Q1 2023 Earnings Call

Company Participants

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

Other Participants

- Dan Perlin
- Darrin Peller
- David Koning
- Harshita Rawat
- James Faucette
- Kenneth Suchoski
- Lisa Ellis
- Ramsey El-Assal
- Sanjay Sakhrani
- Tien-Tsin Huang
- Will Nance

Presentation

Operator

Welcome to Visa's Fiscal First Quarter 2023 Earnings Conference Call. All participants are in a listen-only mode until the question-and-answer session. Today's conference is being recorded. If you have any objections, you may disconnect at this time.

I would now like to turn the conference over to your host, Ms.Jennifer Como, Senior Vice President and Global Head of Investor Relations. Ms.Como, you may begin.

Jennifer Como {BIO 20121273 <GO>}

Thanks, Jordan. Good afternoon, everyone, and welcome to Visa's fiscal first quarter 2023 earnings call. Joining us today are Al Kelly, Visa's Chairman and Chief Executive Officer; Vasant Prabhu, Visa's Vice Chair and Chief Financial Officer; and Ryan McInerney, who will become the Chief Executive Officer of Visa next week. This call is being webcast on the Investor Relations section of our website at investor.visa.com. A replay will be archived on our site for 30 days. A slide deck containing financial and statistical highlights has been posted on our IR website.

Let me also remind you that this presentation includes forward-looking statements. These statements are not guarantees of future performance and our actual results could differ materially as the results of many factors. Additional information concerning those factors is available in our most recent reports on Forms 10-K, which you can find on the SEC's website and the Investor Relations section of our website.

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

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

Alfred F. Kelly {BIO 2121459 <GO>}

Jennifer, thank you, and good afternoon, everybody, and thank you for joining us. Visa's performance in the first quarter of 2023 reflects stable domestic volumes and transactions and a continued recovery of cross-border travel.

Total Q1 payments volume was up 7% year-over-year or 135% versus three years ago, flat with Q4. Excluding Russia and China, payment volume was up 12%, or 146% of 2019. U.S Q1 payment volume was up 9% year-over-year, or 144% of 2019, down 1 point from Q4.

International volume, excluding Russia and China, was up 15%, or 147% of 2019, up 1 point from Q4. Q1 cross-border volumes, excluding Intra-Europe, grew 31% year-over-year and 132% versus three years ago, up 5 points from Q4. Excluding Russia, cross-border year-over-year growth was higher by 4 points.

Travel-related cross-border volumes rose 6 points from 112% of 2019 in Q4 to 118% in Q1, driven by Asia Pacific, helped by China lifting restrictions, continued modest improvements inbounded to the United States, and CEMEA benefiting from the FIFA World Cup. Process transactions were up 10% year-over-year, or 139% versus 2019 and we processed 571 million transactions a day during the quarter.

Although first quarter net revenues grew -- altogether, I should say, first-quarter net revenues grew 12% year-over-year and non-GAAP EPS was $2.18, up 21%. In each of our growth levers, consumer payments, new flows, and value-added services, we saw a strong revenue growth.

In our consumer payments business, we made significant progress this quarter through large deals with traditional issuers and co-brands. And with the pandemic largely behind us, we saw many businesses focused on payments through Visa's new flows capabilities. In addition, we continued to develop and expand our global value-added services globally.

Now let me explore each of these growth areas. In consumer payment, credentials grew 8% overall, 11% excluding Russia with strong double-digit growth in the United States, India, and Brazil. Tap to Pay penetration or face-to-face transactions globally was 72%, excluding Russia and the United States. In the United States, we surpassed a notable 30% with San Jose, San Francisco, and New York City all above 50%. U.S. drugstores went above 40% for the first time in the United States, and nearly 65% of Costco's face-to-face credit transactions were made with a tap.

In the United States, we had several important renewals. First, we renewed our partnership with Bank of America in the United States, maintaining our current debit and credit business, including their cash rewards, travel rewards, premium rewards, and newly-launched premium rewards elite, consumer credit cards. We're excited to continue to invest together in the growth of our joint business and to innovate with Bank of America to deliver enhanced capabilities and improved experiences for their customers.

Second, we renewed with Commerce Bank, a top 25 Visa U.S. issuer across their consumer and commercial portfolios. Finally, we also renewed our agreement with Capital One. In Australia, we renewed our agreement with the country's largest independent payment solutions provider, Costco, with over 4 million cardholders for debit and prepaid and also signed a new agreement for credit issuance. Also, in the region, we extended our exclusive relationship with Kiwibank, the largest New Zealand owned bank. In Latin America, we renewed with ICBC Argentina, one of the largest issuers in the country, and with Banco do Brasil, one of the largest Visa issuers in the region.

In addition, we entered into a new agreement with one of the largest banks in Panama, Banco Nacional de Panama. Also in Latin America, we reached a new strategic deal with fintech platform, Tigo Money, and parent company, Millicom, a leading provider of telecommunications services in the region.

Visa and Millicom expect to offer Tigo Money's more than 5 million wallet users, the ability to digitize their cash in an easy and secure way, making purchases, wherever Visa is accepted with the VISA Tigo Money access card.

Another strategic fintech deal with Neo in India, a fast-growing cross-border focused Neo bank with 5 million customers. We've extended our relationship from debit into credit to grow cross-border spending with affluent, as well as corporate customers.

We're also happy to share that we renewed and extended our global partnership with HSBC. Our agreement covers consumer and commercial, and it will foster growth and digital acceleration. This deal also cuts across all of Visa's five regions.

As you know, Visa is the leader in travel co-brands globally. And I'm happy to report that we recently reached agreements with three important travel relationships. First, Qatar Airways Privilege Club, which today has a split portfolio across networks around the world, had signed a new 10-year exclusive partnership with Visa to enhance and expand its portfolio of co-branded payment initiatives with key financial partners across key markets worldwide. This expanded partnership creates a new world of opportunities for our Visa customers and Privilege Club members to collect and spend Avios, the rewards currency of Privilege Club.

