Q4 2022 Earnings Call

Company Participants

- Alfred F. Kelly, Chairman and Chief Executive Officer
- Jennifer Como, Senior Vice President and Global Head of Investor Relations
- Vasant Prabhu, Chairman and Chief Financial Officer

Other Participants

- Ashwin Shirvaikar, Analyst
- Bob Napoli, Analyst
- Darrin Pelle, Analyst
- David Togut, Analyst
- Harshita Rawat, Analyst
- Lisa Ellis, Analyst
- Tien-Tsin Huang, Analyst
- Timothy Chiodo, Analyst

Presentation

Operator

Welcome to Visa's Fiscal Fourth Quarter and Full Year 2022 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 call over 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, Holly. Good afternoon, everyone, and welcome to Visa's Fiscal Fourth Quarter and Full Year 2022 Earnings Call. Joining us today are Al Kelly, Visa's Chairman and Chief Executive Officer, and Vasant Prabhu, Visa's Vice Chair and Chief Financial Officer. This call is being webcast on the Investor Relations section of our website at www.investor.visa.com.

A replay will be archived on our site for 30 days. 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 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 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 Al.

Alfred F. Kelly {BIO 2121459 <GO>}

Jennifer, thank you and good afternoon everybody and thank you for joining us. Visa's performance in 2022 was very strong, even with the uncertainty created by inflation, the war in Ukraine, COVID, the timing of cross-border travel recovery and a potential recession. On a full year basis credentials increased 9% year-over-year and are up 13%, excluding Russia. We crossed 4.8 billion token, surpassing the number of card credentials and almost doubling from last year.

Merchant locations, including locations from payment facilitators grew 11%, global tap to pay penetration grew 10% -- 10-point to 54% of face-to-face transactions. Excluding Russia, and this was helped by 20 additional countries crossing over the 50% penetration mark.

Excluding the US and Russia, global tap to pay penetration was 71%. Visa's network processed 70% more tap to ride transactions on global transit systems in FY '22 surpassing 1 billion transactions for the first time ever. In FY '22 we signed over 400 commercial partnerships with fintechs globally from early-stage companies to growing and mature players.

Visa Direct had 5.9 billion transactions excluding Russia across 60 plus use cases and over 2,000 programs, helped by more than 500 enablers, over half of our clients utilized five more value-added services in 2022. And a third use 10 or more. All of this helped to drive fiscal full year net revenues, up 22% year-over-year and non-GAAP EPS of $7.50 up 27%.

Now let me transition to our fourth quarter performance and key highlights and then make a few comments about 2023. Fourth quarter net revenues grew 19% year-over-year and non-GAAP EPS was $1.93, up 19%. Total Q4 payments volume was up 10% year-over-year, or 135% versus three years ago, down 1 point from Q3. Excluding Russia and China, payments volume was up 16% or 145% of 2019.

US Q4 payments volume was up 12% year-over-year or 145% of 2019, down 1 point international volume was up 9% year-over-year, or 126% of 2019, down 1 point versus Q3. Excluding Russia and China international volume was up 20% or 146% of 2019, flat to Q3. Q4 cross-border volumes excluding intra-Europe were up 49% year-over-year and 130% versus three years ago, up seven points from Q3. Excluding Russia cross-border year-over-year growth was higher by about 5 points. Travel related cross-border volumes rose 12 points from 104% of 2019 Q3 to 116% in Q4 as travel continued to recover. Process transactions were up 12% year-over-year, 140% versus 2019 and we processed $553 million transactions a day during the quarter.

Now, I'll provide an update on the drivers that propel this growth in consumer payments new flows and value-added services.

Our consumer payments strategy has three components to it. Growing credentials increasing acceptance and deepening engagement. Total consumer payments revenue for the fourth-quarter and the year were both up more than 20% in constant dollars. On the credentials side, we signed several significant deals with financial institution clients co-brands that fintechs in the fourth-quarter.

Starting with financial institution clients in our Asia-Pacific region, we signed with China Construction Bank, Bank of Communications and Shanghai Pudong Development Bank, leading banks in China. Throughout fiscal year 2022, we have renewed with eight of our top China issuers.

In our CEMEA region, we signed with National Bank of Kuwait the largest bank in Kuwait and DIB [ph] the largest Islamic issuer in the UAE. In Latin-America, we renewed and expanded our partnership and our partnership relationship with the second-largest bank in Colombia Banco Davivienda including credit-debit commercial and Visa Direct.

Another key renewal in Latin-America this quarter was with Black [ph], one of the reasons a few full Stock enablers providing BIN sponsorship issuer processing acquiring as a service and program management via a single connection already servicing. More than 100 fintech in Brazil Black will expand across new market, including Mexico, Colombia, Peru, Argentina and the Dominican Republic and Ecuador. In Europe we renewed and expanded our relationship with UBS, the largest issuer in Switzerland.

We made excellent progress in Germany with our share growing significantly since 2018, adding more than $12 million debit credentials in the market, Visa debit is now offered by three of the most significant banks in the market ING, DKB and Comdirect. And we're also pleased to announce that Santander Germany will begin issuance in 2023 making Visa the single scheme of choice for Santander in that country across debit and credit. Altogether, across the European continent, our quarterly active credentials were up 18% year-over-year.

In the co-brand space, we continue to expand our position in several countries with two recent wins and an extension. First, in India with the Samsung co-brand card targeting existing and prospective Samsung users.

Second in the US, Visa and Kohl's with Capital One is the issuer recently entered into agreement to launch at Kohl's co-branded Visa credit card and also in the US we're excited to see that Visa signed a multi co-brand agreement extension with Disney for cards issued by JPMorgan Chase.

