Q1 2021 Earnings Call

Company Participants

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

Other Participants

- Ashwin Shirvaikar, Analyst
- Bryan Keane, Analyst
- Christopher Brendler, Analyst
- Darrin Peller, Analyst
- Donald Fandetti, Analyst
- Harshita Rawat, Analyst
- James Faucette, Analyst
- Lisa Ellis, Analyst
- Tien-Tsin Huang, Analyst

Presentation

Operator

Welcome to Visa's Fiscal First Quarter 2021 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, Mr. Mike Milotich, Senior Vice President of Investor Relations. Mr. Milotich. You may now begin.

Mike Milotich {BIO 20581476 <GO>}

Thank you, Michelle. Good afternoon everyone and welcome to Visa's Fiscal First Quarter 2021 Earnings Call. Joining us today are Al Kelly, Visa's Chairman and Chief Executive Officer and Vasant Prabhu, Visa's Vice Chairman and Chief Financial Officer.

This call is being webcast on the Investor Relations section of our website at www.investor.visa.com. The replay will be archived on our site for 30 days. The slide deck containing financial and statistical highlights that we posted on our IR website.

Let me also remind you that this presentation includes forward-looking statements. These statements are not guarantees of future performance, and our actual results could differ materially as a result of many factors. Additional information concerning those factors is available in our most recent reports on Forms 10-K and 10-Q which you can find on the SEC's website and the Investor Relations section of our website. For historical non-GAAP financial information disclosed in this call, the related GAAP measures and reconciliation are available in today's earnings release.

With that, let me turn the call over to Al.

Alfred F. Kelly {BIO 2121459 <GO>}

Thank you, Mike, and good afternoon and thank you for joining us today. Even with vaccine proliferation on the horizon, COVID-19 infections really continue to rise, closing restrictions to be implemented in many parts of the world. Amidst the pandemic, Visa delivered strong financial results at our fiscal first quarter, and our strategy to enable money movement globally remains clear, pursuing growth core consumer payments, new flows and value-added services.

On our call today, let me discuss our Q1 results and then provide detail on our momentum this quarter with clients and the valuable solutions they utilize to drive money movement globally. As I review our Q1 results, recall we are growing over a quarter where no one had ever heard of COVID-19. Payments volume process transactions, cross-border volume all improved from Q4. Payments volume improved 0.5 point, processing transaction growth improved 1 point and cross-border volume improved 8 points. Net revenues in the fiscal first quarter were $5.7 billion, a year-over-year decrease of 6%. Non-GAAP EPS was $1.42, a decrease of 3%. Through our dividends and buybacks, we returned $2.5 billion of capital to shareholders in Q1.

Vasant will cover spending in great detail, so I'm going to make a few high-level comments on holiday spending. U.S. holiday spending was quite different this year but had a similar overall growth for the last three years of holiday season, led by strong retail growth somewhat offset by travel, entertainment and fuel. This year in the U.S., we generally thought our continuation of the trends that have been occurring during COVID, strong debit and e-commerce and weaker credit and card present. Outside the United States, holiday retail spending growth broadly accelerated with growth in Canada, the UK, Brazil and Australia, all rising by five or more points over last year.

Now let me transition to our progress with clients. We continue to win and renew business as we transfer money movement globally through consumer payments new flows and value-added services. In consumer payments we continue to focus on digitizing $18 trillion spent in cash and check globally, by working with partners to grow endpoints and deepen customer engagement with innovation. We are growing credentials with traditional issuers FinTechs and wallets.

Let me start with North America. We are very pleased to have renewed our long-standing partnership with Wells Fargo across consumer debit, credit, small business and commercial for the next six years. The Bank of Montreal, our candidate fourth-largest bank in the only top 5 Canadian bank not previously issuing with Visa, announced the new partnership with us to issue two affluent lifestyle credit card products in the Canadian market. These products are digital first, targeting the affluent millennial segment and offer strong rewards and value to cardholders in a differentiated and innovative way. In our Asia-Pacific region, we won the debit business of Malaysia, the AmBank after winning the credit business just a quarter ago.

Our relationship with LINE Pay, also deep in this quarter on two fronts. First, in Japan, LINE Pay is now issuing a Visa virtual prepaid card, and second Visa secured an exclusive partnership with Line BK -- first social banking platform issuance of Visa debit cards. Within the first month Line BK issued 180,000 Visa debit credentials. In Russia, YooMoney, one of the country largest electronic payment services with more than 120,000 merchants worldwide and 40 million endpoints signed on Visa credentials in their wallet and enabled Visa Direct. In Europe, we had several notable wins as we continue to increase our business on the continent. Visa has secured a business agreement with Santander Group, becoming the preferred partner in credit and commercial for Santander Bank across seven countries in Continental Europe.

We also won the prepaid issuance of Mooney the first proximity banking and payments company in Italy, which offers their services through both digital and retail channels, with over 45,000 points of sale in rural and urban areas that can reach 20 million customers. Isbank, the largest private bank in Turkey, with 20 million cards has selected Visa for its consumer and commercial credit and debit portfolio. Last, we renewed two portfolios with a leading UK issuer, one for consumer credit and one for commercial charge card.

We also continue to deepen engagement with our partners to find new ways to remove friction and enhance the client experience through innovation. Just yesterday, we announced the global partnership with TransferWise and the first use case of Visa Cloud Connect, a new way to securely connect to Visa net through the cloud. The new platform will enable the expansion of TransferWise's multi-currency debit cards in Asia Pacific, Europe, the Middle East, UK and the U.S. and deliver a range of financial services via our mobile app to their customers, including currency exchange and P2P payments all linked to a Visa card. Tap-to-pay continues to expand representing almost two-thirds of all face to face transactions, excluding the United States. In the United States, we have approximately 300 million contactless cards in place now and have high single-digit penetration of face to face transactions. Even at this level, the U.S. is now the fourth largest country in the number of tap-to-pay transactions. Enable may continues to grow as all 500 of Costco's fuel locations and Chipotle and Nordstrom stores now accept tap-to-pay.