Second, with Southwest Airlines in the United States, Visa will continue to be the exclusive payment network for their co-brand credit card issued by JPMorgan Chase. It represents one of the largest co-brand partnerships in the world. Third, with Star Alliance and HSBC in Australia, this is the world's first credit card created with an airline alliance and is issued exclusively on Visa Credit. At the time of the launch, it brought together seven Star Alliance carriers in a single credit card platform.

Also, we recently advanced our co-brand partnership with Flipkart, one of India's leading digital commerce entities with a registered customer base of 450 million. So, whether it's with traditional issuers or co-brand partners, we are continuing to position Visa well for the future.

On to new flows, where this past quarter, new flows continue to grow with revenue up more than 20% in constant dollars led by strong growth in B2B payments volume and Visa Direct transactions.

First on the Visa Direct side, Visa Direct had 1.9 billion transactions in Q1, up 39% year-over-year, excluding Russia. We continue to grow globally. Non-U.S. Visa Direct transactions as a percentage of total transactions expanded nearly 20 points excluding Russia from Q1 '21 to Q1 '23. Building on the success of our remittance program with Standard Chartered Bank in Hong Kong, we recently launched Malaysia as an additional origination market standing across six currency pairs with more currencies to come.

We also continue to bring existing use cases to new markets. First, in Australia, Visa Direct is now enabling driver payouts with DoorDash. Second, we launched our inaugural P2P program in South Africa with FNB, one of the country's largest banks, to enable their 10 million active customers to move money within their mobile app using Visa Direct rails. Third, we launched our wallet cash payout program in Bangladesh with bKash. With this launch, the nearly 65 million bKash users can make wallet-to-money bank transfers 24 by 7 in near real-time using Visa Direct.

We are enabling several use cases, including seller payouts in the United States on Poshmark, a social media marketplace where more than 80 million registered users and card top-offs with fintech, GoHenry. As a follow-on to the issuance deal, we announced last quarter with them, GoHenry is enabling its members to top up their child's prepaid Visa card with Visa Direct, first in the UK with plans to expand the service across Europe in the future.

In addition to Visa Direct, we had noteworthy developments in the B2B space this past quarter, where commercial payments volume grew 15% in constant dollars. In traditional issuance, we signed an agreement with Raiffeisen Bank for a new commercial credit partnership in addition to renewing customer -- consumer credit across their 3 million clients in Austria.

And in the United States, we renewed with UBS for consumer credit and debit, as well as several business credit portfolios and Visa spend clarity for business. Another issuing partnership was with Stone, one of the largest acquirers in Brazil focused on small businesses. Stone has recently become a Visa Direct -- Visa debit and credit issuer of cards that could be embedded digitally in its wallet.

On the virtual card front from accounts receivable and payable, we completed several agreements. First, Divvy, an expense management platform owned by Bill, has renewed its agreement to offer Visa virtual cards for small and mid-sized businesses in the United States as part of its expense and vendor payment solutions. Second, Viewpost converts U.S.-based B2B check payments to Visa virtual cards, and together, we are expanding card opportunities for issuers and corporates by offering a solution that can be deployed easily to every commercial business that still produces checks.

Third, we've reached an agreement with Plate IQ, a leading end-to-end accounts payable automation provider in the United States with direct integrations to accounting systems. Plate IQ will be offering a Visa virtual card solution to commercial partners across multiple industries, including restaurants and hospitality, retail, and accounting and bookkeeping among others.

Fourth, in our Asia Pacific region, Sunrate, a global payment and treasury management platform has launched Visa virtual cards as part of its solution for more than 1,000 B2B clients, including global online travel agencies and small business customers.

Fleet issuance continues to grow as well. This quarter, we issued -- we signed with Zemo, a European fleet and mobility solutions provider to issue Visa Open Loop fleet and fuel commercial cards as they expand from 3 European markets to 10.

In the United States, Highnote, a cloud-native card issuance and embedded finance platform, expanded its relationship with Visa with a five-year card issuance agreement across credit, debit, virtual solutions and fleet. In addition, Highnote became certified as a Visa Fleet card processor, which provides businesses with more specific product category level controls and more detailed and faster data for real-time decisions on new fleet and fuel card programs.

B2B is an active space for fintechs, and Visa continues to partner with new players to drive innovation for businesses. A recent example is Konfio, a fintech in Mexico, that has already issued approximately 50,000 Visa small business cards and recently expanded its agreement to issue Visa Business Infinite Cards. In addition, they are positioned to grow acceptance in the market with their newly established acquiring business, Sr.Pago [ph].

Now moving to value-added services, which had about $1.7 billion in revenue this first quarter, up more than 20% in constant dollars. Remember that our focus for value-added services is threefold. One, to deepen client penetration of existing products; two, to build and launch new solutions; and three, to expand geographically. CyberSource is a great example on all three areas of focus.

First, on deepening client penetration of existing products. CyberSource's Decision Manager offering provides broad capabilities to existing CyberSource clients and has experienced strong growth throughout the pandemic, more than doubling transactions in the last three years. In Q1, transactions utilizing Decision Manager grew in the low teens year-over-year, demonstrating the continued demand for this solution even as we enter a post-pandemic environment.

Another area of growth we have mentioned is with acquirers who utilize CyberSource's capabilities to offer them to their merchant clients. In Q1, we signed agreements with several acquirers for gateway services, including Elavon in North America. In Saudi Arabia, Saudi British Bank has announced its strategic partnership with our CyberSource Payment Gateway and Risk Platform to enhance the overall capabilities of SAB's payment gateway with the aim of fostering the bank's growth in an evolving and dynamic e-commerce space.