Now moving to fintech and wallet clients. In Egypt, mobile network operator Etisalat Egypt with more than 28 million customers has signed a deal for virtual and physical card issuance. The first digital bank in Iraq, these are rock Islamic bank, seeking to digitize payments and drive a cashless society through Visa credit, debit and prepaid card issuance across there are 400,000 customers. And large crypto-currency exchange FTx with over 5 million registered users has signed on to expand issuance of Visa credentials beyond the US to over 40 countries bringing our total number of issuing partnership with crypto platforms to more than 70.

Finally go GoHenry group is the US UK and Europe based fintech that provides prepaid cards in a financial education app for children aged six to 18 to over 2 million members, they will be expanding their UK visa issuance to Continental Europe and the US. On the acceptance front, we signed an agreement with Flywheel a global payments enabler and software company that supports the higher-education industry to grow, card acceptance in Mainland China, Hong-Kong and Korea.

In Mexico we renewed our relationship with Clip, an important payment facilitator, which will aid in the expansion of acceptance to micro small and medium merchants. In Mexico, we have more than doubled acceptance in 2019 to nearly 3 million merchant locations. Our efforts across Latin America to grow acceptance and wind processing share has paid-off. Outside of Brazil we have expanded our processing penetration by more than 20 points since 2019 with the migrations of domestic transactions in, Argentina, Chile, Ecuador, Colombia and most recently Europe-wide.

Customer engagement is very important and tap to pay is one of the best ways to pay in the face-to-face environment in Q4 the US reached 28% penetration and so on more than 1 billion Tap monthly transactions for the first time ever in July. Surpassing the UK is the largest country for tap to pay transactions and this is nearly double the number of transactions from last year. And more than 5 times the number of transactions from two years ago.

Now moving onto new flows, which grew forth quarter and full-year revenue over 20% in constant dollars. Our B2B business had nearly $1.5 trillion in payments volume for the full-year growing 30% in constant dollars in the fourth-quarter B2B payments volume was almost $400 billion growing 21% year-over-year in constant dollars. Within B2B, our strategy is focused on card-based payments cross-border payments and accounts receivable and accounts payable. Payments and we've made progress across all three this quarter.

Visa has signed a long-term agreement with European payments as a service provider Modulr to issue Visa virtual cards to support B2B travel clients issuing out of Europe. Also in Europe Visa won the credit card portfolio Credit du Nord [ph] encompassing Societe Generale in addition to renewing customer credit, consumer credit and debit portfolio in both industries. We also recently reached a new fleet products partnership agreement with Edenred, sorry, which is making their Edenred Essentials product available to commercial and public sector organizations with vehicles in the United States.

In cross-border flows, we signed an agreement with Visa B2B Connect with TD Bank our first bank in Canada. We also signed a bank for the first time in Switzerland and Korea and recently our CEMEA region signed five banks across Kazakhstan, Qatar and Azerbaijan. In the accounts receivable and payable space, MineralTree a US automated invoice to payment solution provider for the middle-market and enterprise businesses recently enhanced their relationship with Visa to support cards for their payables customers. For other new flows Visa Direct, grew transactions 36% this year, excluding Russia reaching 5.9 billion transactions in the fourth-quarter Visa Direct had $1.7 billion transactions and grew 42%, up 7 points from Q3.

In addition to growing the existing Visa Direct business, our strategy for growth includes one, scaling new use cases with a particular focus on cross-border. Two expanding existing use cases to new geographies. And three accelerating true enablers. In terms of scaling new use cases. I'm pleased that eBay one of the largest third-party marketplaces in the world has enabled faster payout for sellers Visa Direct in the US. We recently signed a deal in the US with Gopuff a consumer goods and food delivery service with millions of customers across hundreds of US cities to provide their delivery partners the ability to cash-out their earnings wallets in real-time. In terms of bringing existent use cases to new geographies in addition to some of the issuing deals I mentioned earlier, we have also signed Visa Direct deals with China Construction Bank and Etisalat Egypt. Other new geographies also include Norway, Norwegian mobile payment application Vipps will offer users access to Visa Direct for all domestic payments. This will improve the card-based experience for Vipps roughly 4.3 million users, covering over 80% of Norway's population.

On the enabler strategy Square has expanded. Their instant transfers to Canada offering, their business is a way to have faster merchant settlement opportunities. US -- money movement automation platform, Astra is using Visa Direct to let developers add real-time transfer functionality to their application, so millions of its end-users can fund cards, wallets and demand deposit accounts with their eligible debit cards. Visa Direct has extensive reach, including more than 3 billion cards and over 2 billion accounts. Recently, Visa Direct has signed with Singapore based payments infrastructure platform Tunes with a network of mobile wallets across 44 countries and territories.

Our partnership will add a send to wallet capability with Visa Direct through Tune's B2B payment platform and provide access to 78 already integrated digital wallet providers representing over 1.5 billion digital wallets globally. So with this partnership, we'll expand our total reach to nearly 7 billion endpoints covering cards accounts and wallets.

As part of new flows aligned with our global network of network strategy we're focused on building the infrastructure that enables our clients to deliver cross-border products and services for their customers. One of our newest capabilities in this space currency cloud signed 35 new partnerships, this quarter including Paysend and a global end-to-end payment platform with over 7 million customers in 17,000 SMEs

Paysend intends to expand capabilities of its Paysend business platform for clients to collect and hold-up to 34 currencies and seamlessly convert funds back to the required currency at competitive FX rates.

Now moving to value-added services, which had 6 billion in revenue for 2022 up 20% in constant dollars. For the fourth quarter revenues were up $1.7 billion, and grew 20% in constant dollars as well. Our strategy here is also threefold. One to deepen client penetration of existing products.