I'm also pleased to report that the New York City MTA has completed their rollout to all subways and buses. Processing is also a way to bring Visa's innovations to market and we have made significant progress in Latin America this past quarter in Ecuador, Colombia, and Peru, and now we've reached 100% processing penetration in Chile. As I close out the consumer payments section, I wanted to note some progress in India. We continue to grow credentials, the Amazon Pay, ICICI Bank co-branded credit card in India has set a country record by issuing over 1 million cards in just 20 months. On the acceptance front, India now has 6.5 million acceptance points, including over 1 million QR points up almost 20 percentage points from a year ago at 65% of all terminals are tap-to-pay enabled.

The Reserve Bank of India recently raised the contactless limit, which will soon cover 90% plus of all transactions in India. Visa has entered into new partnerships with leading acquirers such as SBI payments, the large acceptance solutions such as tap the phone and contactless. And Visa is partnering with the largest acquirer in India, HDFC Bank in the launch and scale-up of smart hub, an app solutions bundling payments, banking and value-added services to help small merchants grow their businesses.

We're also contributing to India's payment infrastructure development fund to encourage growth of physical and digital acceptance in under penetrated geographies, by adding 1 million points of sale and 2 million QR points per year, over the next three years. All of these efforts build on our leading credit and debit market share in India.

Now onto the second lever of growth, new flows, which represents the 185 trillion in opportunity. We are pursuing this opportunity with our traditional commercial card solutions as well as newer capabilities like Visa Direct and Visa B2B Connect. While we're making progress across all new flows, I'll highlight a few advancements from this quarter. In B2C, big economy payouts and earned wage access continued to grow meaningfully in the wake of COVID. This quarter with DoorDash, we launched the DasherDirect business prepaid card in the U.S., offering the over 1 million Dashers on the DoorDash platform, access to daily deposits of earned wages and rich card benefits. In Canada, Skip the Dishes, the country's largest food delivery network rolled out their Visa Direct enabled courier payouts called Fast Cash.

P2P, which represents 20 trillion of the flows with Visa Direct first use case and continues to grow substantially. A key area of future growth is cross-border P2P or remittance. Four of the top five global money transfer operators were on-boarded in fiscal year '20, TransferWise Western Union, Remitly and MoneyGram which noted a 500% increase year-over-year in real time transfers in December alone. Our efforts to expand remittance also extends to FinTechs's and banks who can enable this capability. Zeepay, a fast growing African FinTech will use Visa Direct to allow Africans to send money across European and North American corridors and soon will expand to all major corridors globally. TransferGo, a global money transfer company that supports migrant workers to send money back to their relative, without paying unnecessary bank fees has enabled Visa Direct in 55 markets and has the potential to expand to a total of 178 countries in the future, with its upcoming additions such as the UK, Italy and Nigeria.

Across the globe, in the first quarter Visa Direct transactions grew almost 60%. Now onto B2B, in cross-border Goldman Sachs transaction banking recently signed on to employ Visa B2B Connect for cross-border B2B money movement, offering its corporate clients the ability to transact in over 80 markets globally. We are very pleased that our partnership with Goldman continues to deepen on multiple fronts. In the virtual card based business, we've expanded our relationship with UK's based Confirm of Pay, to launch Visa Commercial Pay which had three offerings. On mobile app enabling virtual card issuance and management for business incidentals. Two, a solution to manage business travel spend with enhanced data. And three, an integrated payables platform that could seamlessly send payments to suppliers. Barclays has already launched its functionality for their commercial clients.

Currently, essentially all of these new flows are transacted in traditional fiat currencies. But there is a growing interest in digital currencies and I wanted to take a minute to talk about how Visa thinks about crypto in general and our approach. In this space, we see ways that we can add differentiated value to the ecosystem. And we believe that we are uniquely positioned to help make crypto currencies more safe, useful and applicable for payments, through our global presence, our partnership approach and our trusted brand.

We think of the crypto market in two segments. First, their crypto currencies that represent new assets such as bitcoin. Second, there are digital currencies or stable coins that are directly backed by visiting fiat currency. We see all currencies in that first segment as digital gold, they are dominantly -- predominantly held at assets that are not used as a form of payment in a significant way at this point. Our strategy here is to work with wallets and exchanges to enable users to purchase these currencies using their Visa credentials or to cash out onto our Visa credential to make a fiat purchase at any of the 70 million merchants where Visa is accepted globally. This is similar to our approach to connect closed loop wallets such as LINE Pay and Paytm. But the second segment Fiat backed digital currencies including stable claims in Central Bank digital currencies. These are an emerging payments innovation that could have the potential to be used for global commerce, much like any other fiat currency. We think of digital currencies running on public blockchains, as additional networks, just like RTP or ACHs network. So we see them as part of our network of network strategy. Across both of these segments, we are the clear leader in this space.

Today, 35 of the leading digital currency platform and wallets have already chosen to issue Visa, including client based, crypto.com, BlockFi, Fold and Bitpanda. These wallet relationships represent the potential for more than 50 million Visa credentials. The next leading network has a fraction of that. And it goes out saying to the extent specific digital currency become the recognized means of exchange. There is no reason why we cannot added to our network, which already support over 160 currencies today.

Let me now turn to our third growth lever, value-added services. Here we saw revenue grow at 19% in Q1, and let me name a few services with notable progress this quarter. As e-commerce explodes, interest in CyberSource remains strong for merchants, as well as from FinTechs and acquirers looking to leverage our capabilities to offer to their clients. This quarter two additional leading acquirers signed on to use CyberSource, KBank in Thailand and NAB in Australia.

