we renewed our co-brand partnership with Etihad Guest, the loyalty program of Etihad Airways.

As we look ahead, we're excited to be activating our brand with clients and partners at the Paris 2024 and Milano Cortina 2026 Olympic and Paralympic Summer and Winter Games. Since 1986, Visa has been a proud sponsor of the Olympic movement, which provides an unparalleled opportunity to promote the Visa brand at a regional and global level, while also facilitating partnerships and joint business initiatives with clients. The games provide a unique platform for showcasing product innovation and engaging consumers and clients with exclusive experiences. We are looking forward to the upcoming games and we have been building momentum in the business across Europe with a particular focus on the continent. I'll share a few recent highlights for our European business. On the people front, Payments is a local business and we have expanded into seven new locations over the past five years and have more than doubled our workforce in the market. On Innovative Products, we have well over 100 fintech relationships and have expanded our capabilities through the acquisitions of Tink and Currency Cloud.

In new flows, Visa Direct has more than 100 enablers and over 1,000 programs with transactions more than doubling over the past two years. And in value-added services, we have increased our client penetration. In VIA [ph] alone, the number of clients enrolled in the service has more than doubled since three years ago and we will be introducing nearly 20 additional products in 2024. We have been steadily building an attractive position on the continent and have built a strong pipeline of signed deals for the future by competing uniquely in each market. Active cards across Continental Europe have grown nearly 50% since 2019. Over the next few years, we expect to migrate more than 40 million cards across nearly 40 clients, and the nature of the portfolios we are winning in Continental Europe tend to include more cross-border volume resulting in higher yields. So, our brand, our capabilities, our people, all of these make a difference for Visa's clients. 2023 had many milestones and solid financial performance. As we are now three weeks into our new fiscal year, I would like to make a few general points, and then Chris will go into more detail.

One, there is still macro uncertainty, but just like in fiscal year '23, I'm confident that we can manage through it. Our strategy and focus remain the same, propelling growth across consumer payments, new flows, and value-added services. Two, we are focused on delivering for our stockholders. In that light, I'm sure that you saw that we released an 8-K back in September regarding our potential exchange offer program. We appreciate the dialog we've had with Class-A, B, and C stockholders, and the Board is evaluating next steps as we continue to engage with investors. Finally, you may have seen today that we announced a $25 billion multi-year share repurchase program, which reflects our Board's confidence in our strategy and future potential. I continue to see tremendous opportunity ahead. Visa has the brand, the capabilities, the strategy, and most importantly the people to propel our growth for years to come.

And with that, let me hand it over to Chris.

Chris Suh {BIO 17955231 <GO>}

Thanks, Ryan. Good afternoon, everyone. As Ryan said, Q4 was another good quarter, closing out a strong fiscal '23, driven by healthy growth in payments volume, cross-border volume, and processed transactions, and continued solid execution of our strategy with new flows and value-added services revenue growing faster than consumer payments. I'll first start with a high-level summary of our Q4 performance and then click into more details. Looking at our drivers, in constant dollars, global payments volume was up 9% year-over-year and processed transactions grew 10% year-over-year, both stable to Q3. Cross-border volume excluding intra-Europe growth was strong, up 18% year-over-year in constant dollars. Fiscal fourth quarter net revenues were up 11% and 10% in constant dollars with minimal impact from FX, in line with our expectations. GAAP EPS was up 22% and non-GAAP EPS was up 21% in both nominal and constant dollars.

Now on to the details starting with the U.S. Payments volume was up 6% year-over-year, stable to Q3. Credit volume grew 6% year-over-year and debit volume grew 7%. Card Present spend grew 3% and U.S. Card Not Present volume, excluding travel, grew 9%. U.S. process transactions growth was stable at 8%. Over the course of the quarter, we saw Payments volume growth tick-up from July to September, primarily driven by sequential improvement in ticket size growth that was mostly led by fuel with higher gas prices and easier year-over-year comparisons, as well as a positive days mix impact. Consumer spend across all segments from high to low spend has remained stable since March. Our data did not indicate any behavior change across consumer segments. In International markets, total Payments volume growth was up 11% in constant dollars. Payments volume growth rates were strong through the quarter in most major regions with Latin America, CEMEA, and Europe, ex-U.K., growing about 20% or more in constant dollars.

