Q3 2022 Earnings Call

Company Participants

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

Other Participants

- Andrew Jeffrey, Analyst
- Ashwin Shirvaikar, Analyst
- Bryan Keane, Analyst
- Darrin Peller, Analyst
- Harshita Rawat, Analyst
- Jamie Friedman, Analyst
- Jason Kupferberg, Analyst
- Lisa Ellis, Analyst
- Ramsey El-Assal, Analyst
- Rayna Kumar, Analyst
- Robert Napoli, Analyst
- Sanjay Sakhrani, Analyst
- Tien-Tsin Huang, Analyst
- Tim Chiodo, Analyst

Presentation

Operator

Good morning. My name is Audra, and I'll be your conference operator today. At this time. I would like to welcome everyone to the Mastercard Incorporated Q3 2022 Earnings Conference Call. Today's conference is being recorded. All lines have been placed on-mute to prevent any background noise. After the speakers remarks, there will be a question-and-answer session. (Operator Instructions)

At this time, I like to turn the conference over to Warren Kneeshaw, Head of Investor Relations. Please go ahead.

Warren Kneeshaw {BIO 16549173 <GO>}

Thank you, Adra. Good morning, everyone and thank you for joining us for our third quarter 2022 earnings call. With me today are Michael Miebach, our Chief Executive

Officer; and Sachin Mehra, our Chief Financial Officer. Following comments from Michael and Sachin, the operator will announce your opportunity to get into the queue for the Q&A session. It is only then that the queue will open for questions.

You can access our earnings release, supplemental performance data and the slide deck that accompany this call in the Investor Relations section of our website mastercard.com. Additionally the release was furnished with the SEC earlier this morning. Our comments today regarding our financial results will be on a non-GAAP currency-neutral basis unless otherwise noted. Both the release and the slide deck include reconciliations of non-GAAP measures to GAAP reported amounts.

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

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

Michael Miebach {BIO 16087573 <GO>}

Thank you, Warren. Good morning, everyone. Let's get right into it. So the headline is that consumer spending remains resilient and cross-border travel continues to recover. With this backdrop, we delivered strong revenue and earnings growth through the focused execution of our strategy. Third quarter net revenues were up 23% and adjusted operating income up 27% both versus a year ago on a non-GAAP currency-neutral basis excluding special items.

Now, the macroeconomic and geopolitical environment remains uncertain. Inflationary pressures have remain elevated and central banks are continuing to take aggressive steps to bring inflation in line. Tensions remain high with the war in Ukraine and the supply of natural gas to Europe is a concern, despite all of this unemployment rates remain low, wages are rising, consumer savings levels remain elevated and credit is readily accessible. In this setting overall consumer spending has remained resilient, although we are seeing some shifts in what consumers are buying.

Looking at our switched volume trends. Domestic volumes remained steady showing growth relative to 2019 levels relatively consistent to the second quarter 2022. The trend towards spending on experiences continues. We saw notable strength in airline, lodging and restaurants spend with the shift away from categories like home furnishings and appliances. The current mix between retail, T&E and other categories of spend is now broadly similar to pre-pandemic levels.

Cross-border. Cross-border continues to recover as border restrictions are progressively relaxed. Cross-border travel end of third quarter has reached 124% of 2019 levels. Relative to 2019 levels most regions are up sequentially including a notable improvement in Asia. Cross-border card-not-present ex travel continue to hold up well. Notwithstanding the

Canadian strength in consumer spending we will continue to watch the environment closely including fiscal, monetary and other policy actions taken in response to events. This will inform our actions as it always has. Should the market outlook weaken we are prepared to act quickly to modulate our expenses. As we demonstrated during the pandemic we have the flexibility to respond quickly across a number of levers and will do so while maintaining focus on our three key strategic priorities.

The focus on these areas that will create new opportunities for growth. Let's start by solidifying our position in payments, complemented by our differentiated services lines and our expansion into adjacent activities like open banking and digital identity.

Moving onto some examples of how we are progressing against each of these. First we are expanding in payments by enabling digital transformation with our customers, putting volume growth, expanding acceptance and capturing new payment flows. There are now over 3 billion mastercards on circulation, supported in part by programs such as our Digital-First initiative. A Digital-First solutions starts with the ability for a consumer to acquire and then use a new card digitally in the real time. It's helping customers create a best-in class digital experience, leading to increase the approval rates on average by 2 percentage points reduced fraud on average by 4 basis points and increased spend per active account on average by 10%.

To-date we have launched over 200 Digital-First customers around the globe. Santander in Mexico, Chase in the UK, Citibanamex, ING in Spain and Nubank in Brazil are amongst the latest customers to partner, as Mastercard deliver an end-to-end Digital-First customer journey. Also, we're driving growth in volume this new and renewed wins across a broad set of partners.

In US, we recently extended our exclusive deal with KeyBank for debit, credit, commercial and small-business as well as deepen our relationship on services. This quarter in partnership with Chase we've launched a new co-brand program with DoorDash. This deal further expand our presence in the Digital Food Delivery space. We also went live for the Uber Pro Card an enhance loyalty and payments experience that will help drivers and couriers save on gas, fees and other expenses.

In Europe, we are seen momentum in Italy with (inaudible) securing an expanded deal that include a credit and prepaid flip as well as securing the current Mastercard portfolio. In Latin America, we have renewed our exclusivity agreement Mercado Libre and secured incremental credit share with Banco Scotiabank Colpatria. Overall, another great quarter with notable wins. That's just one area that is sometimes underappreciated. That is how we are enabling growth in payments by giving people and businesses more places to use their Mastercard. We have added more acceptance locations in the last five years than the previous 50, and we are now accepted more than 19 million merchants locations.