Two, build new products and launch new solutions and three, to extend geographically. On the first, deepen client penetration of existing products. Let's explore two our largest value-added services businesses, DPS debit processing services and CyberSource. DPS are issuer processing business hit a major milestone exceeding $2 trillion in annual authorization volume in FY'22. DPS has also renewed with nearly 30 clients representing over 600 billion in annual DPS processed authorization volume.

CyberSource remains a compelling gateway solution for merchants and most recently signed McDonald's, Little Caesars and JetBlue. We also continue to expand CyberSource relationships with acquirers, first with the Bank of New Zealand New Zealand's largest acquirer. Together with Japanese acquired SMCC, CyberSource continues to provide payment processing solutions for more than a 100,000 terminals in both card-present and card-not-present environment.

FMCC has also leveraging CyberSource's capability for value-added services such as fraud management. Most recently CyberSource is powering SMCC's expansion of the EMV transit acceptance and supporting commercial and pilot launches with 24 different transit operators across Japan.

Deutsche Bank will offer CyberSource's decision manager to its merchant so that they can receive a risk value for each e-commerce transaction using rules and AI to help prevent online retail fraud. On the second strategy, build new products and large great new solutions our recently-acquired capability Tink is a real example. Tink recently signed Adyen to offer a white-label pay by bank open banking solution on it's single platform. Adyen will utilize Tink's payment initiation technology, so businesses can enable account-to-account payments. Aryan's open banking integration will launch first-in the UK with plans to expand to multiple markets during 2023. Last quarter I mentioned our newly developed risk as a service capabilities powered by our network level data, AI capabilities and our risk experts recently Navy Federal in the US and several banks in CEMEA signed engagements for the service, which aims to deliver enhanced fraud prevention and management.

On our third strategy is to expand geographically in many cases through tailored solutions. Since our acquisition of Visa Europe, we have made significant effort to bring value-added services to our clients. Across Europe clients enrolling onto Visa Advanced to authentication and Visa Risk Management products tripled between October 2019 and September 2022 and these clients span across 14 different European countries.

In CEMEA Visa Risk Manager launched a network agnostic pilot with Emirates NBD a leading issuer in the UAE as part of Visa's network of networks strategy network agnostic DRM will allow clients to manage card payment risks across their entire portfolios. We recently brought our Buy Now Pay Later solution to Canada and have continued to make progress, adding some of Canada's largest merchant including Simons and Canada Computers.

And RBC and Visa have entered into an agreement to launch the Visa Installment solution on eligible RBC consumer credit cards. In conclusion, our 2022 performance was very strong and demonstrated that our strategies for for each of our growth levers are delivering. We see new flows is a way to drive additional volumes and transactions and value-added services as a way to drive additional yield on existing volumes and transactions.

Vasant's going to go into a lot more detail, but let me make four points about 2023 one in the year ahead, I see significant opportunity for the business across all three of our growth areas, consumer payments new flows and value-added services. Two, we faced some headwinds in particular lapping Visa and a challenging FX environment. Three, we did not factor a steep economic downturn or recession into our numbers to the one -- to the extent one occurs, it will have some impact. Four, we will continue to manage our business for the medium and long-term and we'll invest in initiatives that are compelling and will provide future growth.

That said, we recognize that some economies around the world could face increased pressure, so we will be monitoring things very closely. We will as we have in past periods be flexible and prudent in the management of our expenses. As a leadership team, we've demonstrated Visa's ability to manage through many different environments and I remain confident that our strategy will continue to position Visa at the center of money movement for years to come.

With that over to Vasant.

Vasant Prabhu {BIO 1958035 <GO>}

Thank you, Al. Good afternoon, everyone. Our fiscal fourth quarter results reflect sustained strength in domestic spending and continued recovery in cross-border travel. Net revenues were up 19% and GAAP EPS was up 13%, non-GAAP EPS was up 19%. The strong dollar was a stiff headwind dragging down reported net revenue growth by 4 points and non-GAAP EPS growth also by 4 points.

Discontinuation of operations in Russia reduced net revenue growth by about 5 points. A few key highlights, In constant dollars, global payments volume was up 10% year-over-year and 35% above 2019. Excluding China and adjusted for Russia, global payments volume was up 16% year-over-year and, 45% higher than 2019.

US payments volume was up 12% year-over-year and 45% above 2019. In constant dollars, international payments volume excluding China and Russia, was up 20% year-over-year and 46% above 2019. The cross-border travel recovery continues. However, the pace of recovery has moderated as most borders are now open except China.

Index to 2019 cross-border travel volume excluding transactions within Europe rose 12 points in the fourth-quarter versus the 22 point gain in the third-quarter. Our three growth engines, consumer payments, new flows and value-added services all grew revenues in excess of 20% in constant dollars.

In fiscal year '22 we, bought back $11.6 billion of stock at an average price of $205.97. Contributions to the litigation escrow account, which have the same effect as a stock buyback added another $850 million. We also paid out $3.2 billion in dividends. At the end of September, we had $5.1 billion remaining in our buyback authorization. In October our Board authorized a new $12 billion stock buyback program and increased our dividend by 20%.

Now on to the details. In the US credit grew 17% year-over-year to 36% over 2019, helped by travel and entertainment spending. US debit grew 7%. Relative to 2019 debit was up 54%, sustaining significantly above the pre COVID trend-line even as credit has recovered.

US card present spend grew 11% year-over-year and was 27% above 2019. Card-not-present volume excluding travel. Grew 10% year-over-year and was 68% higher than 2019. E-commerce, spending remained well-above the pre COVID trend-line even as card present spend continue to recover.