As one of the largest debit and prepaid issuer processes we've been looking to expand Visa DPS globally. In that vein, we are pleased to share that we're bringing our Visa day, debit processing system to Europe. DKB our largest issuing bank in Germany has chosen DPS as its debit processor and recently process Visa's inaugural European DPS transaction via their platform. DKB will also be able to take advantage of nearly 20 value-added services through this connection.

We have believed for years that installments represent an important opportunity in payments. To enable this capability we offer our own network solution for issuers, merchants and FinTech installment providers to use directly or also work with many -- and we also work of many installment providers to develop new solutions. This quarter we had updates on both fronts. We signed a global deal with Afterpay, extending our U.S. relationship to an additional seven countries, where Afterpay will use Visa technology to accelerate its global expansion. In addition, Visa and Afterpay will test and collaborate on the application of new technologies like tokenization and Visa Direct. We announced in July, the Commerce Bank in United States was piloting the network solution and is now -- it has now launched with over -- with about 300,000 customers live. Visa also signed Scotiabank as the first Canadian bank to launch our post-purchase installment pilot with employees in December, with a full market rollout slated for mid-2021. All of these growth levers, consumer payments, new flows and value-added services are driven by our network of network strategy which is enabling all forms of payment, utilize all networks and providing the value-added services, you would expect from Visa, as we enable money movement.

In closing, a few points. Domestic volumes driven by debit and e-commerce and really holding up well. Holiday spending will different in terms of categories and timing was quite good. Q1 overall was a very solid quarter and positive momentum continued, albeit we are still impacted by COVID-19. We are continuing to work very hard to balance expense management and recognition of the short-term realities and investing in an exciting set of growth opportunities, as we always managed the business for the long-term.

We continue to be focused on our three growth levers, all of which are supported by our network of network. And lastly, we are hopeful that in fact team's rollout and become more readily available. Lockdown, travel restrictions and capacity constraints will be lessened or eliminated enabling travel, entertainment and other commerce to grow.

With that, over to Vasant for more color on our volumes and our financials.

Vasant Prabhu {BIO 1958035 <GO>}

Thank you, Al. Good afternoon, everyone. During our fiscal first quarter last year COVID-19 was not yet the word in the English language. This will be the last quarter where our performance is compared to a quarter with no COVID impact whatsoever. As such, our results this quarter provide a clear picture of the state of the recovery. Overall, the quarter was stronger than we expected, but net revenue down 6%, largely due to the cross-border business. EPS declined only 3%, helped by lower expenses and a lower tax rate. Exchange rate shifts with last year increased reported net revenue growth by less than 0.5 point and EPS growth by less than 1 point.

As we approach the first anniversary of the pandemic, where do we stand across our key business drivers, relative to where we might have been had the pandemic never happened. Global payments volume is 45 points short of where we might have been. Debit has outperformed, helped by accelerated cash displacement and credit is still a drag. In the U.S., we are actually back to our pre-pandemic growth trajectory, with debit significantly ahead, offsetting credit underperformance.

As you know where we are well behind is in our cross-border business. In the first quarter of fiscal '21, our cross-border volumes were almost 40% lower, excluding intra-Europe volumes than they might have been had the pandemic never happened, largely due to travel. Cross-border travel volume both card-present and card-not-present is still down almost 70% relative to where it might have been at this point.

Let's start with the review of the key business drivers in the fiscal first quarter. Global payments volume and transaction growth rates were modestly better than the prior quarter. The cross-border volume recovery continued even as most borders remain completely or partially closed. The trajectory of the domestic spending recovery varies across the globe. Some regions and countries are recovering fast, others are holding steady, while some have slowed in recent weeks, as a result of new restrictions. What remains consistent globally is very strong debit and e-commerce spending, which has partially offset by weaker credit and in-store spending. Although constant dollar cross-border volume excluding transactions within Europe is still down 33%, there was an 8 point improvement from last quarter.

Payments volume on a constant dollar basis grew 4.5%, debit was up 17%, 3 percentage points lower than last quarter, while credit declined 6%, up 3 percentage points from Q4. Growth excluding China was 7%, up almost 1 point, as Chinese domestic volumes continued to be impacted by dual-branded card conversions, which are minimal revenue impact. U.S. volume growth -- U.S. payments volume growth was 8%, about 0.5 point from last quarter. Debit growth remain strong at 21%. Debit growth was 3 points lower than the fourth quarter, largely driven by a step-down in unemployment benefits distributed via Visa prepaid cards.

Credit spending declined 3% year-over-year, a 4 point improvement versus last quarter, driven by an acceleration in retail spending and some recovery in travel and restaurant spending. Card-not-present volume excluding travel, continue to grow over 30% in the quarter, primarily driven by retail spending. The decline in card-present spending was consistent with last quarter, however performance did deteriorate through the quarter, as rising COVID cases led to further government impose restrictions in several states and cities.

Card-present spending slowdowns are more significant in the restaurant segment, as well as during the Thanksgiving holiday weekend across most segments. Our cross-spend categories, growth was relatively consistent with the prior quarter. Categories, which have been growing about their pre-COVID levels have remained elevated including food and drug stores, home improvement and retail goods. For categories that are the hardest hit by this pandemic, including travel, entertainment, fuel and restaurants, spending remain depressed. But year-over-year decline consistent with last quarter.

International payments volume grew 2% in Q1 or 6% excluding China, both of which are up 1 point versus last quarter. A few regional highlights. CEMEA remains our best performing region, growing 19% in constant dollars in the quarter, a more than 4 point improvement over Q4. The easing of COVID related restrictions, particularly in the Middle East and client wins drove the robust growth. Latin America grew 16% in constant dollars, nearly 10 point acceleration from last quarter. This growth acceleration is fueled by limited COVID related restrictions in most countries. Elevated e-commerce spending compared to other regions and growing our market share with client wins in the few of the larger countries.