On extended geographically, we've continued our efforts to strengthen our global presence. Our non-U.S. CyberSource transactions have nearly quadrupled since the first quarter of 2019, and they now comprise the majority of our transactions, led in particular by the Asia Pacific region.

CyberSource has also created new offerings. While historically, CyberSource has been an e-commerce capability, over the past few years, we have accelerated the product development of our card-present and omnichannel offerings, including with the acquisition of Payworks back in 2019.

In the past quarter, we saw nearly 50% year-over-year increase in card-present authorized CyberSource transactions. Other value-added services highlights this quarter include our innovative dispute capability through VERIFY, which saw nearly 40% growth in cases processed this quarter as we expanded globally with more than 1/3 of our cases from outside North America.

This rapid dispute resolution solution automatically resolves disputes between merchants and issuers through the acquirer of rails, reduce the average time to resolve a dispute from 24 days to typically seconds. And Tink, our open banking platform continue to deepen and develop relationships across Europe. Tink recently signed a master agreement with BNP Paribas to be their main open banking and money movement services provider for millions of customers across Europe.

Tink is already live with several businesses in the group. 3 million customers use Tink's money management, data enrichment and transactions products at BNP Paribas Fortis in Belgium and BNL in Italy. Tink has also renewed and expanded its commitment with ABN AMRO to integrate Tink's money manager and data enrichment products into the bank's app for more than 3 million customers.

In conclusion, in the first quarter, Visa delivered very strong results and continued to effectively execute our growth strategy. Vasant will go into detail on our thoughts for the rest of the year, but I'd like to make a few other brief closing comments. We will continue to manage our business for the medium to long term, and we'll invest in initiatives that are compelling and will provide future growth, all while being very mindful of the current environment. I continue to see a bright future for Visa as we look ahead to the rest of this year and beyond, and I believe we have the right strategy to continue to deliver great results.

As we announced in November, effective February 1, 2023, I'll be stepping down as CEO and assuming the full-time role as Executive Chairman. I'm exceedingly grateful to the Board and leadership of Visa, in addition to all of our passionate 26,500 employee colleagues who helped make this job so rewarding. I'm proud of all that we have accomplished together since I started in 2016.

Ryan McInerney will become Visa CEO, and I cannot think of a finer leader to continue to position Visa at the center of money movement in increasingly innovative ways. I've worked side-by-side with Ryan for almost 6.5 years. He knows our business, our clients and he is deeply respected by our employees. He and his team will do a great job, and I expect this transition to be totally seamless.

With that in mind, and as Jennifer alluded to, I've asked Ryan to join the Q&A portion of our call today. But before that, let me hand it over to Vasant to provide financial highlights for the quarter and our thoughts on the second quarter and beyond.

Vasant Prabhu {BIO 1958035 <GO>}

Thank you, Al. Good afternoon, everyone. Our fiscal first quarter results reflect sustained growth in domestic spending and continued recovery in cross-border travel. Net revenues were up 12 %, GAAP EPS up 8%, non-GAAP EPS was up 21%.

The strong dollar dragged down reported net revenue growth by almost 3 points and non-GAAP EPS growth by approximately 3.5 points. This continuation of operations in Russia reduced net revenue growth by about 4.5 points. Adjusted for Russia, net revenues were up almost 20% in constant dollars. Net revenue growth exceeded our expectations as value-added services and new close growth were very strong, currency volatility stayed high and client incentives were lower than anticipated.

A few key highlights. In constant dollars, Global Payments volume was up 7% year-over-year and 35% above 2019. Excluding China and adjusted for Russia, Global Payments volume was up 12% year-over-year and 46% higher than 2019. U.S. payments volume was up 9% year-over-year and 44% over 2019.

In constant dollars, International Payments volume excluding China and Russia, was up 15% year-over-year and 47% above 2019. U.S. holiday spending growth was in the high single-digits on a year-over-year basis and not more than 41% versus 2019. E-commerce maintained its share retail spending versus last year, up over 5 points since 2019. Spending continues to smooth out over the holiday season with Black Friday and Cyber Monday still significant shopping days but less important post pandemic.

Holiday spending around the globe was generally consistent with U.S. trends. The cross-border travel recovery continues, however, as expected, the pace of recovery has moderated as most borders are now open, including Japan in October and now China in January.

As a reminder, we saw very sharp cross-border travel recovery in October and November of 2021, which we are lapping. Indexed to 2019, cross-border travel volume excluding transactions within Europe grew 6 points in the first quarter versus a 20 point gain in the third quarter of fiscal year '22 and 10 points in the fourth quarter of fiscal year '22.

New plans -- new flows in value-added services revenue, sustained the robust growth in excess of 20% in constant dollars. In the first quarter of fiscal year '23, we bought back approximately 3.1 billion in stock at an average price of $198.74. Contributions to the litigation escrow account, which have the same effect as a stock buyback, added another $350 million. We also distributed $945 million in dividends.

Now onto the details. In the U.S., credit grew 10% year-over-year and 35% over 2019, lapping the credit recovery from last year and is compared sequentially to last quarter impacted by retail spending in fuel prices. U.S. debit grew 8%, up sequentially over last quarter. Relative to 2019, debit grew 55%, sustaining significantly above the pre COVID trend line even as credit has recovered. U.S. card presence spend grew 8% year-over-year impacted by fuel prices and retail spend as compared sequentially to last quarter. U.S card-present spend was 26% above 2019. U.S. card not present volume excluding travel grew 9% year-over-year and was 65% higher than 2019. E-commerce spend remains well above the pre COVID trendline even as card-present spending has recovered.

On the international front in constant dollars, Latin America was up 25% year-over-year and 107% higher than 2019. Our CEMEA region, excluding Russia grew 25% year-over-year and was 108% higher than 2019 as we saw all through FY '22 growth in both regions was fueled by client wins, cash digitization, and acceptance expansion. Europe was up 10% year-over-year and 34% higher than 2019 impacted by a portfolio conversion that is now nearly complete in the UK.