The preference for contactless payments that grew over the last two years continues. More than half of the inflows for switched purchase transactions are now tapped upfront approximately one -third pre-pandemic and this trend will be bolstered by the adoption of new technologies such as Tap on Phone. Further our technology and global reach enable growth and acceptance, while helping our partners drive their digital strategy. For example, we have signed with McDonald's to use our gateway capabilities, enabling them to easily offer more solutions to new markets beginning in Middle East and Africa.

Finally we're driving growth in payments by leaning into innovation to capture a prioritized set of new payment flows. We continue to make progress and going after flows into disbursements and remittances space by expanding into new use cases and geographies. For example in the US gig economy. We signed a new global agreement with AirBnB to facilitate host payouts using Mastercard Send in select markets.

We are have also expanded with gaming payouts launching our Gaming Fast payout program. To address the account-to-account cross-border and domestic payments we have signed a deal with Pagero a leading global B2B network and solutions provider. That provides accounts payable automation to some of the world's largest corporate brands.

We're also growing commercial point-of-sale transactions by targeting small business, corporate T&E, purchasing and fleet flows. In the US we announce our exclusive co-branded partnership with First National Bank of Omaha to issue the (inaudible) Small Business Card. This product offers small business owners industry-leading access to tools, benefit and services with a focus on equitable access to credit. They are important. We also continue to target B2B accounts payable flows by expanding access and reach leveraging our virtual card capabilities.

We signed a deal with Marqeta to enable our next-generation virtual card solution Instant Pay. This solution intelligently and automatically sends instant payments to suppliers. We have also signed an agreement with SAP Taulia to integrate our virtual card solutions into Taulia and SAP solutions enabling their customers to facilitate virtual card payments.

We're also well-positioned to capitalize on the return of travel with our Mastercard Wholesale Travel Program. In Bahrain we signed a deal with Infinios for their online travel agencies and travel management company volumes. And in Europe we signed a deal with the fintech Swile while going after B2B travel flows in Europe and Latin America. As you can see we continue to make steady progress in addressing our prioritized set of new payment flows.

Now turning to services where we delivered another quarter of strong revenue growth. Our services deliver a diversified revenue stream for Mastercard beyond payments. We accomplished this by adding new service capabilities as well as extending existing service offerings into new and existing customers. There continues to be a tremendous growth opportunity in this space.

First off we're excited about Dynamic Yield's Unique Personalization platform, which offers a, great example of how it adding new service capabilities since complementing the acquisition earlier this year we have added dozens of new retail and commerce customers, a great example T&M, a German Fashion Store, I always share German examples, if I can. They have more than 1400 stores in Europe. We have deployed our content personalization capabilities to additional markets. In addition we are expanding our capabilities to financial institutions.

Now beyond adding new services there is an opportunity

To over-extending existing offerings into new and existing customers. In the third quarter, we signed an agreement with Sky Italia, part of Sky Group, one of Europe's leading media and entertainment companies, to enrich and commercialize a new service to support small businesses. Emburse, a technology provider to insurance companies is implementing our card link services for their micro savings program with Generali Insurance in Switzerland, and in Spain we have grown our relationship with Caixabank with one of our largest European (inaudible) deals. The deal enables them to provide a more efficient charge-back flow for all their card portfolios.

Beyond expanding in payments and extending our services, our third key priority area is embracing new networks. As a reminder, our current focus is on two areas: open banking and digital identity. This quarter, I'll touch on open banking.

While open banking is early in the game, it is a tremendous opportunity. We are engaged with a broad set of financial institutions and fintechs who are increasingly interested in a wide range of use cases. And what's unique and interesting here is that we are the partner that brings what is needed to scale and instil confidence in the space, things like responsible data practices, consumer protections, and deep compliance. All on top of our robust technical capabilities, broad connectivity and extensive applications.

So just to give you a flavor in the US Quicken, a leading provider of financial management solutions has selected Mastercard as their provider of consumer permission data for its popular Simplifi budgeting platform. We're also working with Fidelity to support their innovation in student loan repayment for organizations that want to help their employees improve their financial wellness. Then there's Jack Henry, which will enable community and regional financial institutions to be at the center of their account holders financial lives. They will do this providing stability to securely see all of their financial accounts within and outside a primary financial institution in a single view. This will help enable consumers and businesses to make more informed financial decisions. This is just the beginning, much more to come in open banking.

Before wrapping up, I'd like to share an example of how we are incorporating our capabilities across all three strategic pillars. Our strategy to engage in the crypto economy leverages assets across payments, services, and new networks. A combination that yields a truly differentiated value proposition. Here, we're deploying our payment capabilities to enable consumers to spend their crypto holdings on card and cash out their crypto wallets via Mastercard Send. This quarter we partnered with Evonax, who will become our first partner in Australia to issue crypto-funded cards. We're enabling off-ramp solutions with Mastercard Send and recently added five new players in North America and Europe, including Binance supported by Checkout.com and Nuvei. In all instances, we do not handle crypto but rather take delivery of fiat currency.

Our services and new networks capabilities are providing identity, cyber and consulting services for market participants. Crypto Secure is an innovative solution designed to bring additional security and trust to this digital ecosystem by helping card issuers address regulatory risks. We also recognize the interest people continue to have in buying and holding crypto through trusted places like the banks. So last week we announced Crypto Source, which is designed to give our financial institution partners access to a comprehensive suite of buy, hold and sell services for select crypto assets. This will be augmented with our proven identity, cybersecurity and advisory services. To support these upcoming pilot programs, Mastercard is expanding its partnership with Paxos Trust Company to leverage their crypto asset trading and custody services. As you can see, our crypto strategy is bringing together best-in-class capabilities at scale all built on our core principles of providing strong consumer protections, safety and security.