Now to cross-border, which I'll speak to in constant dollars excluding intra-Europe transactions. Total cross-border volume was up 18% and up 152% versus 2019. Cross-border Card Not Present volume growth excluding travel grew 9% year-over-year and 173% versus 2019. Adjusted for cryptocurrency purchases, cross-border e-commerce spending grew year-over-year in the low-double-digits, in line with pre-COVID growth rate and consistent with the trends we have seen for most of the fiscal year. Cross-border travel-related spend grew 26% year-over-year. The cross-border travel volume index to 2019 increased from 139% in June to 143% in September, totaling 141% for the quarter, a 5-point improvement from Q3.

We continued to see healthy travel volume levels in and out of LAC, Europe, and CEMEA ranging from 145% to 165% of 2019 levels. Travel volume into Asia continued to improve indexing at 128% to 2019 levels for the quarter, up 10 points from Q3, while travel volume out of Asia was up 7 points to 114%. Looking at Mainland China specifically, cross-border travel volume continued to improve but remained below 2019 levels. Travel volume outbound from the U.S. to all geographies continued to be strong in the mid-150s indexed to 2019. U.S. inbound travel recovery accelerated this quarter, pushing the index above 2019 levels for the first time even as the dollar continued to remain strong relative to pre-COVID levels. Now let's review our fourth quarter financial results. Service revenues grew 12% year-over-year versus the 9% growth in Q3 constant dollar payments volume, primarily due to business mix, pricing, and card benefits. Data processing revenues grew 13% versus 10% processed transaction growth led by value-added services and pricing.

International transaction revenues were up 10% versus the 18% increase in constant dollar cross-border volume excluding intra-Europe. Revenue growth lagged volume growth primarily due to declining currency volatility. Other revenues grew 35%, led by pricing, consulting, and marketing services and client incentives grew 20%. Now let me dive into revenues growth across our three growth engines. Consumer payments growth was driven by stability in domestic volume growth and processed transactions, as well as strong growth in cross-border volumes. New flows revenue grew 14% in constant dollars. Commercial volumes were up 9% in constant dollars and up 156% versus 2019. Remember that revenue is recorded based on last quarter's payment volumes growth, which was 9% in constant dollars in Q3. Visa Direct transactions grew 19%, and as we mentioned last quarter, we're impacted by a client that transitioned its domestic P2P transactions to an internal ledger system and that was not meaningful to revenue.

Value-added services grew 19% in constant dollars, driven primarily by strong advisory services, select pricing actions, and higher volume. GAAP operating expenses increased 13%. Non-GAAP operating expenses grew 9%, primarily due to personnel expenses from growth in headcount and FX had a nearly 2-point drag. Excluding net gains from our equity investments of $7 million, non-GAAP non-operating income was $79 million, benefiting from higher interest income due to rising rates. Our GAAP tax rate was 16.9% and non-GAAP was 17% due to a tax benefit related to the extension of the U.S. foreign tax credit regulations, which resulted in an indirect tax expense in the operating expense line and a much larger tax benefit in the income tax provision. GAAP EPS was $2.27. Non-GAAP EPS was $2.33, up 21% over last year, inclusive of a little more than half a point of drag from exchange rates. In Q4, we bought back approximately $4.1 billion in stock and distributed $928 million in dividends to our stockholders. We also added $150 million to the litigation escrow account, which has the same effect as a stock buyback. At the end of September, we had $4.7 billion remaining in our buyback authorization.

For the full fiscal year 2023, net revenues increased 11%. GAAP EPS of $8.28, was up 18% and non-GAAP EPS of $8.77 was up 17%, inclusive of an over 2 point drag from exchange rates. Now let's move to fiscal year 2024. Before we share our perspectives on the year, I want to make a few brief comments. In many ways, FY '24 will be as close to a normal year as we've had in a while. We have fully lapped the Russia and Omicron impacts and overall inflation continues to moderate in many of our markets. As such, we are pleased to resume our pre-COVID guidance practices and we'll provide our outlook for FY '24, which we will update each quarter. At the same time, we will no longer be providing the intra-quarter 8-Ks associated with interim driver updates. Now let's look at what we've seen through the first three weeks of October. U.S. payments volume was up 5% with debit and credit, both up 5%. The sequential step-down from September was primarily driven by the days mix impact in September and declining fuel prices in October. Excluding those two items, payments volume growth was relatively stable from September to October. REG II has not meaningfully impacted volumes so far. Processed transactions grew 10% year-over-year, constant dollar cross-border volume excluding transactions within Europe grew 19%, and travel-related cross-border volumes were 144% indexed to 2019.