Ex-UK, Europe volumes grew 28% year-over-year and was 71% above 2019, reflecting share gains in multiple markets. Ex portfolio conversion, volume trends in the UK remained stable. Asia-Pacific, excluding China, continued to recover, up 16 % year-over-year and 34% above 2019.

Global process transactions were up 10% year-over-year and 39% over 2019 levels. Constant dollar cross-border volume excluding transactions within Europe, but including Russia and prior periods were of 31% year-over-year and 32% over 2019. Excluding Russia, year-over-year growth was higher by about 4 points.

Cross-border card-not-present present volume growth, excluding travel and excluding intra Europe, grew 3% year-over-year and was 55% above 2019. Adjusted for cryptocurrency purchases and Russia, cross border ecommerce spending grew in the low double digits. Cross-border card-not-present, excluding travel represented over 40% of total cross-border volume in the first quarter. Cross-border travels spend excluding intra

Europe, grew 63% year-over-year and is now 18% above 2019. The cross-border travel, excluding Europe index to 2019 went from 114 in September to 121 in December.

Travel in and out of Asia recovered sharply in the quarter by more than 12 points from the mid-70s indexed to 2019 to 85 for outbound and more than 90 for inbound helped by Japan. Japan alone improved by about 50 points since opening its borders in October. With China lifting restrictions on January 8, we expect more recovery to come. Europe inbound and outbound remained strong, with the travel indexed to 2019 in the 120s for outbound and 130s for inbound, both up slightly from the fourth quarter.

Travel outbound from the U.S. to all geographies continue to be strong in the low 140s indexed to 2019, up 6 points from the fourth quarter. Travel inbound to the U.S. approached 2019 levels and improved 4 points in the quarter, likely due to the weakening dollar. Travel into Latin America and the Caribbean remained very strong and stable, indexing around 150 to 2019 levels. Travel in and out of CEMEA indexed in the 130s and mid-120s, respectively, relative to 2019, with outbound up more than 10 points in the quarter and inbound by more than 15, helped by the FIFA World Cup.

Finally, some color on Mainland China, post the removal of COVID zero policies. The 40-day Spring Festival season is underway in Mainland China, the world's largest travel event. Domestic travel is rising sharply.

So from a revenue standpoint, this will not contribute much. In terms of outbound Mainland Chinese travel, this will pick up steam as more flight capacity is available, ticket prices moderate, new passports and visas are obtained and restrictions are lifted in some corridors. The initial destinations for Mainland Chinese visitors look to be Hong Kong and South East Asia, in particular Thailand, Singapore and Malaysia. Inbound travel to Mainland China has not increased much and may not until the COVID situation settles down.

Moving now to a quick review of first quarter financial results. Service revenues grew 10% versus the 10% growth in fourth quarter constant dollar payments volume. Exchange rate drag was offset by growth from business mix, pricing and card benefits. Data processing revenues grew 6% versus the 10% process transactions 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 10%.

International transaction revenues were up 29% versus the 31% increase in constant dollar cross-border volumes, excluding intra Europe. Revenue growth was helped by high currency volatility although lower than the fourth quarter and pricing actions, which were offset by exchange rate shifts.

Other revenues grew 31% led by marketing and consulting services, pricing actions and acquisitions. Client incentives, were 26% of gross revenues, below expectations due to some adjustments based on client performance and other items. For the year, we expect to renew about 20% of our payments volume with a good amount already completed in the first quarter.

Revenue growth was robust across our three growth engines. Consumer payments growth was led by the recovery in cross-border volumes, high currency volatility and continued strong domestic volumes and transactions. New flows revenue growth was over 20% in constant dollars. Commercial card volumes grew 15% year-over-year and our up 45% versus 2019, excluding Russia. Visa Direct transactions grew 39%. Value added services revenue was also up over 20% in constant dollars, driven by higher volume, increased client penetration and select pricing actions. Currency cloud and Tink added about half a point to revenue growth.

GAAP operating expenses grew 25%, non-GAAP operating expenses grew 15%, non-GAAP operating expenses growth was higher than expected, primarily due to a smaller exchange rate benefit. The primary drivers of expense growth of personnel costs from hiring activity in the second half of last year and into the first quarter, as well as G&A expenses driven by lower exchange rate benefits, higher travel and expenses from new acquisitions.

Marketing increased 18%, primarily driven by the FIFA World Cup spend and client marketing. We recorded losses from our equity investments of $106 million, excluding investment losses non-GAAP, non-operating expense was $7 million benefiting from higher interest income due to rising rates and some other items.

Our tax rate was lower than expected due to the resolution of a tax initiative coming in at 16% GAAP and 16.5% non-GAAP. GAAP EPS was $1.99, non-GAAP EPS was $2.18, up 21% over last year, inclusive of an approximately 3.5-point drag from the stronger dollar. Through the first three weeks of February, business trends have remained strong and stable. On a year-over-year basis, U.S. payments volume was up 14% with debit up 13% and credit up 14%.

Lapping of Omicron-related weakness from last year has contributed to strong January month-to-date growth. The Omicron-related uptick will fade as we get into February. These trends are generally consistent with performance in major markets around the world. Processed transactions grew 14% year-over-year. Constant dollar cross-border volume, excluding transactions within Europe, grew 36% year-over-year and was 42% over 2019 and 32% over 2020. Card-not-present non-travel growth was 75% above 2019 and 52% above 2020. Travel-related cross-border volumes were 25% above 2019 and 20% above 2020.

We are now past the pandemic recovery stage on domestic volumes and transactions. As such, starting next quarter, we will no longer provide comparisons to 2019 for payments volumes and processed transactions. Since the cross-border recovery is still ongoing, we will continue to provide comparisons to 2019 for cross-border volumes through this calendar year.