In summary, we delivered another strong quarter of revenue and earnings growth aided by a resilient consumer and a continued recovery in cross-border travel. We continued executing against our three strategic priorities. We have strong momentum with our customers, offering a diverse set of innovative solutions. We will continue to manage our expenses carefully within this macroeconomic environment, and our well diversified and flexible business model positions us well for the future.

Sachin, over to you.

Sachin Mehra {BIO 15311008 <GO>}

Thanks, Michael. Turning to Page 3, which shows our financial performance for the quarter on a currency-neutral basis excluding special items and the impact of gains and losses on our equity investments. Net revenue was up 23%, supported by resilient consumer spending and the continued recovery of cross-border travel relative to 2019 levels.

Acquisitions contributed 1 ppt to this growth. Operating expenses increased 17% including a 3 ppt increase from acquisitions. Operating income was up 27%, which includes a 1 ppt decrease related to acquisitions. EPS was up 22% year-over-year to $2.68 which includes a $0.06 contribution from share repurchases. During the quarter we repurchased $1.6 billion worth of stock and, an additional $505 million through October 24, 2022.

So, let's turn to Page 4, where you can see the operational metrics for the third-quarter. Worldwide Gross Dollar Volume or GDV increased by 11% year-over-year on a local currency basis. On the same basis if you exclude Russia from the prior-period GDV increased by 18%. In the US, GDV increased by 10% with credit growth of 20%, reflecting in part the recovery of spending on travel. Debit increased 2%, excluding the impact of the roll off of a previously discussed customer agreement debit increase approximately 5%. Outside of the US volume increased 12% with credit growth of 15% and debit growth of 9%. Cross-border volume was up 44% globally for the quarter reflecting continued improvement in travel related cross-border spending.

Turning to Page 5. Switched transactions grew 9% year-over-year in Q3, excluding Russia from the prior year Switched Transactions grew 19% year-over-year in Q3. Card-present and card-not-present growth rates remain strong. Card-present growth was aided in-part by increases in contactless penetration in all regions when excluding Russia. Contact-less now represents 54% of all in-person switched purchase transactions. In addition card growth was 5% or 10% if we exclude cards issued by Russian banks from the prior year card count. Globally there are 3 billion Mastercard and Maestro branded cards issued.

Now let's turn to Page 6, for highlights on the revenue line items again described on a currency-neutral basis unless otherwise noted. The increase in net revenue of 23% was primarily driven by domestic and cross-border transaction and volume growth as well as growth in services, partially offset by growth in rebates and incentives. Acquisitions contributed 1 ppt to this growth.

Looking quickly at the individual revenue line items. Domestic assessments were up 9%, while worldwide GDV grew 11%. The difference is primarily driven by mix. Cross-border volume fees increased 57% while cross-border volumes increased 44%. The 13 ppt difference is primarily due to favorable mix as higher-yielding ex intra-Europe cross-border volumes grew faster than intra-Europe cross-border volumes this quarter.

Transaction processing fees were up 22%, while Switched Transactions grew 9%, the 13 ppt difference is primarily due to favorable mix, FX-related revenues and pricing. Other revenues were up 22% including a 2 ppt contribution from acquisitions. The remaining growth was driven primarily by our Cyber and Intelligence, and Data and Services solutions. Finally rebates and incentives were up 26% reflecting the strong growth in volumes and transactions and new and renewed deal activity.

Moving on to Page 7, you can see that on a non-GAAP currency-neutral basis, total adjusted operating expenses increased 17% including a 3 ppt impact from acquisitions. Excluding acquisitions the remaining increase was primarily due to higher personnel cost to support the continued execution of our strategic initiatives.

Turning now to Page 8. Let's discuss the operating metrics for the first three weeks of October. For your reference to help you understand the trends in the business, ex Russia where we suspended operations in March 2022, we have included an appendix later in this deck to show all the data points from the schedule if you excluded activity from Russian issued cards from prior periods. As a general comment our metrics are holding up well in October. As expected the year-over-year growth metrics faced tougher comps as we begin lapping periods in 2021 when COVID related restrictions eased and spending levels started to rebound. However it is important to note that all metrics continue to hold up well relative to 2019 levels.

Going through the metrics in turn starting with switched volumes for the first three weeks of October we grew 17% year-over-year, down 1 ppt versus Q3. Switched Transactions grew 9% year-over-year, through the first three weeks of October consistent with Q3. As a reminder, Russia has a relatively low average ticket size, which resulted in a larger relative impact this metric. Overall cross-border volumes through the first three weeks of October grew 36% year-over-year, down 8 ppt versus Q3.

Cross-border travel had another quarter of strong growth as border restrictions continue to be lifted. In the first three weeks of October cross-border travel was up 62% year-over-year, down 11 ppt versus Q3 due to more difficult year ago comps that I just noted. Cross-border travel is now at 125% of 2019 levels up 1 ppt from Q3 levels. Cross-border card-not-present excluding travel was up 12% year-over-year in October which includes the impact of significant e-commerce promotional activities and is down 1 ppt from Q3. This metric continues to hold-up well in relation to 2019 levels.

Turning to Page 9. I wanted to share our thoughts on Q4. Let me begin by saying that the execution of our strategic priorities is translating into expanded and deeper customer relationships and the broader adoption of our material solutions and differentiated services. Consumer spending remains resilient in the face of macroeconomic headwinds and cross-border travel continues to recover as border restrictions ease and consumers shift their spending back towards travel.

Just to update you on some metrics we're tracking. Asia, which represented approximately 14% of cross-border inbound travel pre-pandemic in 2019 is at approximately 76% of 2019 levels in Q3, up from about 60% in Q2. We continue to believe there is more room to grow as several travel corridors particularly in Asia still remain restricted and airline industry capacity continues to build backup. We remain well-positioned to capitalize on this growth with our travel oriented portfolios and service offerings including access to an extensive airport lounge network and concierge services and our Global Mastercard travel rewards program, which allows issuers and merchants to connect to provide consumers with unique benefits through a simple digital experience.