Turning now to our key assumptions. As we've said consistently, we're not economic forecasters, and so at a macro level, we are assuming no recession in our outlook. We also not factoring in any impacts from REG II and student loan repayments, because as I mentioned before, we've yet to see any meaningful impact. As the year progresses and we gather more information with regards to these assumptions, we will continue to provide updates. For key drivers, we're assuming that the trends we saw in Q4 generally continue throughout the year. Overall payments volume growth and processed transaction growth are expected to be in the low-double-digits on a year-over-year basis. Cross-border Card-Not Present, ex-travel and ex-crypto, volume growth will continue to be in the low-double-digits year-over-year on a constant dollar basis. Cross-border travel volume excluding intra-Europe year-over-year growth will moderate to the low 20s in constant dollars and when compared to 2019 would equate to a 4-point to 5-point improvement each quarter. This assumption is driven primarily by improving AP cross-border travel volume, mostly from China and to a lesser extent improving U.S. inbound travel volume.

In terms of what this means for the financials, I'll speak to the numbers on an adjusted basis, which we define as non-GAAP results presented in constant dollars and excluding acquisition impacts, which you can review in the footnote in our earnings release and earnings presentation for more detail. Okay, first, let's discuss net revenues. For the full year, we expect low-double-digit adjusted net revenue growth. Based on current currency forward curves, FX will be approximately a 1-point drag for the year. We are assuming that currency volatility moderate slightly from Q4 levels, but remains relatively stable throughout the year. On a year-over-year basis, incentives are expected to grow slightly less than what we saw in FY '23. For new flows and value-added services, we continue to expect those to grow faster than consumer payments in FY '24. Now moving to expenses. Our current plans are to grow adjusted operating expense in the high-single-digit to low-double-digits, with approximately 1.5 points of FX benefit to nominal non-GAAP growth.

Non-operating income is expected to be between $250 million and $300 million. The tax rate is expected to be slightly favorable to our typical rate of 19% to 19.5% due to some offsetting factors. On the one hand, we have the impact of tax rate increases in certain countries, which puts our new run rate closer to 19.5% to 20%. However, we also anticipate some one-time tax benefits in the second half related to the resolution of certain tax matters. In total, this will put us between 18.5% and 19% for the full fiscal year. Putting all this together, we expect full year adjusted EPS growth in the low-teens, with about half a point of FX drag to nominal non-GAAP growth. Also, FY '24 will likely be a tale of two halves with variability in our growth rate from the first half to the second half. A few aspects to keep in mind. First, cross volume ex intra-Europe grew 31% year-over-year in the first half of FY '23 and 20% in the second half. Second, recall that we had relatively high currency volatility in the first half of FY '23 and it moderated considerably in the second half.

Third, incentives were 16% higher in the second half of FY '23 versus the first half, due primarily to deal timing and client performance. As a result, we expect overall adjusted net revenue growth to be lower in the first half than in the second half of FY '24. This will also be the case on a nominal basis even with a slightly larger FX headwind in the second half of FY'24 than the first half. On the expense side, as Ryan mentioned, this is an Olympics year and we expect Q2 and Q3 expense to have the largest percentage increases as we ramp. But adjusted operating expense growth and FX impact will roughly be the same in both halves. The tax rate is expected to be lower in the second half than the first due to the anticipated one-time tax benefits I mentioned. So for the first quarter specifically, given the variables I just described, Q1 is expected to have the lowest adjusted year-over-year net revenues growth rate with an improving trend throughout the year and Q4 is expected to be at the highest adjusted growth rate. We expect first quarter net revenues growth in the upper mid-to-high-single-digits on an adjusted basis.