On the international front. Latin-America was up 33% year-over-year and, 109% higher than 2019. Our CEMEA region excluding Russia grew 32% year-over-year and was 105% higher than 2019. Growth in both regions was fueled by client wins, cash digitization and acceptance expansion. Europe was up 12% year-over-year and, 34% higher than 2019, impacted by portfolio conversion underway in the UK. Ex-UK, Europe volumes grew 30% year-over-year and was 67% above 2019, reflecting share gains in multiple markets. Asia-Pacific excluding China continues to recover, up 26% year-over-year and 32% above 2019.

Global process transactions were up 12% year-over-year and 40% over 2019 levels. Constant dollar cross-border volume excluding transactions within Europe, but including Russia in prior periods were up 49% year-over-year and 30% over 2019. Excluding Russia, year-over-year growth was higher by approximately 5 points. Cross-border card-not-present volume growth excluding travel and excluding. intra-Europe grew 12% year-over-year and was 60% above 2019. Cross-border travel-related spend excluding intra-Europe grew 101% year-over-year and is now 16% above 2019.

The cross-border travel index to 2019 went from 112 in June to 115 in July to 118 in September. While the recovery continues, the rate of improvement from month-to month, has slowed as borders ex-China are now open. Travel in and out of Asia recovered sharply in the quarter up 16 points from the 15s to the mid 70s index to 2019. There is more recovery to come in Asia, especially when China starts to lift restrictions.

Summer travel in and out of Europe was also very strong with the travel index 2019 in the 130s up 13 points from the third-quarter. European travel appears to have benefited most from the strong dollar. Travel outbound from the US to all geographies continue to pick-up steam, rising to the mid-130s index to 2019, up 10 points from the third-quarter. However, the inbound travel recovery was sluggish still indexing in the low 90s and up only 4 point.

The strong dollar and delays in visa issuance from some countries appear to be impacting travel into the US. Travel into Latin America and the Caribbean remained very strong and stable indexing around 150 to 2019 levels. Finally travel in and out of CEMEA index in the mid-20s relative to 2019, up 10 points in the quarter.

Moving now to a quick review of fourth-quarter financial results. Service revenues grew 11% versus the 12% growth in Q3 constant dollar payments volume, exchange rate drag more than offset growth from utilization of card benefits. Data processing revenues grew 10% versus the 12% process transaction growth the primary reason is that our data processing revenues are impacted by Russia. However our transactions growth is not. Adjusted for Russia data processing revenues were up 15%.

International transaction revenues were up 52% versus the 49% increase in constant dollar cross-border volumes excluding intra-Europe. Revenue growth was helped by high currency volatility and pricing actions more than offsetting the impact of the strong dollar. Other revenues grew 13% led by travel-related programs and pricing actions. Client incentives were 26.9% of gross revenues in-line with expectations. Revenue growth was robust across our three growth engines each growing more than 20% on a constant dollar basis.

Consumer payments growth was led by the recovery in cross-border volumes, high currency volatility and continued strong domestic volumes and transactions. New flows growth was driven by carded B2B recovery. Commercial card volumes grew 21% year-over-year and are up 43% versus 2019. And excluding Russia, Visa Direct transactions grew 42%. Value-added services growth was driven by higher volume, increased client penetration and select pricing actions.

Currencycloud and Tink added about 0.5 point to revenue growth. GAAP operating expenses grew 20% non-GAAP operating expenses grew 18%. The inclusion of Currencycloud and Tink added about 3 points. Exchange rates were about a 4.5-point benefit. We stepped up investment in our business in the second-half of the year as the recovery trajectory accelerated. Personnel costs were also higher due to annual salary increases granted a quarter earlier than our normal cycle and higher incentive compensation accruals.

We recorded losses from our equity investments of $122 million, excluding investment losses non-GAAP non-operating expense, was $99 million, benefiting from higher interest income due to rising rates. GAAP EPS was $1.86, non-GAAP EPS was $1.93, up 19% over last year inclusive of a 4-point drag from the strong dollar. For the full-year, net revenues increased 22% and non-GAAP EPS of $7.50 was up 27% with exchange rates reducing reported revenue and non-GAAP EPS growth by over 2-points each.

When are now in fiscal year 2023. And through the first three weeks of October, business trends have remained strong and stable. On a year-over-year basis, US payments volume was up 11% with debit up 9% and credit up 14%. US spend growth versus 2019 was up 47% with debit up 57% and credit up 39%. These trends are consistent with the fourth quarter and its performance in major markets around the world.

Processed transactions grew 12% year-over-year, up 40% versus 2019. Constant dollar cross-border volume excluding transactions within Europe grew 42% year-over-year and was 33% over 2019. Card-not-present non-travel growth was 61% above 2019. Travel-related cross-border volumes were 18% above 2019.

Moving now to our perspectives for the coming year. Forecasting four quarters ahead has been difficult through the COVID years while COVID impact is now largely behind us as you all know, we are in a very uncertain macroeconomic and geopolitical environment. As we've said before, we are not economic forecasters. Clearly, there is a high-risk of a global recession, but we do not have a specific point-of-view on if when or the kind of recession we might have.

For internal planning purposes, we are assuming no recession. Of course, we will stay very vigilant, closely monitoring our trend day-by day. We will stay very flexible. We will have contingency plans in-place should we have an economic or geopolitical shock that impacts our business and we will be prepared to act fast should we need to. So that is the context for our planning assumptions, which. I will walk-through now.

Starting with revenue drivers. Payments volume and processed transactions index to 2019 have been very stable in the US and globally for the past three quarters. In other words, we believe the recovery from COVID is behind us when it comes domestic spending. We're assuming this stability sustains through fiscal year '23 with normal year-over-year growth rates in the low-double-digits for both business drivers.