Moving now to our outlook for the second quarter. For the second quarter, we are assuming the trends in domestic payments volume and process transactions are sustained, but some benefit from lapping Omicron in January last year. As a reminder, this continuation of operations in Russia will impact reported payments volume growth rates in the second quarter. Russia will not impact reported process transactions growth.

Cross-border e-commerce trend have been stable to, especially when you adjust for Russia and crypto-related volatility. We're assuming cross-border e-commerce growth rates sustained through the second quarter, Ex Russia and crypto. The cross-border travel recovery continued generally in line with our expectations in the first quarter. We are assuming recent trends to sustain into the second quarter. We expect most of the Mainland China travel recovery in the second half and beyond for reasons I outlined earlier.

We expect outbound travel from Mainland China to recover first, the pace of inbound travel recovery will depend on the COVID situation. This continuation of operations in Russia will reduce second quarter net revenue growth by almost five points since we recorded nearly two quarters worth of service fees in the second quarter of fiscal year '22. Based on where the dollar is today and the forward curve, exchange rates will reduce reported net revenue growth in the second quarter by about 2 points.

When you put all this together, our planning assumptions get us to mid-teens, constant dollar, net revenue growth in the second quarter on a run rate basis, i.e. adjusted for Russia. With an almost 5-point Russia impact and a 2-point exchange rate headwind, reported nominal dollar Q2 net revenue growth would be in the high single-digits. Client incentives were below our 26.5% to 27.5 % range of gross revenues in the first quarter. Second quarter client incentives are expected to run higher at the upper end of the range finishing the first half in the middle of the range.

As we indicated in October, operating expenses growth rates will moderate through the year as we reduce the rate of increase as well as lap higher levels from last year. In the second quarter non-GAAP operating expense growth in nominal dollars is expected to be 2 to 3 points lower than the first quarter expense growth. Our third quarter, non-GAAP operating expenses growth rate is expected decline and additional 2 to 3 points with a further 2- to 3-point reduction in the fourth quarter.

Non-GAAP results exclude certain acquisition related items and the litigation provision from the third quarter last year. We currently expect non-GAAP nonoperating expense to be in the $40 million to $50 million range in the second quarter driven largely by higher interest income from our cash balances.

Our tax rate is expected to be at the upper end of the 19% to 19.5% range for the rest of the year. With a non-GAAP 16.5% rate in the first quarter, the full year non-GAAP tax rate is now expected to range between 18.5% to 19%.

As we said last quarter, should there be a recession or a geopolitical shock that impacts our business, slowing revenue growth below our planning assumptions in the second half, we will, of course, adjust our spending plans by reprioritizing 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 term -- short and long-term considerations. We have contingency plans in place and will activate them should we need to.

Our business has been resilient so far this year. Our first quarter performance is demonstrated strong consumer payments growth from cash digitization and client wins, new flows and value-added services momentum remains very strong. There is still much uncertainty from an economic standpoint in the months ahead. We will remain vigilant and ready to act. As we look past fiscal year '23, we remain as optimistic as we've ever been about the long-term growth potential of our business.

Before I finish, this is a sad day for me personally. It's Al's last week as CEO. Al has been the best CEO I've worked for and I've worked for many in my career. Al is a wonderful human being, an exceptional leader with extraordinary business judgment. It has been an eventful six years.

Despite a three-year global pandemic, revenues have almost doubled, non-GAAP EPS is up over 2.5x and our stock price has tripled during Al's tenure. I will miss you as CEO, Al, along with 26,500 or so others with Visa.

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, Jordan.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) Our first question comes from Sanjay Sakhrani with KBW. Your line is open.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thanks, and congratulations to Al and Ryan as well. Vasant, as we think about your baseline plan forecasts, how are you factoring in the economy? I mean, are we assuming resilient consumer, stable economy, or are you assuming some mild downturn?

A - Vasant Prabhu {BIO 1958035 <GO>}

Well, we went through a, what we called our planning assumption last -- on the last call for the full year. And we told you, we had assumed no recession. As you can see, business trends have been remarkably stable. The spend levels just around the world, they've indexed at -- in the mid-140s for almost four quarters right now. And there's no evidence of a change in trend. That's reflected in our second quarter outlook.

At this point, we're not changing any expectations for the second half. I mean, clearly, the dollar has weakened a bit, so that will change the exchange rate impact in the second half, but we're not changing any of our views in the second half. I mean, there are planning assumptions, and if there is a slowdown, then we will react accordingly.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Great. Thank you.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan?

Operator

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

Q - Darrin Peller {BIO 16385359 <GO>}

Hey, guys. So it's nice to see that. It seems like from the trends you're seeing in Q1 and Q -- and what you're guiding for Q2 is an element of conservatism based on the trends so far relative to what we could see in the second half, which I think is what the Street probably wanted.

But when we -- we'll just think about the underlying trends for a moment, I mean, some of the strengths we're saying like debit being up, still high-single digits, constant currency in the U.S. on really tough comps, combined with other services.

Maybe you could just touch on what's the driving forces of both of those metrics. Because they were a little better than we thought. And I don't know if it's Visa Direct in the debit side helping or it's other factors and share. And then, if you can comment on other revenue also strength. Thanks again, guys.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah, on debit, it's what we told you earlier. In general, if you look at the -- looking at 2019 has kept us honest, so to speak. It's a good view of what's going on. And in total spend, it's remarkable stability. What's happening is, good spending slowed down a bit, services spending really took up all the slack, and so consumers have just shifted their spending, but they're spending the same amount. And that's why debit has stayed resilient.

Debit has been the biggest beneficiary of the move to digitization that happened globally and including in the U.S., more e-commerce, more Tap to Pay, more people using digital credentials just about in -- on any payment occasion. So, some people were worried that when things settle down that debit might start to see some slow down. But as you've seen, debit has stayed resilient even as credit has recovered, which has kept our overall payment volumes very stable. Those would be the big trends.