Europe grew 5% in constant dollars, the 4 point slowdown versus last quarter. This deceleration was driven partially by renewed restrictions in the second half of the quarter, due to rapidly rising COVID infection rates, particularly in the UK, France, Italy and Germany. And also, as you may remember, growth in Europe last quarter benefited from a non-recurring event in the UK, related to purchases of higher interest bearing savings funds. Asia-Pacific declined 8% in constant dollars, excluding China, Q1 spending was flat, the 4 point improvements since last quarter. There continued to be more COVID related restrictions in effect across Asia than other parts of the world. However, several larger markets such as New Zealand, Australia, Korea and Japan, have returned to growth.

Process transaction growth was 4%, up 1 point from last quarter. Growth accelerated faster than payments volume as transaction sizes continue to normalize ex-Europe. Increased COVID related restrictions in Europe are driving higher average ticket sizes, causing transactions growth to slow. Latin America is benefiting from processing win in several countries including Ecuador, Colombia, Peru and Chile. Visa Direct continues to perform very well, with transactions growing almost 60% globally this quarter. Growth remain strong in every region, as we continue to launch new use cases, further penetrate existing use cases such as earned wage access and cross-border remittance and expand existing use cases to new geographies.

Constant dollar cross-border volume excluding transactions within Europe declined 33% in Q1, an 8 point improvement from the last quarter. Travel related spend declined 64%, but improved 6 points versus the fourth quarter. Card-not-present non-travel growth was 20% up 3 points, fueled by strong retail spending in November and December. Constant dollar cross-border volume including transactions within Europe declined 21% in the quarter. Although cross-border travel performance improved steadily through the quarter, the travel improvement was concentrated in only a few markets where borders were open. Travel from the U.S. to several countries in Latin America remain strong, including Mexico and the Caribbean.

The UAE has been opened to travelers, attracting people from Europe, Russia and other Gulf countries. Also travel across countries within the former Soviet Union, has been growing. Unfortunately, the majority of borders remain closed or imposed significant requirements on international travelers. The World Tourism Organization reported in December, that out of 217 countries, 118 countries or 54% still had completely or partially closed their borders to foreign visitors. Of the remaining 99 countries, the majority are mandating COVID tests with quarantine. Very few countries have no COVID restrictions. Significant obstacles in crossing borders remain the single most important factor, driving the slow recovery of cross-border travel.

A quick review of first quarter financial results. Net revenue declined 6% better than our expectations, primarily due to stronger than expected cross-border volumes and lower client incentives. Value-added services continued to perform well, growing 19%. It's important to note that, had we recognized service revenues on current quarter payments volume, it would have had minimal impact on our Q1 net revenue growth because payment volume growth was very similar across both quarters.

Service revenues grew 5%, roughly in line with nominal payments volume growth last quarter. Data processing grew 6% with high-teens value added services growth continuing to be partially offset by the mix shift away from higher yielding cross-border transactions. International transaction revenues were down 28%, 4 points better than cross-border volume, excluding intra-Europe, due to favorable country-mix and currency volatility benefits. Other revenues grew 5%, led by value-added services but continue to be negatively impacted by declines in the usage of travel related card benefits.

Client incentives were 24.6% of gross revenues, approximately 1 point lower than expected. This was driven by three factors. First, a few larger deals expected to be signed in the first quarter were delayed to the second quarter. Second, cross-border volume was better than we expected, particularly in the month of December. As we've said in the past, client incentives are mostly tied to payments volume, so outperformance in high yielding cross-border volumes, lows our incentives as a percent of gross revenues. And third, payments volume growth only improved 0.5 point versus last quarter. At first there was a minimal impact on current quarter client incentives from current quarter volume.

On the operating expense front, we continue to benefit from actions we implemented last spring. Our headcount is lower, our spending on external services has been scaled back, travel continues to be very restricted and some marketing spend has been curtailed. Both GAAP and non-GAAP operating expenses declined 10%, which is better than expected, partly due to timing shifts and client co-marketing, as well as certain product and technology investments to later in the year.

Non-GAAP, non-operating expense was $112 million for the fiscal quarter. This was over $30 million lower than expected due to two non-recurring items. First, investment income tax deferred compensation was higher, this is offset in personnel costs and therefore income neutral. And second, an interest expense result was released due to the conclusion of certain tax audits. The non-GAAP tax rate was lower than expected by 16.6%. During the quarter the conclusion of tax audits in certain jurisdictions resulted in an $81 million benefit. In addition to this specific benefit, our tax rate is typically lower in the first quarter, due to the impact of employee equity vesting.

GAAP and non-GAAP EPS was $1.42, a decrease of 3%. We bought 8.7 million shares of class A common stock at an average price of $202.30 for $1.8 billion this quarter. Our Board has authorized a new 8 billion share repurchase program, bringing total funds available for repurchases to over $11 billion. Including our quarterly dividend of $0.32 per share, we returned approximately $2.5 billion of capital to shareholders in the quarter. In December, we repaid $3 billion of debt upon maturity of senior notes issued five years ago.

Moving on to some perspectives on the second fiscal quarter, starting with business driver trends through January '21. Through January '21st, U.S. payments volume growth was 12%, with U.S. debit growing 30% and credit declining 6%. Debit growth is 10 points higher than the November-December run rate, fueled by government stimulus payments, distributed right around January 1. Weekly growth trends show a sharp step-up in growth in the first week of January and a step down in week three.

January credit growth has slowed 3 points since December, which is more in line with the November trend. While U.S. payments volume growth has accelerated, there are many countries where constant dollar growth is slowing, due to increased restrictions as COVID infections rise. In Asia-Pacific, Japan, Australia, India and Singapore, payments volume growth has slowed 45 points versus the December. In Europe, countries such as the UK, Italy, Denmark and Germany, all have at least 10 points lower growth in January. So far, growth rates are relatively steady in both CEMEA and Latin America.