A few factors to keep in mind. Again, one, currency volatility was the highest in Q1 of '23. Two, cross-border volume grew 31% in Q1 of '23 and three. Q1 '23 other revenue was strong due to the FIFA World Cup-related value-added services revenue and incentives were lower-than-expected due to client performance and other items. Adjusted operating expense growth is expected to be in the high-single-digits, driven by headcount growth and salary increases. We anticipate approximately 0.5 point FX headwind to nominal net revenues growth and approximately 1.5 point benefit to nominal non-GAAP expense growth. The tax rate is expected to be closer to a new run rate of between 19.5% and 20% in Q1. This -- first quarter adjusted EPS growth in the upper mid-single-digits with minimal impact from FX. Keep in mind that the adjusted basis as defined as non-GAAP results presented in constant dollars and excluding acquisition impacts. And non-GAAP expenses and EPS exclude acquisition-related items and the litigation provision for the first quarter of 2023. For FY '24, the estimated results exclude approximately $20 million or $0.01 of acquisition-related costs and approximately $40 million or $0.02 from the amortization of acquired intangibles.

And finally, moving to capital return. As Ryan said, the Board has authorized a $25 billion multi-year share repurchase program and increased our quarterly dividend by 16%. In summary, Visa's underlying business continues to be healthy and stable, and the growth opportunities are significant. While there continue to be macro uncertainties. we feel confident in our ability to manage the business through a changing environment and deliver value for our stockholders.

And now, Jennifer, let's move to Q&A.

Jennifer Como {BIO 20121273 <GO>}

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

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Darrin Peller with Wolfe Research. Your line is open.

Q - Darrin Peller {BIO 16385359 <GO>}

Hey, guys, thanks for the -- for the time, and congrats on the quarter. Just when thinking about your guidance for the fiscal year ahead, it's good to see the constant currency double-digit growth rate, so I just want to make sure we understand the inputs and how you think about structural growth as far as some of the inputs like value-added services, new flows? So, number one, I mean, maybe you can give us a little more color on what you're assuming for some of those -- some of the vast new flows growth potential? And then more importantly, do you believe that's the right algorithm medium-term as the structural growth of this company sustainably at the same 10% to 12% range it's been or has anything changed? Thanks, guys.

A - Chris Suh {BIO 17955231 <GO>}

Hi, Darren. Yeah, let me address -- this is Chris. So yeah, a couple of things I'll say about FY '24 guide, first, the underlying drivers as we shared, both payments volume and processed transactions will be growing in the low double-digits, which is very consistent and reflects the stable business trends that we see in the underlying drivers. I also said on the call commentary that we do expect VAS, value-added services and new flows to continue to be our growth engines growing faster than the consumer -- the consumer payments part of the business. And so, I think that structure which you described is consistent in many ways in '23 and that's what we certainly expect to see in '24.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

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

Q - David Koning {BIO 7310416 <GO>}

Yeah, thanks so much. Good job and I guess two quick ones. Asia Pacific constant currency volume growth was 4%, a little lower than normal, maybe you could dive into that. And then, tax rate longer-term, basically in the out years 19.5% to 20%, that's how we should think about it. Thank you.

A - Ryan McInerney {BIO 17310000 <GO>}

I talk about Asia, maybe put in the context of what we're seeing around the world, and then, Chris, you can take a tax rate. Just to answer your question specifically on Asia, as you said, growth ex-China slowed four points from Q3. There's a couple of things going on there. One is, we're lapping some strong COVID ramp in Q4 of '22, but we're also seeing a little softness in a couple of places, you know, notably Australia is what I'd point you to. If you can just kind of back -- back up and look at that in, you know, kind of the bigger picture, what are we seeing around the world, you know, outside of Asia, it sounds like you've looked at the numbers and you would have seen, we're seeing, you know, resiliency. You know, outside of North America and Asia, if you look at Europe, ex-U.K., Latin America, CEMEA, you know, most of these regions are growing, you know, at around 20% or more. So we feel good about what's happening there. On the tax rate, Chris, I'll turn it over to you for the long-term tax rate.

A - Chris Suh {BIO 17955231 <GO>}

Yes, sure. Hi, Dave. Yeah, I do think that's the right way to think about at least based on what we know now, the new run rate, we'd put it about 19.5% to 20%. It does -- it is related to how our tax -- the mix of tax jurisdictions around the world and certain tax increases in certain parts of the world. As we talked about, in the next fiscal year, we will be below that due to some of the benefits that we anticipate in the second half of the year but based on what we know today, the new run rate is as you estimated.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

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

Q - David Togut {BIO 1496355 <GO>}

Thank you. Good to see the 19% growth in Visa Direct transactions, and in particular, 65% growth in cross-border P2P transactions year-over-year. As we look to FY '24, what are some of the biggest most promising new use cases you're working on for Visa Direct?