And the other question?

A - Jennifer Como {BIO 20121273 <GO>}

Other revenue.

A - Vasant Prabhu {BIO 1958035 <GO>}

And other revenue was helped by mostly marketing services and consulting revenue. A fair amount of that linked to the FIFA World Cup. There was a lot of client-related marketing and spending related to the World Cup. The client asked us -- clients asked us to activate a variety of programs and that certainly helped other revenues.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan?

Operator

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

Q - Will Nance {BIO 20732798 <GO>}

Hey, guys. Thanks for taking the question. I wanted to kind of double-click on some of the comments you made around China. It sounds like you guys are looking towards that region as being a fairly big driver of continued recovery and cross-border travel. I think we heard this morning from your competitor that those volumes in aggregate seems only be something like 1% to 2% of overall cross-border volumes pre-COVID.

So, I was wondering, given how much of a focus this is for investors as a driver of continued strong growth, can you put some guardrails around how we should be thinking about the magnitude of the impact of China once it's fully reopened relative to kind of what we saw in the most recent quarter? Thanks.

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

Well, a couple of things. First, our numbers are fairly close to those of our competitor. We are -- as Vasant said, we really think that, first, we're going to see the travel being outbound from China to Southeast Asia, I think it's going to be -- still a bit of time before we're going to see the Chinese traveler back in Europe and -- at the level of pre-pandemic, or back in the United States at the level of pre-pandemic.

And I think it's going to -- people are going to wait and see what's happening with COVID within China. So Vasant talked about the fact that we're not counting on any kind of recovery that inbounded to China into the second half of the year. But I -- my personal expectation is that, we'll see probably a spread of three to five quarters before starting in the second half before China gets back to a level of pre-pandemic or 2019.

So, it is -- for us, it's -- we've built our plan around pretty much what Vasant said in his remarks and what I just said. And if China comes back faster than we're saying, then obviously that will help. But if it comes back slower, it'll have the opposite impact.

A - Vasant Prabhu {BIO 1958035 <GO>}

I mean, in terms of thinking about the impact, you all and we all have been tracking, how is our cross-border recovering relative to pre-COVID levels and are we back on the trend line and so on as you know. And we've told you, now for a few quarters, that many corridors, and I went through a lot of that, are well above the 2019 level.

The three that were not and are still not, U.S. is approaching -- U.S. inbound is approaching 2019 levels and was held back by the strong dollar, but Asia is still, and I went through the numbers, quite a bit below 2019 levels. Most of Asia is open, only China isn't. So if Asia is going to get back to pre-COVID levels and back to the original trend line, that's where the China impact is going to be visible. And then you expect and we expect, cross-border -- that cross-border travel index to keep improving through the year. For that to happen, we obviously need China to come back. So it is important.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan?

Operator

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

Q - Lisa Ellis {BIO 18884048 <GO>}

Hey, good afternoon. Thanks for taking my question. I had a question about the evolution of Visa Direct. You highlighted the plus 39% year-on-year growth ex-Russia in the quarter. Over the last few years, you've been talking a lot with Tap to Pay and contactless about there being sort of this inflection point dynamic, where you reach a certain level of critical mass and then growth really accelerates.

Is the similar dynamic true for Visa Direct? And can you give us a sense for sort of how we should think about that evolve over the next couple of years?

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

Well, I think, Lisa, you're absolutely right. We're focused in Visa Direct at this point on extending into new geographies, new use cases, and more cross-border. I would say, those are our focuses. Initially out of the shoot, Visa Direct go -- in a country goes through Phase 1, which tends to be P2P before, you then get into things like gig economy, payouts, and transactions like remittances or insurance payments, those kinds of things.

So, in the United States, and every country is going to go through this kind of evolution, where they'll start with P2P, get into things like gig economy payouts, and then get into more sophisticated -- and remittances and then more sophisticated use cases. And the United States is much further along that continuum.

In other countries, we abate some good progress kind of in that first phase or two, but haven't gotten into more sophisticated use cases. And in other geographies, frankly, we're still not there. So, I think there's a tremendous amount of gas left in the tank in Visa Direct, when I look at the opportunities to take use cases to more sophisticated levels in more markets, to open up more markets and to put a real focus on cross-border Visa Direct transactions, which will have better yields to them as well.

So I think your -- bottom line theory of your question is -- I had some real legitimacy to it. Although I would say that it will be probably a bit longer elevation -- a bit longer period of time before you reach to maturity, simply because of the different amount of use cases whereas pay -- Tap to Pay is really kind of a single type of initiative.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan?

Operator

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

Q - David Koning {BIO 7310416 <GO>}

Yeah. Hey, guys. Thanks, and good job. I guess my question, rest of world debit is the one place where, I guess, numbers were a little weaker than we had thought, negative 2% constant currency. Is that just a function of portfolio deconversions, Russia, some of the one-off things? And when does that kind of influx back in deposit territory?

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

I think, Dave, when you look at it, ex-China and ex-Russia, it grew over 10%. And then, yes, the UK migrations, in particular, are happening at a faster pace than we thought. And as Vasant said in his remarks, they're almost fully migrated. So certainly, that is having a dragging impact on the growth as well.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan?

Operator

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

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

Hi. Thank you for taking my question tonight. Al, could you give us your latest thoughts on sort of balance sheet deployment, M&A strategy? What you might be looking for whether this environment is yielding more potential opportunities or deals, or is it time maybe to, to not pursue additional deals as the macro environment remains volatile?

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

Nothing has changed in our strategy. We're focused, first and foremost, on organic growth and then growing through M&A. And then from there, dividend and share buybacks in that order.