As we have laid out there are a number of factors that could influence future economic growth. These include elevated inflation and rising interest rates and geopolitical tensions balanced against low unemployment, rising wages and high savings levels in particular. We are monitoring each of these as Michael just said. We are prepared to act quickly to adjust our expenses to reflect any meaningful change to topline growth.

With respect to the fourth quarter we expect year-over-year net revenue to grow at the high end of a mid-teens rate on a currency-neutral basis excluding acquisitions. This is consistent with prior expectations and sequentially reflects one, generally resilient consumer spending relative to 2019 levels; two, stable to slightly improved cross-border travel growth relative to 2019 levels with some continued improvement into Asia and some moderation within Europe; three, higher rebates and incentives as a percent of gross revenues due to elevated deal activity consistent with seasonal norms; and finally the lapping of a strong year ago quarter as border restrictions were lifted in the US, UK and Canada during Q4 2021.

Acquisitions are forecasted to add about 1 ppt to this growth, while foreign exchange is expected to be a headwind of approximately 6 ppt to 7 ppt for the quarter. As a reminder the euro has depreciated significantly year-over-year and is the primary driver of the segment.

From a sensitivity standpoint based on the current mix of the business the annual impact to net revenue of a $0.01 change in the value of the euro relative to the US dollar is approximately $55 million. From an operating expense standpoint we expect Q4 operating expenses to grow at a low double-digit rate versus a year-ago on a currency-neutral basis excluding acquisitions and special items.

Acquisitions are forecast to add about 3 ppt to this growth. Foreign exchange is expected to be a tailwind of approximately 4 ppt to 5 ppt for the quarter. Other items to keep in mind on the other income and expense line we are at an expense run-rate of approximately $100 million, per quarter given the prevailing interest rates this excludes gains and losses on our equity investments, which are excluded from our non-GAAP metrics. And finally we expect the tax rate of approximately 19% in Q4 based on the current geographic mix of our business.

And with that, I will turn the call back over to Warren.

Warren Kneeshaw {BIO 16549173 <GO>}

Thanks, Sachin. Audra, we're now ready for the Q&A session.

Questions And Answers

Operator

Thank you. (Operator Instructions) We'll take our first question from Sanjay Sakhrani at KBW.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thanks. Good morning, Sachin, I was just wondering if you could just parse out a little bit of the fourth quarter net revenue expectations. It was a little bit lower than we were thinking. I'm just curious is it incentive kind of spiking up in the fourth quarter or is it just the gross number? Any color there would be helpful. Thanks.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure. Firstly, I'm just going to kick it off by saying the fourth quarter thoughts that I just shared with you are very consistent with what we had shared in our implied fourth quarter numbers when we gave you our full year guidance at the last earnings call. So very consistent in terms of what we sharing with you in terms of fourth quarter.

But just a few things, I want to, kind of emphasize as to what our key assumptions going into the fourth quarter are, one is we continue to believe that there will be a resilient consumer and spending from the consumer relative to 2019 levels will be generally resilient; number two, we are expecting stable to slightly improved cross-border travel growth relative to 2019 levels.

In terms of rebates and incentives to your question as a percentage of gross revenues we expect them to be higher in the fourth quarter. This is very consistent with our seasonal norms, so nothing unusual as far as I'm concerned there, and then also again if you look at it on a sequential basis back to comparing fourth quarter to third quarter, there is a lapping effect which I kind of, talked about. So really, I mean the summary of what I guess I'm sharing with you is our fourth quarter thoughts are very consistent to what we had actually shared with you previously.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Okay. Thank you.

Operator

We'll move next to Lisa Ellis at MoffettNathanson SVB.

Q - Lisa Ellis {BIO 18884048 <GO>}

Terrific. Good morning, guys. Thanks for taking my question. I wanted -- a question about business resilience, I guess looking forward in the face of a potential economic downturn. I'm just thinking about the fact that over the last several years, Mastercard increased the diversification in the business significantly with more debit, more fast ACH, more services, et cetera, more B2B. So how do you think about, kind of where you are now in terms of resilience of the business, if we do at some point see a slowdown in the consumer side of spending? Thank you.

A - Michael Miebach {BIO 16087573 <GO>}

Good morning, Lisa. Thank you for your questions. Let me kick-off on that one. You implied the answer in your question, actually, it is the nature of our continued diversification. Just to remind everybody on why are we diversifying, it is to give us a diversified revenue stream but its also to differentiated our payments, and all of that plays hand-in-hand with better services. We going to see more payment volumes come out with better services, easier to get into some of the new payment flows for example, our safety security solutions are well sought after in the P2P space, where there is fraud issues all over the place. So all that, I think is a good starting point for us.

If I just look back over the last two years where we certainly had a slowdown on the payments side in the macroeconomic overall and services carried the day very significantly for us. So we just going to continue to push harder there. And then new flows, I gave you a whole range of examples earlier on how we are building out the new flows.

And if you just put some light onto commercial POS. So here is -- this is existing tools that we have. We don't need to build a lot for it. Its a space that we haven't penetrated significantly in the past, and we are ready and were going in. This is a $14 trillion opportunity that we are going after, which is payments diversification going on in addition to our services diversification and earlier on the stats on acceptance just more places where people can spend, in the end then people will spend even in a downturn. It doesn't actually matter for us what they spend on, but if they spend on a Mastercard, we give them more opportunities to do so. So diversification is the name of the game.

Q - Lisa Ellis {BIO 18884048 <GO>}

Thank you.