A - Ryan McInerney {BIO 17310000 <GO>}

Yeah, hey, David. You know, cross-border remittance is a big one. Since you called that out, I'll highlight it. You know, I mentioned I think on this call and some others, the work we're doing with, you know, Paysend and Shinhan, and things we're doing around the world, we've mentioned in previous calls, with some of the both kind of traditional and fintech remittance players, you know, 65% year-over-year growth is strong and, you know, continue to invest behind that with new partners and, you know, try to drive further growth going forward. We're focused on bill payments. We're focused on earned wage access. We're focused on insurance disbursements. We continue to focus on P2P more broadly in new geographies around the world, both domestic and cross-border. If you just back up, you know, I've said this, I think on previous calls, I believe at this point in time Visa Direct is the largest at-scale money movement network on the planet. We have made investments consistently year-over-year to get to a point where we are now at 8.5 billion endpoints, three billion cards, three billion accounts, with some of the news I announced in my prepared remarks, 2.5 billion digital wallets, and we'll continue to invest in expanding the network even further, but now we've got the ability to work with enablers around the world, sell new use cases in and put this network to work, and we're going to continue to do that and look forward to hopefully talking about more good results to come.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

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

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

Hi, thanks for taking my question. You guys had a lot of great commentary on commercial and B2B progress and deal wins in the quarter, can you just give us a broader update on your commercial strategy, where do you see the bigger opportunities there going forward?

A - Ryan McInerney {BIO 17310000 <GO>}

Yeah, thanks. It was -- we did have some really good commercial wins in the quarter. You know, I put it In a couple of different buckets. One is, we're looking to expand our partnerships, right? So I mentioned Citi and IBM this quarter. I mentioned SAP last quarter and we're just, you know, we're having good success building and expanding those partnerships around the world. Second thing we're focused on is expanding verticals. You've heard us talk about government, travel, fleet, and fuel, I talked about Agro I think last quarter, working and selling into marketplaces like I mentioned, healthcare, so taking these products, innovating and creating new use cases and delivering them into new verticals, and then, you know, just making the product easier to use. Yesterday, we announced that actually we had a new product to make it easier to accept virtual cards, we call it Virtual Card Acceptance platform. You know, virtual cards are preferred acceptance of many suppliers, but, you know, they're not as easy to accept as sometimes we'd like them to be, so putting new platforms out to make the core products like virtual cards easier to use.

And then, you know, continuing to invest in the partnerships that we've announced over the last couple of years. You know, WEX is a great example of a partner that, you know, we announced a couple years ago that we've investing in and growing in and really getting to see some of the benefits of that around the world. So, I guess the last thing, you know, I would say, Ramsey, is just also taking these products more broadly around the world. In so many different countries, outside of the most developed markets that we work in, there is -- there is opportunity to get some of the basic products into the hands of small businesses for example. In a lot of countries, we're doing business. There's still a lot of small businesses that are actually using consumer products instead of the more sophisticated, advanced small-business products, let alone the large and middle-market products that we can get out there. So, you know, more partners, more use cases, more verticals, more countries, we will continue to invest in that business.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

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

Q - Will Nance {BIO 20732798 <GO>}

Hey, guys. I appreciate you taking the question. You had some interesting -- interesting commentary around processing market share gains, wondering if you could just give us kind of a state of the union of where you stand with that and if there is any geographies that are kind of top of mind as opportunities to increased processing share, you know, what would those be? Thanks.