Clearly, there's been a little bit of a burst of the balloon in terms of some of the valuations, in particular, in the fintech world. That's a helpful characteristic of the environment right now, but I think we will continue to look for capabilities and management teams that would bring more value to Visa than we could bring through ourselves organically.

And we're in constant evaluation of options. We have a very good corporate development team. It's something that Ryan and Vasant, in particular, spent a good deal of time on. And when we see something that we think will make us better as a company and has a fair value attached to it, we're not afraid to go after it.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan?

Operator

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

Q - James Faucette {BIO 3580933 <GO>}

Thanks very much, and thanks for all the work and effort, Al, over time. And I wanted to address a kind of a bigger picture question for you. And maybe for Ryan is that, one of the questions we get a lot from investors is, how do we think about kind of the challenges as we eventually reach some level of maturation of card penetration, especially in the U.S. and developed markets. And especially given some of the preferences we've seen in other countries for them to develop domestic schemes or at least pay for domestic schemes.

So just wondering, if you can provide a little bit of reflection on what we've seen thus far? And maybe, Ryan, some ideas on how we should think about kind of maturation and expansion issues going forward?

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

Yeah. I'll start and certainly, Ryan can add. First, I'd -- I would say that, I believe deeply that there is tremendous opportunity in the card, traditional card world, both in the consumer space, as well as the B2B space.

There are still hundreds of millions of people to bring it to the financial mainstream. There are still trillions of dollars spent on cash and check. And when you look in the B2B space, we see a total addressable market of about $120 billion across card-in opportunities, cross-border, and payables, and receivables, where I talked a bunch of that and a number of examples that we have worked on over the course of the last quarter.

RTP systems are helping to digitize money movement. That's a good thing. If you look at the disruption caused by monetization in India, it ended up being extraordinarily positive in terms of -- what it's done in terms of growth in card credentials, as well as acceptance, which by the way, I also should have said, in the traditional world, there's still a tremendous opportunity to grow our acceptance footprint from the level that is out today.

These RTP systems are also helping us and we're leaning into them. They're helping us extend the reach of Visa Direct as we utilize them as part of our network of network strategies. They're helping us with open banking through Tink, where we can facilitate greater access to more developers on one end and more financial institutions on the other end.

I think RTPs represent an opportunity for us to delve[ph] value-added services. And I still think the advantages of -- and the capabilities associated with the card in space are still far superior to account to -- account the consumer protections and et cetera.

If you look at Pix in Brazil, if you look at UPI in India, these things developed and were put in the marketplace. And we're seeing a fair amount of -- hearing a lot from clients in terms of fraud associated with these networks. And in many ways that make sense. They haven't spent the decades and hundreds of millions of dollars that Visa has to build security, fraud capability, risk management capabilities that help keep the ecosystem secure and trusted by consumers. And I think we have the opportunity over time in the A2A space to bring some of those capabilities and earn some good revenue yield from them.

So Ryan, what would you add or delete?

A - Ryan McInerney {BIO 17310000 <GO>}

Not a lot to add to that, Al. It's great. And I mean, James, it's been -- in short, we still see a ton of runway. We love our products, we love our people, we love our brand, we love our position in all these markets whether they're mature, emerging around the world. So tons of runway.

A - Jennifer Como {BIO 20121273 <GO>}

Next question?

Operator

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

Q - Dan Perlin {BIO 1758057 <GO>}

Thanks. Hey, Al, I just wanted to ask a question about how -- when you look at the new business that you've won, let's say, in the past 12 months maybe even 18 months or so, how that kind of sets Visa up as we think about the next, I would say, the next two years not really much beyond that? But -- and the question really here is, is it tilting to take advantage more of debit trends, credit trends, global hospitality. And I'm kind of asking because Mastercard kind of called it out this morning their positioning in travel. And it sounds like you were also kind of hinting at some positioning for your business. I would just be interested to know what that new business pipeline that you brought in to just over the course of the next two years for your company? Thank you.

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

Well, I'll say a couple of things, Dan. Number one, on the travel front, it's been a focus for us for a long time. And I think we have about 650 co-brands around the world. Many of them are travel co-brands, and I think we're the leading co-brand player on the planet. I think that when I look around the world, there's certainly opportunities with traditional issuers. We've made a lot of inroads in markets like Brazil and Chile, the Netherlands, Germany, Japan over the past year. We've had some great renewals in the United States over the last couple of years from JPMorgan, Chase to Wells to the ones I talked about today in terms of Bank of America, CAP One Commerce Bank. But we've also made great inroads with fintechs and neobanks. We have had a great track record of wins in the last 24 months to 36 months. And a lot of these people are getting to be scale -- just scale in their particular markets. And I think for us we have to have a wider lens in terms of who can provide services, we're trying to get our -- make sure we have -- get visa cards in as many wallets, as we can around the world.

And then, I'm going to come back to acceptance. One of the great ways to continue to grow our business is to grow our acceptance footprint, which still requires a lot of growth around the world. One of the places we've concentrated on that in the last year and a half is Latin America. And if you look at the ratio of spending in Latin America that went from, moved from cash to PD in the last couple of years. Back in full year 2020, only 46% of Latin America's volume was PV, with 54% being cash. This past quarter we just finished 59% of their PV -- 69% of their volume was purchased by. So there was a 13-point swing in the Latin America region in the last, not even quite three years, and that's a combination of winning with traditional FI's, winning with fintechs having a localized market-by-market approach with a lot of good -- really good progress in countries in South and Latin America like Brazil and Chile.

A - Jennifer Como {BIO 20121273 <GO>}

Next questions, Jordan?

Operator

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

Q - Harshita Rawat {BIO 18652811 <GO>}

Thank you. Al, best wishes to you and we'll miss hearing from you on the earnings call. Ryan, congratulations. Can you talk about how this growth strategy and organization has evolved under your leadership? Are you (Technical Difficulty) certain things or do some things differently? And Vasant very quickly, can you comment under your DCL (Inaudible) from your four fiscal quarter to 1Q? You talked about some the dynamics, but how is that relative to your initial expectations? Thank you.