Operator

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

Q - Darrin Peller {BIO 16385359 <GO>}

Hey guys, thanks. Your model is clearly still showing benefits of inflation. And could you just remind us again the sensitivity in the areas you see and the basis points driven inflation impact, but also whether or not there's any pricing changes you guys are interested in employing on the non-basis point side, whether it's transactions or it's services, probably more importantly, just given what we've seen, or if you've done so already?

Then maybe just on a side note on that, on the other side would be the expense management and the willingness. Just how willing you are on, for example, marketing to flex there if necessary? Thanks, guys.

A - Michael Miebach {BIO 16087573 <GO>}

Hey Darrin, I'll take that question. I guess to your point around inflation, look, persistent inflation for long periods of time which causes a shift in share of wallet away from carded categories into non-carded categories would be the one area I would actually flag as a potential headwind as it relates to our business model, but putting that issue aside, the reality is you're very correct about the fact that we charge our basis points in cents per transaction, our basis points are non-value spend, and that reflects the impact of inflation in there.

So the reality is, as we said in the past, hardest inflation and inflation in carded categories, where generally you know, our business model accounts for that because depending on if its carded, it doesn't matter, like Michael said, whether it's happening in travel or it's happening in food and clothing. Those are carded categories, and you kind of get the benefit of that coming through.

You know look, as it relates to your question on expenses, we've always remained disciplined on expenses. A thing which we always keep in mind is a few things: one, we want to make sure that we're investing in the long term growth of our business along the three strategic priorities which Michael talked about. We will continue to do that. That being said, as we demonstrated during the COVID environment, we do have the opportunity to flex our expenses, whether it's around marketing, whether it's around professional fees, whether it's around T&E, in all the function of making sure we are keeping an eye on the top line and keeping an eye on the bottom line while we're actually delivering what we need to do from an expenses standpoint. And we'll continue to do that going forward.

The reality is we keep a close eye onto what are the things which are in demand from our customers, what is it that the consumer wants, and we are pulsing our expenses in that regard. An example would be, as you remember in COVID, when travel is out of favor, we started to pull back on A&M related to travel. It just didn't make sense for us to be doing at that point in time, so we'll remain flexible on that.

And then, there are initiatives which we've got which are longer term initiatives which will pay off over many, many years in the future, where we have the opportunity to actually pulse the pace at which we're incurring expenses on those in the event we start to see a little bit of a slowdown in terms of top line.

You asked the question on pricing. Our philosophy around pricing is very consistent as it's always been. We price for the value we deliver, and our assumption from a pricing standpoint whether its pricing in basis points or cents per transaction, is very tightly correlated to the value we're delivering to our customers and to the end consumers and to our merchant partners. So all of that's very consistent at the end of the day. We assume minimum net pricing, net of rebates and incentives from a pricing standpoint.

A - Sachin Mehra {BIO 15311008 <GO>}

Yeah, just want to -- Darrin, I just want to add one point here, and that is looking back at the last two or two and a half years now, back to the second quarter of 2020 when revenue was severely impacted by a truly unprecedented event out there, so to the power of the levers that we have and a range of levers that we have to modulate our expenses hiring, A&M, professional fees, T&E and your market appetite and all of that, it just shows that we did not have to make any compromises when it comes to driving our strategic priorities. We pulled through it on new yield flows, we pulled through on services and expansion and so forth. The model is wide and flexible that helps us a lot, and as I look forward, there is optimism in how were going to navigate that.

Q - Darrin Peller {BIO 16385359 <GO>}

Thanks, guys.

Operator

We'll take our next question from Harshita Rawat at Bernstein.

Q - Harshita Rawat {BIO 18652811 <GO>}

Good morning. Michael or Sachin can you talk about online debit routing in the US the Fed they recently put out clarification accruals. If I recall correctly, last time you ended up gaining market when Durbin was implemented. So how does it impact Mastercard with online debit routing? Thank you.

A - Michael Miebach {BIO 16087573 <GO>}

Right. Hey, Harshita, thanks for the question. There's always something in debit routing going on. So here we have the clarification of the rule via the Fed. And here it takes all the way back to a decade ago, when there was this requirement to have two networks on every debit card, and basically what the Fed here clarified is that this is applying to whether it's a debit transaction that's made online or in store. So pretty simple, pretty straightforward implementation by mid of 2023. So we have some time, that we will be ready and we will be implementing.

I think really what that does is we will just continue to compete with all the assets that we have in debit. I'm not really sure what this will do to the market, but we will certainly be there leveraging our technology to win more debit in the United States.

Q - Harshita Rawat {BIO 18652811 <GO>}

Thank you.

A - Sachin Mehra {BIO 15311008 <GO>}

And Harshita, I'll just add one additional comment to what Michael just said, which is, as you know, we've been investing pretty heavily in our services capabilities, some of which relate to cyber intelligence, and in an environment where our partners, whether it's the merchants or the issuers, need more of our services to better manage their core capabilities in the online environment, we stand ready to do that as well.

Q - Harshita Rawat {BIO 18652811 <GO>}

Thanks very much.

Operator

We'll take our next question from Tien-Tsin Huang at J.P. Morgan.

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

Hey, thank you. Good morning. Just you mentioned nothing unusual on rebates and incentives, but I just wanted to ask, as I sometimes always do with deal activity versus 90 days ago. Any change there? Issuer appetite to drive program growth versus maybe more disciplined growth on their side? Are there changes in timing of deals and implementation things of that nature? Thanks.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure, Tien-Tsin. I can take that. Tien-Tsin, I think you know that we've been active in the marketplace. We've been winning share globally, and that's just part of the strategy of what we want to do, which is on a disciplined, profitable basis we want to win share and deliver more in the nature of services on that share to optimize and grow our overall network. I'll start with that as kind of the headline.

But on your specific question on Q4 on rebates and incentives, nothing unusual. It's a rich pipeline. We continue to be active in the marketplace. We're not seeing any changed kind of behavior or patterns as it relates to how our issuing partners are in the marketplace, and we just remain active and that's really the essence of what we're seeing there.