Through January '21, process transactions growth remained at 4% with acceleration in the U.S. offset by slowing growth in Europe and Asia Pacific. Cross-border volume excluding transactions within Europe on the constant dollar basis declined 33% in line with the first quarter, but below the trends we saw in December. In a fast changing environment, accurate forecasting remains difficult. How long will elevated spending driven by stimulus payments last? How long will stepped-up restrictions and lockdowns persist? How will these two countervailing trends balance out country-by-country? Though cross-border travel sustain the slow recovery, even some new restrictions go into place. These are just some of the uncertainties as we look ahead to the next three months.

Based on the trends to this point, our best sense is that, the second quarter gross revenue growth rate will recover to be flattish with last year, with most of the improvement driven by international revenues. Growth in the other revenue lines is expected to have a small uptick due to easier year-over-year comparisons in the second half of March. First quarter client incentive got a point below our expectations. Second quarter client incentives could be a point above the high end of the 25.5% to 26.5% range, we expect for the year. This would put first half incentives right in the middle of the range. There are several reasons for the step-up of client incentives as a percent of gross revenues in the second quarter, even with continued improvement in cross-border.

First, as I mentioned earlier, a few large deals moved from the first to the second quarter. One of which, Wells Fargo was signed in January as Al noted. Second, as we told you in October, many clients did not meet certain volumes thresholds in calendar year 2020. And as such, did not earn corresponding incentives. As volume recovers in 2021, we expect clients will hit growth thresholds and earn these incentives. We accrue incentives accordingly, starting with the first quarter of the new calendar year. This causes a larger increase unique to the year of the recovery. And third, the impact of renewals we had already expected in the second quarter. Due to the step-up in client incentives as a percent of gross revenue, the net revenue decline in the second quarter is expected to be comparable to the decline we reported in the first quarter, even as the gross revenue growth rate continues to recover.

Exchange rate shifts could benefit second quarter net revenue growth by less than 1 point. We expect operating expenses to grow in the low- to mid-single digits in the second quarter, as we begin to lap the expense reductions implemented last year. We still plan to grow expenses in the double digits in the second half, as we step-up investments on three key growth initiatives, in anticipation of a return to normalcy by the end of fiscal 2021.

Non-operating expense should be $145 million approximately, which is similar to the first quarter, if you exclude the two non-recurring items, I mentioned earlier. There is no change in our tax rate expectations. It is still too early to predict what impact the U.S. elections will have on our taxes. As always, we will provide updates as the year progresses.

In summary, as you can see our business remains resilient, both debit and e-commerce growth are sustaining well above pre-COVID levels, as the accelerated shift to digital payments becomes a habit. Cross-border growth is poised to recover sharply once vaccines facilitate reopening of borders and we lap last year's steep declines. Our new flows and value-added services businesses have continued to grow robustly through the worst of the pandemic. As Al indicated, we have stayed focused on our long-term growth initiatives, and we'll be stepping up the level of investment in the second half, in anticipation of a post-COVID world, with accelerating growth.

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

Mike Milotich {BIO 20581476 <GO>}

We are now ready to take questions, Michelle.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question comes from James Faucette with Morgan Stanley. You may go ahead sir.

Q - James Faucette {BIO 3580933 <GO>}

Great. Thank you very much. I just wanted to ask, strategically how you're thinking about going forward post the Plaid deal that you decided to turn away from -- I mean, I guess, what we heard just comments of how you feel your relationships are with regulators? And what makes sense in the future for future technology acquisitions et cetera? Thanks.

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

Well, thanks James. Well, first of all, let me answer last part of the question. This is a single lawsuit brought by a singular -- single regulator about one specific M&A transactions. So I don't believe that this portends anything about the future and our ability to continue to try to acquire companies. As we said a couple of weeks ago, we ended up making the decision, that this was just going to go on for too long. And we all know that the payment marketplace is moving with great speed on so many fronts. And the idea that we would tie ourselves up on this transaction, and frankly the plan was to tie themselves up, through a long-term litigation, that could go all the way through an appeal in and of itself, which is not appealing to us, in terms of all the other things that we thought we could be investing in and spending management time on and spending our dollars on.

We are continuing to forge down a path of making sure that we are a real player in this space of open banking. And believe that we have a lot of the assets already. What Plaid was going to do is going to get us into the -- specifically into the data extraction type of business, which would have added to our network of network, but it doesn't in and of itself prevent us from doing more going forward. We also still have the ability in that spec to partner with Plaid. We have the ability to partner with other players around the world, and in many cases that might give us the ability to partner with players, that understand the nuances of specific markets in which they do work. We'll continue to look to make sure that we -- to the degree that any use cases they're going to form here, the most -- the use case they're probably would have the most chance of stepping out and being something that takes -- has some lags behind it, would be account to account. And I think we're very well positioned there. We're positioned well to make sure that we can provide our payments capabilities for the various FinTechs, that we are doing business with today, and we have the ability to continue to sell value-added services to all of those players.

So I think, that ultimately as we have in the past, we will invest to grow internally, we will look to partner and we will look to buy, and it will be a combination of capabilities and approaches, that will allow us to continue to be a player in this space.

Q - James Faucette {BIO 3580933 <GO>}

That's great context, Al. And just a quick operational follow-up. Obviously you've taken expenses out of the cost base in the last year as a result of the pandemic. How should we think about what components of that cost base are likely to flow back in as things return to normal versus what could be more permanent changes?

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

Well, I think when you look at our cost base, the big parts of our cost base are people, marketing and technology. And we do have, well, we think we have the Tokyo Olympics coming up in the summer months. I mean, there are some people that, that might be in some peril at the moment, it's going forward. We held marketing to really -- relatively modest levels in this past quarter. But I would certainly expect us to be driving marketing up. Basically when we go to market, in our business is the combination of putting people resources, our technology resources and our marketing muscle behind whatever we are doing. And so, those are the areas that I would expect to see us grow going forward.