On payments volumes Russia will impact growth rates in the first-half. Russia will not impact reported processed transactions growth. Cross-border e-commerce trends have also been stable, especially when you adjust for Russia and crypto related volatility. We're assuming cross-border e-commerce growth rates sustain in the mid-teens, excluding Russia and crypto and in the low-double-digits with Russia and crypto impact included.

Cross-border travel excluding intra-Europe has continued to recover but at a slower pace.

Up six points from 112 to 118 index to 2019 between June and September. For planning purposes we are assuming that this recent month-to-month pace of recovery, sustained through fiscal year 2023. As was the case last year, there will be periods of deceleration and acceleration. Hopefully, China starts easing restrictions as we enter calendar year 2023.

Two variables will have a significant impact on our reported revenue growth in fiscal year '23, Russia and the dollar, which has strengthened two extraordinary levels through fiscal year '22. Since we discontinued operations in late March. Russia will reduce first-half fiscal year '23 revenue growth by over 4 points with 4 points in the first-quarter and as much as 5 points in the second-quarter. But as you might recall, we recorded 2 quarters worth of service fees in fiscal year '22.

Russia will obviously have no impact in the second-half. Russia will reduce full-year net revenue growth by 5 points. We face very stiff exchange rate headwinds as we enter fiscal year '23. Based on where the dollar is today and the forward curve, exchange rates will reduce reported net revenue growth in fiscal year '23, but around 4 points.

Since the dollar strengthened through fiscal year '22 the impact is greater in the first-quarter at around 5 points, around 4.5 points in the second-quarter and moderate through the year. When you pull all this together our planning assumption caters to mid-teens constant dollar net revenue growth on a run-rate basis i.e. adjusted for Russia.

With a 2-point Russia impact and a 4-point exchange rate headwind reported nominal dollar fiscal year 2023 net revenue growth would be in the high-single-digits. Client incentives are expected to be in the, 26.5% to 27.5% range as a percent of gross revenues. With a 4-point Russia drag and a stiffer exchange rate headwind first-half reported nominal dollar net revenue growth is expected to be lower than the second-half. Lowest growth in the second-quarter which has the largest Russia impact and stepping up in the third and fourth quarters with no Russia drag and hopefully a moderating exchange rate headwinds.

Moving on to operating expenses. We are managing expense growth in-line with our revenue growth expectations rigorously prioritizing investment plans. As you know this is a long-cycle business. Investments we make today will have revenue growth two to three years out.

It is important for us to continue to fund key growth initiatives across consumer payments new flows and value-added services. As Al said, we have extraordinary growth opportunities and need to ensure we are investing to realize their potential. Our current plans are for low-double-digit non-GAAP operating expense growth in constant dollars high-single-digits in nominal dollars.

Tink and Currencycloud, which closed during fiscal year '22 add about 1-point to expense growth. Offset by the discontinuation of Russia operations and exchange rate changes, which are expected to be about a 1.5--point benefit each. Non-GAAP operating expense growth will be higher in the first-half for two reasons, first Tink and Currencycloud add 2 points to expense growth in the first-half.

Also in the first-half, we lap a lower expense base last year since we stepped-up investments spending through the year as the cross-border recovery accelerate in. As such non-GAAP expense growth in nominal dollars is expected to be in the low-double-digits in the first-half. And at the high-end of mid single-digits in the second-half, highest in the first quarter, which is also impacted by the FIFA World Cup and moderating through the year. Should there be a recession or a geopolitical shock that impacts our business slowing revenue growth below our planning assumptions we will of course adjust our spending plans by re-prioritizing investments scaling back or delaying programs and pulling back as appropriate in personnel expenses, marketing spend travel and other controllable categories.

In a business like ours this always requires a careful balance between short and long-term considerations. As, interest rates have risen, non-operating expense will benefit from higher interest income from our cash balances. We currently expect non-operating expense to be in the $200 million, $250 million range for fiscal year '23.

We will provide quarterly updates through the year. Our tax-rate is expected to remain in the, 19% to 19.5% range in FY '23. Honing in on the first-quarter, based on everything. I just walked through we expect reported nominal dollar net revenue growth in the high-single-digit range with client incentives on par with the fourth-quarter of fiscal year '22.

Nominal dollar non-GAAP operating expense growth is expected to be in the low-teens. The tax-rate could be lower than the, 19% to 19.5% range in the first-quarter depending on the resolution of some items.

Second-quarter net revenue growth is expected to be lower than the first quarter because of the Russia impact, which is higher. Second-quarter operating expense growth is also expected to moderate to the low-end of double-digits. In summary, we've assumed stable conditions through fiscal year '23, but are prepared to act fast should circumstances change. Regardless of near-term uncertainties we remain certain as we've ever been about extraordinary long-term growth opportunity.

There is still plenty of cash to digitize into core consumer payments. We are accelerating volume growth by vastly expanding the use cases we can serve through our new flows business while enhancing the yield on transactions in our network by layering on value-added services.

With that I'll turn this back to Jennifer.

Jennifer Como {BIO 20121273 <GO>}

Thanks, Vasant, and with that we're ready to take questions. Holly.

Questions And Answers

A - Jennifer Como {BIO 20121273 <GO>}

Thank you (Operator Instruction) Our first question comes from Lisa Ellis with MoffettNathanson you may go ahead.