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

Great. Thanks for the update.

Operator

Next we'll move to Ashwin Shirvaikar at Citi.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Thank you. Hi, Michael, Hi Sachin. If I can ask about cross-border, now that we have seen some normalization in travel, if you could talk about how much more travel improvement there is yet to come in your view, and the mix of cross-border now that some of the normalization has happened as we look to travel versus non-travel?

A - Michael Miebach {BIO 16087573 <GO>}

Sure, Ashwin. I can take that question. So firstly, I kind of mentioned that as we said in the last earnings call, we saw opportunity in terms of further recovery in travel. We saw some of that come through in our Q3 numbers. We still believe there is potential from a cross-border travel recovery standpoint, in particular in Asia-Pacific. I shared a metric about how Asia-Pacific inbound cross-border travel at approximately 76% in Q3 of 2019 levels. So that just goes to show there's some more room to grow there. There are several markets in Asia-Pacific which still remain to be opened.

Also, airlines are bringing more capacity back on. As you know from our personal experiences, getting seats on planes is hard and it's expensive, and so the reality is all of that should be helpful in terms of the potential for cross-border travel recovery.

The other point which I think you alluded to, Ashwin, is as it relates to the mix, and the mix is always so important, because the mix of cross-border has not reverted back to historical mixes, so said differently, if you remember as we were going through COVID, we first saw a recovery take place in intra-Europe, and you know intra-Europe is generally lower yielding. We've recently been seeing a stronger growth pattern in ex intra-Europe cross-border, and so the reality is that mix is not back to the pre-pandemic levels at this point in time. It just one thing to add, this isn't exactly your question, but that whole space had been in focus for us pre-pandemic, during the pandemic, and now. While airlines were struggling with really no flights taking off, we were a strong partner and it showed in how the engagement with airlines and travel-oriented portfolios work now. So we stand well positioned to benefit from the trend that Sachin just talked about, on the services side as well as in the payments and co-brand side. So exciting space. I think our bets are paying off.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Thank you.

Operator

We'll go next to Rayna Kumar at UBS.

Q - Rayna Kumar {BIO 17409639 <GO>}

Good morning, thanks for taking my question. You continue to see very strong growth in Latin America 29% GDV growth in the quarter. Can you discuss some of the key drivers of that growth and how sustainable you think it could be going into 4Q and into 2023? Thank you.

A - Michael Miebach {BIO 16087573 <GO>}

Rayna, let me start off on that. Latin America, fascinating region for us, highly diverse from super well developed Brazil to markets at the other end of the spectrum, high travel markets with the Caribbean, so Mexico. So you have all of that in the mix. It's really interesting when you peel the onion of it and you look at some of these markets and you compare them, two of the largest markets for example, Brazil and Mexico, if you look at the digital penetration in Mexico compared to Brazil, there is so much more potential to go, so there is upside in digitization.

There is other issues that require some of our solutions. The region has experienced some fraud issues, generally in payments, so our safety and security solutions are in great demand and are a great driver for growth for us and the region while the underlying digitization continues, so you put those trends together, it's all fairly attractive.

And then I talked to you about our engagement in the crypto economy. If there is one place in the world where crypto is really in focus, it's in that part of the world. Historic pain through high inflation and so forth, people were thinking crypto might be an answer. A lot of innovation in this space. So across all payments services and new payment flows and innovation, this is a region that is showing momentum for us.

A - Sachin Mehra {BIO 15311008 <GO>}

Yeah Rayna, I'll just bring to light, well one of the points which Michael talked about in terms of increased trends towards digitization. As it relates to our performance in Latin America in Q3 and going forward, the reality is we've been very focused on the conversion of Maestro to debit Mastercard, and this has been part of what we as a company have been doing for a very long time. Now you are seeing the fruits of that come through, because as you know, as you go down the path of converting Maestro to debit Mastercard, whether it's a companion digital debit Mastercard or it's an actual conversion of the card, now it becomes an enabler for online transactions, that digital trend which Michael is talking about. It's all about us trying to enable those cards, and we've been seeing good migration take place from Maestro to debit Mastercard.

Operator

We'll go next to Jason Kupferberg of Bank of America.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Thanks guys, good morning. I want to see if you can unpack a little bit what you're seeing in terms of consumer spending across different parts of Europe? And then Sachin, wanted to see if you could make just a quick comment around what you guys are envisioning, the potential FX headwind to revenue in 2023, just based on current rates? Thanks.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure. So Jason, I'll give you just on your first one, and then I'll get into the FX question which you're talking about. So in terms of Europe, we continue to see good Mastercard performance in Europe. Remember in terms of what you are seeing in our metrics, you're seeing not only what the underlying economies are doing but also the impact of our share growth which has been taking place in Europe. It's kind of the amalgamation of all of that which is coming through.

In terms of regional patterns, I would tell you that we're not necessarily seeing any meaningful change in terms of trends across the continent, in terms of how the spending patterns are taking place. The consumer generally, back to our comment earlier around consumer being resilient and strength in consumer, that's certainly the case.

Now, as you think about different markets, in markets like the UK, we're seeing stronger growth, a large part of that is being driven by the fact that we've had recent share wins in the UK, and then there were share wins we've spoken about in the past in continental Europe which are still to come to effect, right. So for example we talked about our win with Deutsche Bank in Germany, that's still to come to effect. So anyway, this is a mix of all of that which is kind of taking place at this point in time.

On your question around FX, I shared with you in my prepared remarks what's the annual impact on net revenue of a $0.01 change in the value of the euro would be relative to US dollar, which is about $55 million on an annual basis. We wanted to put that out there so you have a sense on what the potential headwind or tailwind could be, depending on what happens with FX rates. The hard part is predicting FX rates, and so given the current mix of our business, that's the sensitivity which I'll share with you as it relates to how you should think about what the impact could be for 2023.