A - Chris Suh {BIO 17955231 <GO>}

Yes, sure. I mean, we -- we're very focused on processing share for a couple of reasons, but the one I noted in my prepared remarks is a very important one, which is we can deliver more of our value-added services when we're actually processing the transaction. Obviously, we earn more yield when we process the transaction as well just on the core processing of it, but the ability to serve our clients more effectively, deliver them our risk capabilities, our issuing capabilities, our loyalty capabilities, and those types of things are enhanced when we actually process the transaction. So we spent a lot of time on it. I think we've made very good progress over the last many years. I mentioned Colombia in my prepared remarks, and Colombia is a good use case. In a lot of these markets to really unlock the processing, we have to work with the local processor which we did in Colombia, and then work with the clients to get them on that processor. They will then test out the transaction, see how they're working, and ultimately move those transactions to VisaNet which we like. We've been very focused in Latin America. We've made some good strides in several different countries in Latin America and I think we continue to have opportunity in Latin America. We're making strides in Europe and we'll continue to focus on processing opportunities in several different countries that have local schemes in Europe, as well as some places in Asia Pacific. So, those are some of the opportunities we have, Will, thanks.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

Our next question comes from James Faucette with Morgan Stanley. Your line is open.

Q - James Faucette {BIO 3580933 <GO>}

Great. Good afternoon, everybody. Just wanted to circle back on the travel component of cross-border and and how you're thinking about that in the coming year. I can appreciate, as you guys have often said, you're not necessarily economic forecasters, but can you just repeat for us what your underlying assumption is for the coming year and then maybe give a little bit of color on (inaudible) of how you're arriving at that expectation and target for the year? Thanks.

A - Ryan McInerney {BIO 17310000 <GO>}

Let me give some context on how we think about just cross-border travel in general, and then Chris, you can add and/or fill in the blanks on the assumptions that we've made for the year. Here's how I'd think about it. You know, in and out of Asia, you know, we still have yet to normalize. So, as Chris alluded to or said in his prepared remarks, you know, we have opportunity to continue to catch up to pre-COVID travel levels in and out of Asia. There is also the opportunity to still catch up into the United States. But more broadly around the world, I would say we've got a normalized in terms of cross-border travel, but I think what's interesting is, we've normalized at a growth rate higher than pre-pandemic levels. People are traveling international at this new normal at a faster rate than they would have been all else equal before the pre-COVID level. So in a couple of quarters, we still have an opportunity to catch up to what would be normalized levels. Around the rest of the quarters around the world, I think we've normalized but at higher growth rates than we saw pre-COVID. Do you want to mention the numbers for the year?

A - Chris Suh {BIO 17955231 <GO>}

Sure. You know, the only thing I'd really add and I covered a lot of the assumptions in the call commentary. I think that I might just emphasize that, you know, it is pretty healthy growth. And if you look at what we've shared in terms of what we expect the index to grow at four to five points a quarter, I think that does reflect what Ryan said, which is normalized in many cases and continuing to be elevated growth.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

Our next question comes from Jamie Friedman with Susquehanna. Your line is open.

Q - James Friedman {BIO 20091873 <GO>}

Hi, thanks for taking my question. Ryan, in your prepared remarks you called out Cybersource. I know it's a very important asset for you and always has been, but why is -- am I inferring that there is an increased cadence in the business and if so why would that be? Thank you.

A - Ryan McInerney {BIO 17310000 <GO>}

Yeah, as I've said, Jamie, in my prepared remarks, we're seeing great strong client demand around the world for Cybersource, why? I think as a result, a lot of the investments we've made in the platform over the last several years. We've -- yeah, we've been very purposeful about investing in our omni-commerce capabilities for Cybersource. We've been very purposeful in investing in our tokenization capabilities, our risk management, fraud prevention capabilities. And a lot of that has been driven by sitting down with our clients and partners, understanding the roadmaps, understanding what they needed us to deliver, making those investments, and then, you know, having success growing with our partners. And, you know, in any given market around the world when clients start adopting the Cybersource platform and others look around at the success they're having with authorization rates or transaction success or others that leads to new opportunities and, you know, we've had the ability to sell into those. So thanks for the question.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

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

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thanks. I have a question on REG II. Chris, you mentioned no impact yet and also sort of caveat at the outlook, I'm just wondering, is there anything that gives you pause there? And then, Ryan, anything you guys are doing proactively to get in front of any adverse impact? Thanks.

A - Ryan McInerney {BIO 17310000 <GO>}

Why don't I talk just conceptually about REG II and then you can answer anything else on Sanjay's question. So two things going on obviously with REG II, let's just talk about on both. One is the change that was made last summer that went into effect with regards to routing in the e-comm space. As we mentioned in our prepared remarks there, we haven't seen any meaningful impact. Having said that, there's a lot of work happening around the ecosystem and, you know, we're out there talking to clients and partners about our products and our value propositions, making sure they understand the benefits of a Visa transaction, especially in the e-commerce space where often the merchant holds the fraud liability. So our sales teams are in with merchant clients and acquire clients day-in and day-out, explaining the value of our products, showing them the value of our products, and going forward, you know, we feel good about our ability to compete.