And then of course, then we really had dramatically curtailed TD and professional services. And I think that to the degree that later in the year, we begin to get some people back to offices and we begin to see some people get back on airplanes, will see some modest increases in those expense -- those expense areas. But we've been really careful about both our people level spending and our technology level spending and our marketing level spending. And I think as conditions warrant we'll be dialing those up. Vasant gave you some insight into where we think expenses are going to be in the second half. And we think there's some really good opportunities, that I want to make sure that if in fact, as we believe that will be in some form of normalcy by the end of this fiscal year. We want to make sure that we're -- have good momentum going into fiscal '22.

Q - James Faucette {BIO 3580933 <GO>}

Great. Great color. Al, thanks.

Operator

Thank you. Our next question comes from Tien-Tsin Huang with J.P. Morgan. You may go ahead.

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

Hey, thanks so much. I appreciate all the color on the volume trends. I want to ask about value-added services, that was up in the high teens. Curious how sustainable that is? And if that growth could actually step-up with the eventual recovery in volume. Just trying to understand how pro-cyclical or not that business is?

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

Tien-Tsin, thank you. I guess a little bit of color for everybody. That two-thirds of our value-added services are in data processing and they basically are transaction based revenue streams. And that CyberSource, that our risk and identity products, that's DPS. And all of those will tend to continue to produce very good buying, then they will move with transactions, as transactions move. About a third of our value-added services are split between our services revenue which tends to be card benefits, that are offered as a package. And then in other revenue we have volumes that are not -- we have services not tied to volumes, things like consulting our practice and travel related card benefits, that obviously have been down.

So I think as travel would be to come back at some point, that obviously would help that volume. So with that color, we saw obviously in a world where e-commerce and omnicommerce is becoming a big deal, cyber volume was very, very good and grow revenue. We continue to have more and more customers engage with us on risk and identity services. And as I said earlier, now we're excited about the fact that we're going to take our debit processing system beyond the United States. And now that -- starting to use it in Europe. I think, that gives us a good platform for growth going forward as well.

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

Very good. Thank you.

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

Thanks, Tien-Tsin.

Operator

Thank you. Our next question comes from Don Fandetti from Wells Fargo.

Q - Donald Fandetti {BIO 6095992 <GO>}

Good evening. Al or Vasant, in terms of the cross-border improvement that was actually pretty decent Q-over-Q improvement on the growth rates. Did the U.S. (inaudible) remain strong, but did it improve? Is that a factor in the overall improve year-over-year?

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

Don, it was really in Latin America, it was really U.S. to Mexico and U.S. to the Caribbean, that drove Dubai and North America. Beyond that, Dubai opened a bit, Dubai is having a little bit of resurgence and just went back into some restrictions in earlier this week. But Dubai has been always open and there has been a decent amount of travel into the Middle East. There is been a fair, little bit of an opening amongst the countries in the former Soviet Union. And then there is been some improvement or some movement in intra-travel within South America. So those are kind of the spot where we are seeing, their improvements in cross-border. Most of the -- rest of the corridors around the world continue to be as Vasant mentioned in his remarks, either closed or subject to like, really tough restrictions that make it very difficult to -- for somebody to take on traveling.

Q - Donald Fandetti {BIO 6095992 <GO>}

Then Al, as you look at these numbers, are you still feeling like the data points suggests there is a fair amount of pent-up demand when things do open up?

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

Well, I think, Don, as it relates to consumer travel, which is the vast majority of our payments volume in the travel sector over the years. I do think we're going -- we're going to see some opening for sure. I think there is a lot of pent-up demand, and there is lot of people who haven't seen family, parents who haven't seen grandchildren, children who haven't seen parents. And are going to want to jump on planes, they also take a lot of people who are stir crazy and want to get out and then you've got people who are true global citizens who're knocking things off their to-do list and in terms of places they want to go and things in places that they want to see.

So I think consumer travel at the right time, but we need to see these restrictions be mitigated or lessened in pretty big way. I think it's going to come back quite strongly. I think it's going to take more time to see business travel come back. And frankly, it might take years for business travel to return to where it is. I mean, we've all gotten accustomed to talking on video conferences, et cetera. And I think we all probably realize that there are trips that we took are authorized in the past, that when we look back on it today in the light of talking on video, we say why did we send somebody to that meeting for 1.5 hour presentation, that they could have just as well done on video. So that's the way I think about it going forward, Don.

Q - Donald Fandetti {BIO 6095992 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Lisa Ellis with MoffettNathanson. You may go ahead

Q - Lisa Ellis {BIO 18884048 <GO>}

Good afternoon. Thank you. A follow-up question from me on Visa Direct, which you highlighted again grew almost 60% in the quarter. At your Investor Day last February, you had sized to the B2C, G2C and P2P markets about $60 trillion in total payment volume. And I believe Visa Direct you did about $350 billion last year, so about 0.5% of that. Can you talk about over time as you're seeing Visa Direct develop, how much of those markets do you think is potentially addressable by Visa Direct? And any hint of the monetization level that we should be thinking about something similar to domestic debit or different from that? Thank you.

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

Lisa, thank you for the question. We -- Visa Direct has the ability to grow on a number of factors. But to that, I think are the most obvious is that, in terms of, well, three I'd say, continued penetration of current use cases. New use cases that get developed and then thirdly, geographic expansion. And this is a business that we're still building out, there is still lots to do in all three of those categories. And to an earlier question, I think Don asked, where we're going to continue to invest in that area? And there is, look, there is markets where we haven't even really laid any track for Visa Direct, as use cases where we haven't laid any track. And our plan is to continue to do that.