Operator

And we'll go next to Tim Chiodo at Credit Suisse.

Q - Tim Chiodo {BIO 16128908 <GO>}

Great. Thank you for taking the question. I wanted to dig in a little bit on Mastercard Send relative to Visa Direct. I was wondering if you could call out for us and investors any of the different, maybe strategic focus areas, if there are any pricing differences or if there are any mechanical differences or maybe use cases where you seem to be getting traction relative to Visa Direct? That would be extremely helpful.

A - Michael Miebach {BIO 16087573 <GO>}

All right. Let me take that. So all Visa-related stuff, you should ask them, obviously, so I'm not going to do a direct comparison here, but I can tell you how we are thinking about it.

So first of all, just earlier on I talked a lot about the crypto space. So I just give you one example. Here is an interesting new technology and a growing ecosystem, and what's the way to get out of your crypto wallet balances as if you turn it into fiat and you use Mastercard Send. We were right on this from the first day and we have all the partnerships that do exactly that.

Then you go around, and basically there is new flows, there is geographies, there is use cases. So those are the dimensions on how we are looking at this. We are very systematic about it. This has to have ubiquity. We're looking at all regions from a coverage perspective. We're looking at the key use cases. We're very selective of use cases because here, you could get lost in a thousand flowers bloom. The examples I gave to you on partnering with large global firms like AirBnB, that is the approach, where you're going to say you partner with somebody that is in all the regions and covers the use cases which matters to people out there.

So that's essentially the approach on Mastercard Send. It has a domestic angle to it, and it has a cross-border angle to it. It grows at significant rates. We're very happy with it across all of these aspects that I just said.

So one thing to add, earlier we were talking about the numbers ex Russia, so Russia was a huge success on Send from day one. That's in fact where a lot of our learnings came from and though we exited Russia, as you know in March of this year. So that is skewing the numbers a little bit, but the learnings are not going away. We're putting that into a whole set of other markets, and to the earlier question around Europe, particularly in Europe we see some of those learnings translate in other parts of Eastern European countries and so forth.

A - Sachin Mehra {BIO 15311008 <GO>}

Tim and just to add to what Michael said, particularly on the remittances side, we're seeing very good traction take place in terms of cross-border remittances and the capabilities we've got there and the capabilities we're building there. Our global reach out there is holding us in really good stead as it relates to how we are able to tap our partners to generate more and more volume down that path. So that's a -- it's a bright spot in terms of the broad remittances piece as well.

Q - Tim Chiodo {BIO 16128908 <GO>}

Excellent. Thank you for all that context on Mastercard Send.

Operator

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

Q - Andrew Jeffrey {BIO 1493346 <GO>}

Hi, good morning. Thank you for taking the question. Michael, I wonder if you could give us an update on your processing efforts globally, maybe with an emphasis in Europe, whether you're taking share and winning business in processing and how you think that can affect over time both the net revenue yield and maybe the profitability of the business, too?

A - Michael Miebach {BIO 16087573 <GO>}

All right. So Andrew, thanks for that question. You know, so starting with Europe but then we could extend this conversation looking at the Middle East or at Asia. So we have processing assets in those parts of the world. But just to illustrate how this matters, there is obviously a whole new set of players that are entering the payment space whose prime reason[ph] isn't really to process, they want to have a great financial app. So they're looking downstream for a whole set of solutions that complete what they do, make it relatively easy out of one hand, and that's what we provide. And this is really the explanation for some of our progress on the fintech side or the neo bank side. Those guys, where we have those partnerships 70% win rate, I'd like to add here is really to a large extent coming down to our processing capabilities, which are state-of-the-art, modern, fintech-oriented processing capabilities.

So it's been a joy for us to watch. In some parts of the world we doing partnerships for example with Network International, in parts of Africa and so forth, so it's a combination of our own assets where we feel there is scale and differentiation, and sometimes it's through partners. So overall, there is a good play here in processing and it's one of the services that we have in our portfolio.

A - Sachin Mehra {BIO 15311008 <GO>}

And I'll just add some color as it relates to, beyond the processing fees, on our efforts around switching and the proportion of our total Mastercard branded transactions, which as you know we've been pushing hard to actually get more switching share and the reality is that is working very nicely. We are seeing growth in our proportion of Switched Transactions, which now stands at greater than 60% of total transactions worldwide, and that's super important particularly where we're seeing improvements and progresses in Latin America and in Asia-Pacific, both of which have been generally low index markets from a switched transaction share standpoint in the past. So that's a good effort going on there we are seeing good progress come through.

Q - Andrew Jeffrey {BIO 1493346 <GO>}

Thank you very much.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure.

Operator

Our next question comes from Bryan Keane at Deutsche Bank.

Q - Bryan Keane {BIO 1889860 <GO>}

Hi, good morning. Sachin, just wanted to go through the yield improvements again. It sounds like it's a lot of mix and some pricing in there. How do we think about the yield going forward into the fourth quarter and into next year? Is there some comps get a little tougher as we get into next year for these yields? Thanks.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure. Bryan, what you're seeing in the nature of yield improvement quarter-over-quarter, this is net revenue yield divided by GDV. You can attribute a large part of that to just mix. As you know, our inter cross-border has come back pretty nicely, and as that has come back nicely, that is high yielding and that gives us the benefit and the deal win you are seeing on a sequential basis.

I will point out that as it relates to Q4, you should expect that the yield will decline some, which is very consistent with what you see every year. That is just the nature of how the business works, just because Q3 happens to be a large cross-border quarter and you tend to see the benefit of that come through, in Q4 you start to see some of that slow down.