The second thing that's going on with REG II that I'm sure people would have seen is the Fed has announced that -- they're going to, I think it's tomorrow, announce some changes potentially to the debit interchange rate in the U.S. We don't know what they're going to say. You know, we will obviously follow it very closely, and when they do publish something we'll take a look and see if it merits response on our behalf. And just as a reminder, interchange is an exchange value between the merchant and the issuer. And, you know, I think what's notable about our business model is, we've proven that we can be resilient and have a strong business in regulated interchange markets, not regulated interchange markets, in markets that have higher regulated interchange and lower regulated interchange. So, you know, as you alluded to a lot going on in the U.S. with REG II, but we're all over it and we feel good about our ability to compete.

A - Chris Suh {BIO 17955231 <GO>}

Yeah, and I'll just add-on from a guidance perspective. Hopefully, we're very clear on the call. We have not seen any meaningful impact thus far, and therefore, haven't included any impact of that in our FY '24 guidance, but it is early days and there's a lot going on as Ryan described at length, and so we'll keep you posted as things evolve in the coming months.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

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

Q - Dan Perlin {BIO 1758057 <GO>}

Thanks. I just wanted to ask a question around tokenization and the implications for just broader-based authorization rate improvements and this is not just like domestic or like International, it just feels like a lot of your partners are able to drive higher authorization rates as a result of the token. So I'm just wondering how you're viewing that in the context of being able to drive incremental transactions back to Visa. Thanks.

A - Ryan McInerney {BIO 17310000 <GO>}

Yeah, thanks for the question. Just a reminder for everyone, you know, tokenization is a technology that we use, that essentially helps protect issuers, merchants, and consumers, and to your question, ultimately drives higher authorizations and lower fraud. You know, I think I said in my prepared remarks, we crossed 7.5 billion tokens as of the end of September. We're in 198 markets. I think we have 14 billion token transactions in the fourth quarter, which is growing at like 60%, so this is another example of a platform and a service that we invested in over many years and we're now scaling broadly around the world. To your question, we are -- we are seeing on average somewhere between 4% and 5% higher approval rates across our partners and we also see it with the reduction in fraud -- 30% reduction in fraud.

So you say, why do we have 7.5 billion tokens that are now out there in the ecosystem? Well, if you're one of our partners as you said and you can reduce your fraud rates 30% and drive your off rates 4 percentage points or 5 percentage points, that is a great opportunity, that's higher sales, that's lower fraud, that's better customer experience. And, you know, we continue to invest in that platform as well. We see a lot of benefits to our issuers, to our consumers who ultimately use the products, will be -- you'll see more from us enhancing the platform in terms of using the FIDO Biometrics and, you know, enabling merchants to be able to authorize and authenticate customers across multiple devices and those types of things. So, yeah, higher off, lower fraud, we love the platform, continue to invest in it.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

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

Q - Trevor Williams {BIO 20976822 <GO>}

Great, thanks a lot. Chris, I wanted to clarify on incentives within the guide. I think you said you're assuming slightly slower growth than in fiscal '23, just want to make sure is that year-over-year growth in dollars or as a percentage of gross revenue. And then just the second part to that, you're framing this as the more normal year, should we be interpreting that as meaning all else equal a normal year incentives should be going up kind of plus or minus 100 basis points as a percentage of gross revenue. Thanks.

A - Chris Suh {BIO 17955231 <GO>}

Yeah, let me try to clarify a bit. As I said, 2024 is in many ways a normal year, it's still normalizing in some aspects, but in many ways, it is normalizing. And as a result, we've made some changes, we've returned to pre-COVID practices on a number of fronts. We provided formal guidance as you went through, as we went through in detail, and we've talked about on this call, for the full year and next quarter and we'll continue that practice, and that guidance is on net revenue guide specifically, and directional commentary about the growth in incentives, which to your specific question, it is a dollar year-over-year growth rate that we said will grow slower in '24 relative to '23. Importantly, this is very, very consistent and it's aligned with how -- how we think about the business, how we manage the business going forward. We haven't guided on the percentage, which is another part of your question, because again, this is -- this is consistent with how we manage the business. The thing that we do track very importantly is that we look at the yield across our net revenue yield specifically and that's remained very stable and that's very consistent again with how we think about deal economics.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