If we look at the very first Visa Direct use case, which continues to grow substantially P2P payments, there is still lots to do both in domestic P2P payments. But we think our key feature growth areas in cross-border P2P and remittance and we're beginning to take steps there to enable that. And I mentioned in my remarks the fact that we've got relationships with four of the five top global money transfer operators and that's helping us quite a bit. I think earned wage access really continues to be a real opportunity, I touched a little bit on a few of those cases. But there is still lots of geographies and lots of organizations that we have the ability to penetrate to grow that. And then, you've got all these B2C use cases, things like food and grocery delivery and online gaming and insurance claim payouts. So, all of those are -- I would say, in the early innings of a baseball game, in terms of our ability to continue to make progress and drive those. So I continue to believe that this platform of which we could generate dozens and dozens of use cases, will for quite some time be really important to us from a growth perspective.

Q - Lisa Ellis {BIO 18884048 <GO>}

Very exciting. Thank you.

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

Thank you, Lisa.

Operator

Thank you. Next question comes from Chris Brendler with Seaport Global. You may go ahead

Q - Christopher Brendler {BIO 4682531 <GO>}

Hi, thanks. Good afternoon. Thanks for taking my question. Al, I going to talk to you, I'd love to hear your thoughts on the -- the buy now pay later phenomenon. It seems to be gathering steam [ph]. And now you have a solution there, and how big do you think that solution could become and it's very competitive threat from consumers choosing a different payment option to checkout -- when you're checking online?

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

Well, Chris, this is pretty interesting space, and I think we're in the early days in most markets. There is number of different models. I think, I've said before, I think Vasant said before, we are not in the business of picking winners and losers. We see our job is to enable no matter what the model is. But, in some cases, the player is the actual lender and some cases they're sourcing a lender; some cases the installments are very short term, weeks at a time; in some cases they're long-term. Some providers only do installment, some allow multiple payment options pay now, pay on delivery, pay-off on various numbers of installments.

And then obviously it is -- where it gets excited throughout multiple ways to pay-off installments, virtual cards, debit cards ACH. It's a -- it's also a payment model today that's heavily funded by the merchant. Our strategy, Chris, is to be broad to play with multiple third-party providers and offer a Visa platform to enable issuers to offer pay now -- buy now pay now -- pay later capability. And we seek to work with all these options and obviously what we want to do is get virtual cards for Visa in place as one option for repayment. We also want to put Visa cards on file as another option. And I would remind you, that these installments do break at its core, these installment break a transaction or a purchase into three or four or five payment transactions, which is good for us. Because if gives us more transactions that which to earn fees.

Q - Christopher Brendler {BIO 4682531 <GO>}

That's great. One quick follow-up if I may, is -- in places like Sweden where it's become the dominant tender share. Did it actually -- do you actually see an impact on volume or enough people choosing your cards that this will actually impact the volume, and given how much growth in Buy Now, Pay Later has taken place in that area?

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

So there is only -- there is a few countries you mentioned, Sweden and another one is Australia. There is not many, just a few countries where this has really taken off. And I think -- it certainly has had some impact on banks in those markets. But in many cases because of the kind of pay-off capabilities I talked about card on file, virtual cards and et cetera. A lot of that volumes coming back to us in the form of repayments.

Q - Christopher Brendler {BIO 4682531 <GO>}

That's awesome. Thanks so much. I appreciate it.

Operator

Thank you. The next question comes from Darrin Peller with Wolfe. You may go ahead, sir

Q - Darrin Peller {BIO 16385359 <GO>}

Hey, thanks guys. Just one quick one for Vasant, and then Al, just the more structural, I'll just (inaudible). So when we look at the incentive side, I know you guys said that it was timing related, when it came in below the range this quarter. But it will come in, I think you said higher than the range or potentially could be for the next quarter. When we think about, when you first guided to the 25.5%, 26.5% range, that was a bidding cross-border activity similar to September quarter, which was ended up being better. So, I guess, I just wanted to know you're assuming now some deterioration or more conservatism in cross-border before maybe gets better later in the year?

And then I guess, Al, maybe I could just squeeze in structurally. Again things like debit are better -- are seeming to be somewhat sustainable. It's not all just people using more non-discretionary. I'm curious what you would identify now after having seen about a year of the pandemic almost. Where are the top two or three items you think structurally are impacting your business longer-term and here to stay potentially?

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah, just taking the incentives question, we tried to give you our best sense of a range. And at this point the visibility is greatest in the first half, since we're halfway through it. And we think we'll be right in the middle of the range. There are many variables here that go into it, in a time like this, when things are moving around quite a bit. Certainly cross-border doing better helps. Renewals will have an impact, sometimes they happen when we expect sometimes they don't. There is also the year-over-year improvement that our clients have, as you know last year, many clients, because of the pandemic didn't hit certain thresholds. This year things are recovering faster. There could be -- we think they'll all make their thresholds and more. That has a year-over-year impact and it varies by client. So there is a bunch of these things moving around at the same time. And the good news is, we think we're right in the middle of the range and we'll give you more as we go through the year.

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

Darrin, on your second question, first of all, there is many reasons, why debit has been a star here, not that you've got the stimulus payments that are on prepaid cards, which count in. We count prepaid in our debit business as e-commerce has moved into more everyday categories, people are using debit. People are more comfortable in tough situation, tough times to use money they have versus borrow money that they don't have. But I think when I look ahead structurally to answer your question, look I think e-commerce adoption has probably accelerated three to five years in the last year. And I don't think that's going backward.