Now you asked a question about 2023. I would tell you, we as a business continue to remain very focused on driving and maximizing our net revenue yield, and there's multiple factors which are going to influence that, some of which is the mix of cross-border domestic certainly, but also things around just like we just talked about, how we are increasing our proportion of switched transactions. The more the switching we do, the greater the yield gets, and that's what we're focused on. How we talked about the shift from Maestro to debit Mastercard again, lots of focus around that, and so we're very focused of driving that.

All of which, when you overlay all the services we've been bringing to the market, you get the benefit of that coming through as well. So generally speaking as I look forward, I kind of feel like our focus as a business from a driving yield standpoint continues, and I don't see anything necessarily which is going to change dramatically going into 2023 from a yield trajectory standpoint.

A - Michael Miebach {BIO 16087573 <GO>}

Yeah, and Sachin just kind of explained the strategy again, and that's what we're trying to be in the payments transaction at profitable levels, but then use our services to continue to improve the overall revenue yield, and that combination that makes us look at the future very optimistically. So I don't really see anything changing here. These are the tools that we have, and we're using them effectively.

Q - Bryan Keane {BIO 1889860 <GO>}

Great. Thank you both.

Operator

Next we'll move to Ramsey El-Assal at Barclays.

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

Hi, thank you for taking my question. I had one on rebates and incentives, and more specifically kind of how the mix of those rebates and incentives have changed over the past several years. I guess the underlying question is, are you having to incentivize an expanding number of value chain players fintechs, merchants to kind of support consistent growth? How is that mix of all the retirement how do you expect it to evolve in the future?

A - Sachin Mehra {BIO 15311008 <GO>}

Yeah, so in terms of rebates and incentives, the mix in terms of how we are actually incentivizing to generate incremental revenue has not changed meaningfully. We've historically been more focused and we have actually delivered higher levels of rebates and incentives to our issuing partners, that continues to be the case as to where we are actually expending most of our rebates and incentives dollars, and that really hasn't changed.

And as it relates to the mix between rebates and incentives for domestic volumes versus cross-border, I'll say that mix also hasn't really changed. As you know, cross-border has generally been indexed lower from a rebates and incentives standpoint, and that continues very much to be the pattern right now as well, Ramsey.

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

Okay. So pretty stable environment is what it sounds like. I appreciate it. Thank you.

Operator

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

A - Warren Kneeshaw {BIO 16549173 <GO>}

David are you there?

Operator

Sir, you may have your line on mute, we're not hearing you.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Audra, maybe we can go to the next, please, and then we'll see if we can get David back on.

Operator

Yes, we'll move next to Bob Napoli at William Blair.

Q - Robert Napoli {BIO 1526298 <GO>}

Hi, thank you and good morning. Just would like an update on your B2B -- your thoughts around the B2B payments market and the opportunities there? I know you called out a commercial POS of $14 trillion. What inning are we in? Any thoughts, any changes to that market, the growth of that market? And thank you.

A - Michael Miebach {BIO 16087573 <GO>}

All right. Yeah. I'm really not into baseball analogies, so that's why earlier I was talking about the first half of the game. But to your question very specifically, B2B, huge opportunity from a volume perspective. We called it out and we cut it down into very distinct types of flows at our Investor Day at the end of last year. So focus on B2B accounts payable on one hand, but there is other B2B flows which we're very active in. For example, through all the illustrations, I gave you earlier on virtual card use cases. So virtual card is the current and most immediate answer to go after B2B flows. There is the commercial POS piece somewhere, which is kind of in an in-between space between B2B and small business, but that's a huge space with a lot of cash and checks. So you build it up over those into the accounts payable piece, and you know the long range vision that we have on accounts payable is really the Mastercard Track business payment service piece, where we say over time we're building a two-sided network here. That continues to grow, but that takes time.

But we have large players around the table HSBC, JP and so forth. So that's a good initiative for us, but for now, we are very active on virtual cards to solve the issues of buyers and suppliers in the space. So we have not moved away from this by any stretch of the imagination. This is a huge opportunity and we're going to go after it.

Q - Robert Napoli {BIO 1526298 <GO>}

Great. Thank you.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Audra, I think we have time for one last question.

Operator

We'll take that question from Jamie Friedman at Susquehanna Financial Group.

Q - Jamie Friedman {BIO 3041318 <GO>}

Hi. Sachin, transaction processing fees increased 15%, but switched transactions increased 9%. I know you called out in your prepared remarks mix changes. I was just wondering if you can elaborate on that? Thank you.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure, so there are a few things going on there, where our transaction fees are growing faster than the underlying driver, one of which is the mix change and really, remember when we make cross-border revenues, we make cross-border revenues on a basis point basis as well as on a cents per transaction, and the component which is on basis points sits in cross-border volume fees, and then some component of cross-border related cents per transaction that sits in terms of number of transactions which we process, which sits in transaction processing fees, which is where the mix effect come through because as you've seen inter cross-border grow at a rapid pace, that's contributing to that delta between what we are seeing in the revenue line and what we are seeing in the driver, because cross-border is high yielding than as domestic.

And there are a couple other factors which caused that differential as well. I talked about FX-related revenues and some level of pricing those are the two other contributors which go into that, Jamie.

Q - Jamie Friedman {BIO 3041318 <GO>}

Thank you.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure.

A - Michael Miebach {BIO 16087573 <GO>}

All right, let me bring the call to a close. Thank you for your questions, and to all of our investors, thank you for your support. This morning I sent a note to our colleagues here at Mastercard thanking them for a strong quarter, because they are the ones who make all of this happen, so a shout-out to them as always. With that, we'll talk to you in the next quarter. Thank you very much.

A - Sachin Mehra {BIO 15311008 <GO>}

Thank you.

Operator

This concludes today's conference call you may now disconnect.