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

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

Hi, thanks. I'm actually at Money20/20 [ph], it's really good energy here. I'm curious, Ryan, if you characterize the deal pipeline as being any different than what it was a year ago, how does that feel to you? And if you don't mind me asking just on the credentials side, I think you said up 7%, I'm curious, same thing, is pipeline there to support that same kind of high single-digit growth in fiscal '24 credentials? Thanks.

A - Ryan McInerney {BIO 17310000 <GO>}

Hi, Tien-Tsin. Glad there's great -- there's great energy at Money20/20 and I hope my Visa team members that are there are serving clients, finding sales opportunities, growing our business. Yeah, we see a great pipeline. We really do with clients issuing fintechs, co-brands with, you know, opportunities to grow credentials. You know, I mentioned some of the new things on my prepared remarks and we're having good success. You know, I think some of the wins on the call whether it's Citi or U.S. Bank, FNBO, Fidelity, Shinhan, China Merchants Bank, Shopify, I mean the list goes on, right, IBM, DBS, Ethiad, Saudi, we feel good about the pipeline. We feel good about the way our teams are out there serving clients around the world. We feel good about the wins that we have and feel good about the growth that is generating.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan.

Operator

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

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Hi, Ryan. Hi, Chris. Congratulations on the quarter. Questions on open banking. You know, CFPB obviously proposed the rule to sort of jumpstart competition shift to open banking a few days back. You guys have dealt with open banking frameworks outside the U.S. in many different geographies. Just kind of curious how that translates in terms of, you know, products, in terms of acquisitions you've made, like Tink, Pismo, and so on to bring that over to the U.S.

A - Ryan McInerney {BIO 17310000 <GO>}

Thanks for the question. I think the, you know, the CFPB rule that they put out is good for Americans. I think it's, you know, it's great for clarifying the structure and the regulatory framework here in America. I think it's likely to be a catalyst for growth of open banking in the United States as it gives clarity to all the various different players in the ecosystem. You know, you think about it like it's -- it's a great opportunity for Americans to be able to put their own data to work in different types of digital tools that will help their own personal financial management, help manage their financial lives better, get a better view of their finances across multiple different providers. And then to your point, you know, we've seen different regulatory frameworks in different markets around the world. Our Tink business continues to perform very well in Europe, which obviously is one of the leaders in terms of establishing a regulatory framework for open banking. And we look forward to the opportunity to bring Tink outside of Europe. So when we look at, you know, the proposed rules here in the U.S., we welcome that because we want to understand what the regulated -- regulatory expectations are, so that we can build a business that will drive and serve our clients and serve consumers effectively. So thanks for the question. Last question, Jordan.

Operator

Our final question comes from Harshita Rawat with Bernstein. Your line is open.

Q - Harshita Rawat {BIO 18652811 <GO>}

Good afternoon. As you're looking into the next fiscal year and beyond, I want to ask about the cash digitization opportunity (inaudible) business. As you know, this is always a persistent question for Visa investors and folks that are thinking about it again, given the pandemic pull forward and slowing inflation tailwinds. So how you're thinking about the run rate, especially segmenting it between developed markets and also (inaudible) a little bit more competition. Thanks.

A - Chris Suh {BIO 17955231 <GO>}

Yes, thanks for the question. We continue to be excited about the cash, check, digitization opportunity around the world. We continue to digitize cash and check around the world and economies continue to grow around the world. So I think, you know, continues to surprise many people when they look at developed markets like the United States, how much cash and check still exists. And certainly when you look to the developing world, how much cash and checks still exist? So we continue to be excited about the runway. We think it offers us tremendous growth opportunity and we're going to continue to work with our partners across the ecosystem to get more credentials into consumers' hands, get more acceptance out there in ecosystem, especially among micro and nano merchants, and work with our partners to drive more activation and usage among the credentials and feel good about that entire algorithm.

A - Jennifer Como {BIO 20121273 <GO>}

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

Operator

Thank you for your participation in today's conference. You may disconnect at this time.