I think that people who have gotten used to shopping on their phone or their tablet or their computer are going to continue to do that. I think the other thing that I look at structurally that's really exciting is, there is great opportunity to continue to grow both sides of this two-sided market of buyers and sellers. Wallet proliferation is continuing, and we're working really hard to get credentials in wallets which adds to the -- these wallets in essence are becoming issuers and that helps on generate more buyers. And the cost of acceptance is going down around the world, as more and more players are getting into it, and that's going to grow the number of sellers on our network. And as that network grows, I think that's going to be a really positive thing for us. Obviously e-commerce comes with the issue of no cash, but I think that people getting increasingly concerned about cash. And the combination of path to pay in the physical world where the card doesn't need to leave your hands to go to anybody else in order to transact. And the fact that e-commerce doesn't -- the cash was not an option. Those are all of those things, I think structurally are very positive for us. The thing on the flip side of -- I mentioned that while business travels are small piece of our overall travel, that will be one of the things that will be a little bit slower to come back and maybe never back at the level it was pre-COVID-19.

Q - Darrin Peller {BIO 16385359 <GO>}

Got it. That's really helpful guys. Thank you.

A - Mike Milotich {BIO 20581476 <GO>}

Next question please?

Operator

Thank you. Bryan Keane from Deutsche Bank. You may go ahead.

Q - Bryan Keane {BIO 1889860 <GO>}

Hi guys. Someone ask about cross-border, does that comes back, especially likely in this second half of this calendar year? How do we think about the higher yields and profitability? How that will flow to the bottom line versus additional investments, you talk about, what would necessarily be those investments, but it offset completely the benefit will see from that cross-border?

A - Vasant Prabhu {BIO 1958035 <GO>}

Well, I mean, there's no question, cross-border coming that has a meaningful impact on our revenue line. You saw that already in the first quarter, our cross-border was better than we expected. And as a result, our revenues were also quite a bit better than we expected. We're saying that we will step-up our investment in the second half and expect our expenses to grow double-digits. But the cross-border business comes back in a meaningful way, I mean, that's clearly going to be much better growth on the top line, than that double-digit increase in expenses, that we planning. Also you should remember that we start lapping the declines in our expenses from last year. Our expenses last year declined by 5% or so in the second half. So when we grow them double digits this year -- this fiscal year in the second half, over a two-year period, we're only growing them about 5%. So net-net, I mean, cross-border coming back is going to have a very positive impact on our business, especially if it comes back faster than we might be expecting. In any case the comparisons get better, so you will begin to see growth in the cross-border business just because of what happened last year.

Q - Bryan Keane {BIO 1889860 <GO>}

Got it. Helpful. Thanks so much.

Operator

Thank you. Our next question comes from Harshita Rawat from Bernstein. You may go ahead.

Q - Harshita Rawat {BIO 18652811 <GO>}

Hi, good afternoon. Thank you for taking my question. I have a question on your volume metrics. If I compare your metrics relative to your closest peer, over the last two quarters we've seen the reversal of Europe and U.S. volume growth rate has been faster than your peers. How should we think about that? Is it some deal flow coming in, your partnerships with FinTech, the Visa Direct in the numbers? Any color there would be helpful. Thanks.

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

Well, it's always a variety of reasons depending on what the component of the business you're looking at. I mean, clearly the mix of the business between debit and credit has an impact. You all know that, debit has clearly outperformed as the primary driver of cash conversion globally. And then in those parts of the world like the U.S. debit has been a mechanism for distribution of stimulus payments, it's also benefited from that. So, mix of business makes a big difference. We are not seeing any reason why debit will not continue to outperform. And credit is recovering and that's a positive trend. If you at places around the world, I mean, in Europe, the bulk of the slowdown from Q1 to Q2 was the -- the fact, that we had that benefit in the first quarter. We've had some small impact from restrictions. But unless restrictions are becoming more significant, this trend seems to be improving almost everywhere, you saw that in Latin America and CEMEA, where we saw meaningful acceleration and we are not seeing much impact on those trends from additional cases.

So overall, the U.S., as I said in my comments, it's almost as if the pandemic then happened, right, we grew around 8% first quarter last year, we grew 8% again first quarter this year. Where if you believe our growth rate is 8% or 9%, we're almost back on the growth rate. Internationally, we are getting there and we think that trend is meaningfully improving as you saw. Where we're lagging, certainly where the trend is still soft is Asia. The restrictions remain still significant. And in Europe, there is some increasing restrictions now, and we'll see how they play out.

A - Mike Milotich {BIO 20581476 <GO>}

Thank you. Michelle, we'll take one last question.

Operator

Thank you. Ashwin Shirvaikar from Citi. You may go ahead, sir.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Thank you. Hi, Al. Hello, Vasant. So questions on pricing. Wondering if -- and I know your price for value, but just kind of wondering if you, as the economy hopefully gets better, how do you think of pricing? Is there perhaps a catch-up in pricing? Do you revert to normalized long-term pattern? Or do you just see a tougher environment for pricing within the interchange model? And then sort of the addendum to that is, is that a natural benefit from Brexit, as news flow couple of days back, about that, and how do you account for that?

FINAL

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

Well, I'll make a couple of comments, and Vasant can certainly add. I answered on your last point, I'm not going to make any comment on the Brexit situation. We've not announced anything, therefore, I don't think it's prudent to comment. I think that we made some decisions to delay pricing out of this past year, because of the realities of COVID, but we're going to -- we plan to move ahead with previously delayed pricing increases in April of this year. We also have a small number of minor pricing changes. The impact won't be very big. And I think going forward, I think we continued to deliver the value that we want to deliver. I think that there is opportunity across all three of our growth strategies, core payments, new flows and value-added services, to look at pricing. Vasant, you add anything?

A - Vasant Prabhu {BIO 1958035 <GO>}

No. Nothing more to add.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Thank you guys.

A - Mike Milotich {BIO 20581476 <GO>}

Thank you everyone for joining us today. Do you have additional questions, please feel free to call or e-mail our Investor Relations team. Thanks again and have a great evening.

Operator

Thank you. This concludes today's conference call. You may go ahead and disconnect at this time.