Q - Lisa Ellis {BIO 18884048 <GO>}

Thank you thanks for taking my question. Hey, Al. I wanted to follow-up on your comment in the prepared remarks about Visa now having 4.3 billion tokens, up doubling more than 2x year-on yea. Can you elaborate a bit on couple of aspects of tokenization first have you made any progress or what level of progress have you made on selling your tokenization services as a value-added service into other networks alternative network.

And then also on some given that you don't monetize tokens directly, what -- how should we, think about the indirect benefits of tokenization to Visa now that the number of tokens exceeds card credentials out there? Thank you.

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

Yeah. It's. I think it's 4.3 leases, $4.8 billion. We have had some, but not a tremendous amount of success yet in terms of selling tokens into other networks. We view it as a. We play a critical role in the ecosystem and we view tokenization as critical to the security of the ecosystem and then ultimately trust of the ecosystem as it relates to card transactions that converted to tokens

And so over-time we expect this to have very positive impacts on our issuers and merchants in terms of fraud. There are a few cases the Clearinghouse being one global payments being another where I know that we are getting revenue today from the tokenization capability that we're building for them.

Operator

Your next question is from David Togut with Evercore ISI. You may go ahead.

Q - David Togut {BIO 1496355 <GO>}

Thank you very much. could you gauge the impact on processed transaction growth for FY '23 from US Federal Reserve's enforcement of two unaffiliated networks to process every online US debit transaction beginning July first of 2023. And related to that do you have any mitigation strategies to offset the impact for example potentially adjusting prices.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah I'll answer the first part of the question. I'm sure Al will have more to add-on the second part. Obviously, we have to wait-and-see the pace at, which. The second network is enabled on cards -- on e-commerce transactions. Our current expectation given that our fiscal year as you know goes through September is that the effect in, 2023 will be minimal if any, but we'll keep you posted. More broadly. Just in terms of our views about the impact longer-term.

People come to us because of the value we create and that value comes in the form of having a dual message network. And everything that goes with it. The security and the reliability we offer that is unmatched. As well as the dispute resolution and other sets of services tokenization, all our risk management services that we layer on, we've competed for business in the past and merchants have chosen us based on the value we provide and I'm sure, Al, you have more to add on this front.

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

Yeah. I think that our capabilities are just terrific and in an e-commerce world, David, the liability for fraud sits with the merchant so they're going to be very-very careful about who they do business with and they've done business with us for years and know that we have very-very strong risk capability is very-very strong fraud prevention capabilities and those are the types of things that in our experience since Durbin in 2010 that have a good amount of merchants who solely stick we stick with us. They never route to the unaffiliated network because of those security and fraud capabilities we have plus as Vasant alluded to the fact that we have the the ability to the dual message which makes a big difference. In-car rental, hotel and in the online world will make a big difference when people order multiple items from a a merchant it will allow the merchant to ship in different shipments as opposed to waiting till all the products are gathered and they can ship it and they are forced to ship at one-time if you're using a single messaging capability. So, I think we have a lot of history and a lot of important capability differences and and a lot of our merchants in the United States a very familiar with the strengths that they get from doing business with us.

A - Jennifer Como {BIO 20121273 <GO>}

Next question?

Operator

And our next question is from Darrin Peller with Wolfe Research. You may go ahead.

Q - Darrin Pelle {BIO 16385359 <GO>}

Hey, guys. Thanks your outlook in your budget you gave us was obviously helpful and it clearly underscores the resilience to the consumer so far. But just to touch on the what if for a minute and I think you have about a third of your revenues now coming from new flows services many of which are at early stages of growth so putting that together with higher inflation, Al, would you expect any type of difference incentive outcomes on the top-line if we were to see a notable downturn. And then Vasant, just maybe you touch on the flexibility you think you have on the expense side to help manage through any type of change.

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

So, Darin, just to be clear, you're one-third is about right for. That plus new flows not just new flows as you alluded to right now. We are seeing nothing, but stability and it's been true over the last numbers of quarters and our business is very different than it was the last-time there was a downturn. We're much more into everyday spend categories, e-commerce has evolved tremendously. There's been a lot more cash digitization we have a very heavy debit portfolio, which tends to perform better during these -- these downturns. And, frankly. I don't think any of us know what the impact's going to be coming off of the pandemic where there still seems to be a lot of pent-up demand for travel for example, which is highly discretionary purchase and we're in unusual time where employment has really held up so certainly watch payment volumes. Impacted in any kind of significant way back to the core of your question obviously we will have some hit on our our revenue line, but we'll continue to manage on the expense side and I'll let Vasant take that half of the question.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah. I mean and continuing on revenue for a minute. I mean clearly we now have new flows and value-added services which are businesses which are in in new use cases that are very different than we've had in past times when we had recession so and they're also ramping in many cases and value-added services clearly it's a whole range of new services that are not necessarily all tied to economic ups and downs so clearly there's a lot of differences in the past. But as Al said recessions can come in all forms and shapes and sizes and there could be global or regional there could be deeper shallow there could be recessions that have lesser impact on consumer spending and so on. As it relates to expenses as I said in in my comments on planning assumptions. I'd say, three things. One moderating expense growth as we go into the year, so expense growth is clearly coming down from the levels you've seen. While the year our going-in planning assumption is nominal growth of about 9% but. I would just note that in the second-half of the year the fiscal year. The growth is actually the high end of mid single digits so it is moderating through the year and. We don't know when, they'll be a recession or if there'll be a recession. But if you look at what all the various prognosticators are saying. It appears that most people think if there's going to be a recession it's sometime next year probably six months from now Now that would put us in the second-half of our fiscal year so we already have expense growth moderating to the sort of the high-end of mid single-digits. Clearly, we will look to re-prioritize scale back postponed etcetera and depending on the nature of the recession and the impact it's having on our revenue we would seek to manage our expenses to be even better than what our planning assumptions might be and bring the rate growth rate down so we will calibrate as we go along.