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

Harshita, I don't think we got the second half of your question because maybe we can knock that off, and then Ryan can talk. Oh, you did?

A - Vasant Prabhu {BIO 1958035 <GO>}

I think you were asking about -- you said, decel, I'm assuming you meant deceleration --

Q - Harshita Rawat {BIO 18652811 <GO>}

Yes.

A - Vasant Prabhu {BIO 1958035 <GO>}

-- between the first and the second? Yeah, I mean, it's just couple of things. The Russia impact is a little larger in the second quarter, because we had almost two quarters worth of service fees last year. Remember, we recognize service fees with a lag, so the service fees recognized in the first quarter were based on Q4 growth rates. So sequentially Q1 was a little lower, so Q2 service fees will be impacted by that.

Also, currency volatility moderating as we speak. It has been moderating for a few weeks and incentives growth is a little higher as you saw. So you put it all together, we were little better than we expected. We thought we would be, high single digits in the first quarter. We were higher for the reasons I mentioned. We will be high-single digits in the second quarter, that's our expectation right now.

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

Ryan?

A - Ryan McInerney {BIO 17310000 <GO>}

Yes, on the first part of question, I've been a President now for close to 10 years, so I've been shoulder-to-shoulder with Al and Vasant and the rest of our team as we've made all of our key decisions, as we've developed our strategy, as we've executed our strategy. So probably won't or shouldn't surprise you, I'm going to continue to focus on the three growth pillars that we've laid out: consumer payments, new payment inflows and value-added services.

My priorities are going to be focused on doing everything that we can to accelerate our progress and accelerate our momentum. So how do we go to market, how do we work with clients, how do we ship product faster, how do we sell solutions more effectively to our clients? And to part of your question, how do we organize? So earlier this month, I announced a new organizational structure that really reflects our strategy that we talked with all of you about all the time. And we believe it's going to help us accelerate our progress in all three of those growth factors.

To give you a quick sketch of that, Oliver Jenkin, long-time Visa veteran, who many of you know, is going to lead a new global markets organization that includes driving our consumer payments growth in all of our markets around the world. So our five regional presidents will report to Oliver. Chris Newkirk, who formally led our strategy organization, is going to lead our new flows business unit reporting directly to me. Anthony Cahill, who is our former Deputy CEO of Europe, is going to lead our value-added services business unit, reporting directly to me. So our global markets team, our value-added services business unit, our new flows business unit, all will report directly to me.

And then just to round that out a little bit, Jack Forestell, who also many of you know, will become our Chief Product and Strategy Officer, and will partner closely with our President of Technology, Rajat in Asia. And the two of them are focused on delivering a robust product and innovation road map, shipping world-class products and services that help our clients grow their businesses and deepen their relationships with their customers. So that gives you a sense of where we are with strategy and the organization.

A - Jennifer Como {BIO 20121273 <GO>}

Next question, Jordan? Thank you.

Operator

Thank you. Our next question comes from Ken Suchoski with Autonomous Research. Your line is open.

Q - Kenneth Suchoski {BIO 20676294 <GO>}

Hi, good evening, everyone. Thanks for taking the question, and congrats to Al and Ryan.

I think you mentioned earlier that you're keeping the second half guidance unchanged. Can you just remind us what that guidance was with from either of volume or net revenue standpoint? Just because, I think we have only the prior kind of full-year guidance and I know there's FX that's becoming less of a headwind as you get into the second half. Thank you.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yes. When we talked to you last quarter, we said for the full year revenue growth would be somewhere in the mid-teens on a constant dollar basis adjusted for Russia. And then when you adjust for Russia and you adjust for a full year impact at that time of about 2 points on FX, it was going to be high single digits in nominal dollars. And so you know sort of where we are in Q1 and Q2. And exchange rates have moved around some so you can do some of the math.

We're basically not changing any views on the second half right now because trends have been still fairly stable. The only thing you might want to change is what the exchange rate impact in the second half might be based on where these are right now. I also gave you fairly clear operating expense expectations. We were about 15% growth in the first quarter. We said growth will be 2 to 3 points lower in nominal dollar terms in the second quarter, another 2 to 3 points lower in the third quarter and another 2 to 3 points lower in the fourth quarter.

And that reflects what we had said last quarter that is, expense growth will moderate through the year, both as we moderate the rate of increase and also as we lap higher levels of expenses from last year. So those pretty much are the sort of the broad outlines of what we said last quarter. And then, we'll update you once again on our next call with any changes we might have based on trends.

A - Jennifer Como {BIO 20121273 <GO>}

Last question, Jordan?

Operator

Our final question comes from Tien-Tsin Huang with J.P. Morgan. Your line is open.

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

Hey, thanks so much, and congrats to Al and Ryan. Excited for both of you. On the renewal front and new deal front. I'll ask on that if you don't mind. Any call outs on pricing contract requirements that kind of thing. I know you named a bunch of big names on the renewal front, Mastercard talked about the Citizens when they're just curious what's happening in the whole balance of trade area? Thanks.

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

Well, it's a competitive world out there, Tien-tsin, as you well know. I think that there's a price that you need to get to and then a lot of it has to do with the combination of incumbency or not, the capabilities you have, what your lineup of customers' clients are in that market, what kind of experience you've had, what kind of innovative ideas you bring to the table, the other kinds of capabilities that we have in terms of services and new flows.

So, yes, every deal is different and potentially hinges on different things depending upon the needs of a particular client. And we tried to be very bespoke when we look at deals and talk to clients because their needs and their situation will always tend to be a bit different.

A - Jennifer Como {BIO 20121273 <GO>}

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

Operator

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