A - Jennifer Como {BIO 20121273 <GO>}

Next question.

Operator

Our next question is from Bob Napoli with, William Blair.

Q - Bob Napoli {BIO 1526298 <GO>}

Thank you appreciate it. Al, I was wondering maybe just if you could give some thoughts on what are you most excited about as we head into '23 and '24 and what has surprised you and if anything? And the Vasant, can you give a little bit of color on goods versus services have you seen that what trend on growth rates have you seen on those two items?

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

So, in terms of what we're excited about, look. I think in all three businesses, we're seeing some really terrific green shoots. And in the consumer payments, certainly excited about the realities of cash digitization getting more-and-more pronounced around the world. We're certainly excited about the continued progress we're seeing in tap to pay. The fact that our business in e-commerce has grown so much, really like what we're seeing in the continent in Europe in terms of the growth that we're seeing there, which is really strong.

If we look at, India, Brazil. Germany, Canada, Japan, all are growing at very, very good levels, there's very different dynamics in each of those markets, but they're all growing very well I just recently took a trip to Nigeria and the Democratic Republic of Congo, Africa is a place that's not going to help us and in '23 and '24 necessarily, Bob, but the last we now have offices I think in 13 countries there in the last five or six offices we've opened there -- opened around are in Africa.

In new flows. As we've organized that business as a single business, Oliver Jacobs is bringing great focus to it and making sure that we are driving new use cases around the globe, getting more-and-more enablers who help us drive those use cases and we're putting a particular focus there beat it -- and cross-border we have previously a lot of the early transact -- early use cases in new flows have been in the area of things like domestic like P2P and B2B.

And then in VAS [ph] certainly we're excited about the two recent acquisitions we made of Tink and Currencycloud. I think they're both going to bring some very interesting and good capabilities to us. And we're in both cases, we've spent a lot of time in planning sessions between the folks who are running those businesses and our folks and. I think there's a great opportunity ahead. Vasant, you want to tackle the goods versus services question.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah. A few things on goods versus services as you know we tend to look at. How various segments are performing versus the pre pandemic level in 2019. It's a clean way to look at things and while there's been a lot of talk about how goods are underperforming, most of the goods categories indexed to 2019 actually have done quite well. And they're holding quite stable. What it means is that, they grew a lot faster in the early parts of the recovery, and then haven't grown as fast as people shifted from goods to services. But, overall, if you compare to 2019, the goods business has done very well indexing very well to where it was and very much either on or above the pre-COVID trend line. More recently even as services and restaurants travel entertainment have continued to grow, we're starting to see goods do better. So, they went through a period where they had very-high growth, especially through the stimulus period and so on recovered much faster than services then services had to come back, they're starting to see some recovery on the good side too now. But, overall. goods is doing quite well on a three-year index too.

A - Jennifer Como {BIO 20121273 <GO>}

Next question?

Operator

Your next question is from Harshita Rawat. You may go-ahead.

Q - Harshita Rawat {BIO 18652811 <GO>}

Thank you for taking my question. Vasant, can you talk about and zoom in on cross-border revenues in 2023? I know there's still recovery to be had if we just look at like trend line on travel versus 2019 and also if you look at like metrics beyond spend, which has inflation in it. But on the flipside this has very high beta to macro. US dollar has strengthened a lot which can impact cross-border inflows into the US and FX volatility was a big benefit on revenue this year but you kind of again got tough comps next year, so lots of moving pieces can you -- how are you thinking about this? Thank you.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah. Clearly lots of moving pieces as you pointed out. So I'll just go through them one-by-one. Yes, we did benefit from very-high currency volatility in the second-half of this year. And that does help us as you know. It's in our international fees line international revenue line. What volatility is going to be is anybody's guess for planning purposes we've assumed that it starts to moderate through the year.

It's still high and we're assuming that it will be maybe higher-than-normal in the first-quarter and then moderate as we go through the year to what we've seen in the past to levels that are normal. Over a long period of time, so that's the impact of volatility. As it relates to the dollar and its impact on cross-border travel. We told you that. We've seen about 2-point monthly improvement in that index in the last few months.

And again. I mean it's very hard to predict these things. You know, we got it wrong last year. The recovery was a hell of a lot faster than we expected. We'll probably get it wrong again, but we've been very clear about our assumption, which is that the recovery we've seen for the past several months we think is probably the new rate of recovery there'll be accelerations and decelerations and maybe if China opens up and lift restrictions there, could be some acceleration. So that's sort of what we are assuming for travel.

What impact a recession might have on it remains to be seen. As Al said, there's pent-up demand and how much will that offset it, we'll wait-and-see. The main message is, there's still recovery in cross-border happening, but also lapping much stronger cross-border levels from last year. As you know cross-border travel really started to recover last September, and so we are now beginning to lap some really stronger period last quarter. So the rate of growth inevitably has slowed. And it will continue to slow through the year but it's still above the long-term trend line, because we still are in recovery mode. So, hopefully that helps a bit.

A - Jennifer Como {BIO 20121273 <GO>}

Next question.

Operator

Our next question is from Ashwin Shirvaikar with Citi. You may go ahead.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Thank you. From a headline perspective, I get that you're seeing nothing, but stability that has been the situation for a few months as you mentioned. Are there things to highlight on a more granular basis if in -- if there are particular areas of strength or weakness, so that's part one. But then it also seems that you're implying that business as a whole is more resilient, because you have new flows and value-added services in addition to consumer pay and can I agree with that but could you maybe talk about -- about the new flows and value-added what you might see in a downturn?

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

First of all. Ashwin, I'd say we've seen stable for more than a few months, but probably pretty close to the last 12 months certainly whereas nine months, look this as I said while there's stability the reality is we do know that there is some changes in consumer behavior going on but, they're still spending the same amount of money and they're still paying in the same way, which are critical to us.

So. We know there some substitution going on, where people are buying generics versus buying brands, we know that people are spending a certain amount on that's an increased amount of on food and drug products and that's causing them to have less money available for discretionary spending. But in -- and we're still seeing as I highlighted. I think last quarter the affluent customers still jumping back in the market and that's a very-very good thing, because the amount of spend they do and we're still seeing employment levels at a very healthy level.

So. There -- we know this stuff that is going on, but the reality is that while consumers might be altering a bit, what, they buy in different categories, the realities are that. As I said, they are still spending the same amount of money and using the same ways to pay as they did before. In terms of value-added services and new flows. Obviously, value-added services is somewhat dependent on transaction so we provide additional value on transactions if those were -- transactions were to go down that obviously impacts the value-added services business.

The net flows business really took a bit of a hit because of the amount of business that we had in Russia. But as I reported it, it was up 42% in the fourth-quarter, excluding Russia which was up 7 points from the third-quarter so the momentum is very-very good there and I think that that has a lot to do with the fact that over the last 15 months, we've done a really good job of further diversifying that business in terms of use cases enablers in geographies and all of that's helped us a lot.

A - Jennifer Como {BIO 20121273 <GO>}

Next question.

Operator

Our next question is Timothy Chiodo with Credit Suisse. You may go ahead.

Q - Timothy Chiodo {BIO 16128908 <GO>}

Great. Thanks a lot for taking the question. I wanted to talk about the Visa Direct decision so by businesses platforms governments that are deciding to use Visa Direct relative to other alternatives like RTP Systems around the world. And, I fully appreciate that Visa Direct leverages many of these RTP and other ACH systems around the world, but what is it that is causing them to choose Visa Direct? And as a follow-up, you've often talked about the pricing for Visa Direct it's very use-case based maybe you could just give directional examples of what a higher-priced use-case might be and what a lower-price use-case might be.

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

On the -- let me first tackle the why Visa Direct. First of all Visa Direct biggest advantages that it uses the VisaNet platform. And, therefore, it comes along with all the capabilities of the VisaNet platform. Second, we have incredible reach with Visa Direct as I talked about almost 7 billion endpoints, including accounts cards and wallets and as you alluded to we have become a bit agnostic of exactly how that flow happens if the first or last mile is on RTP network or an ACH net network or a payment gateway that's Fine by us and we're continuing to invest in capabilities. As it relates to Visa Direct and then you get a lot of the protections that you get zero liability charge-backs dispute managed -- good solid dispute management the fact that you get the security and monies that we spend on protecting consumer data as well as battling cybersecurity.

And all of those capabilities offer an awful lot of peace of mind to a consumer versus that a transaction, where the money is immediately moved from your bank account across in RTP network to pay somebody and all of a sudden there is an issue there is nobody to turn to. There is no rules governing what happens there is nobody to help mediate what's happening all those things are things that our network does that makes Visa Direct a really-really strong alternative to and RTP network.

A - Vasant Prabhu {BIO 1958035 <GO>}

And rather to your second question maybe we'll give you two examples at one end is the high-value use-case and that will be cross-border remittances. The use of Visa Direct gives you extraordinary flexibility you can do it account to account to account, card-to-card, sitting at home. You don't have to go to someone to give them cash. It's also tremendous flexibility at the other end in terms of how someone receives the money it's Real-time it has all the other benefits Al mentioned.

As you know cross-border remittances have a very-high cost right now, we can do all that for a lot less and still have a yield that is quite attractive relative to our traditional yield. At the other end-of-the spectrum, P2P, very much a preferred way to do it is to have your debit credentials in there, because it makes it a lot more secure and has all the value we can add. It's a high-volume but low-yielding use-case and very often it's the way we get going-in most markets. So, those are two examples and in-between, you'll have insurance disbursements earned wage access, marketplace payouts and so on all of which are different.

A - Jennifer Como {BIO 20121273 <GO>}

Last question please, Holly.

Operator

Our next question comes from Tien-Tsin Huang. You may go-ahead with JPMorgan.

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

Thank you so much. I know you've gone beyond the hour so thanks for the time. Just two quick ones if you don't mind, just on the other revenue line and those services you've mentioned. There's some transactional element to it, but you did 20% growth at scale in fiscal 2002, so, any thoughts on how '23 might come together assuming relative stability and then just wanted to clarify the base case on the operating leverage it looks like on a nominal basis we should assume minimal operating leverage, I just want to make sure we're hearing that correctly and how that might flex if things change. Thank you.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah. On operating leverage as we said, we are we are trying to balance the short-term and the long-term as you as you've heard we think that are extraordinary opportunities in new flows and value-added services these are long-cycle businesses, you have to invest now for the future so yes we are choosing to invest in the business and that reflects the expenses that we plan that -- our expense growth plan relative to the revenue growth. And the other part of the question was (multiple speakers) right.

On other revenues there are some things that will also have some sequential slowdown, because there are things like card-related benefits and so on in the other revenue line that are linked to travel and as you lap a stronger recovery of travel from last year there'll be some sequential slowdowns. There also a few other value-added services there so. Just like the overall business where there is a sequential slowdown because of the lapping effect and some currency impacts in Russia and so on you'll see that in the other revenue line too.

A - Jennifer Como {BIO 20121273 <GO>}

Great. 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

And this concludes today's conference. Thank you for participating. You may disconnect at this time.