Q4 2019 Earnings Call

Company Participants

- Ajay Banga, President and Chief Executive Officer
- Sachin Mehra, Chief Financial Officer
- Warren Kneeshaw, Head of Investor Relations

Other Participants

- Chris Donat, Analyst
- Craig Maurer, Analyst
- Darrin Peller, Analyst
- Eric Wasserstrom, Analyst
- Jason Kupferberg, Analyst
- Joseph Foresi, Analyst
- Lisa Ellis, Analyst
- Tien-Tsin Huang, Analyst
- Trevor Williams, Analyst

Presentation

Operator

Ladies and gentleman, thank you for standing by, and welcome to the Mastercard Incorporated Q4 Full Year 2019 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Warren Kneeshaw, Head of Investor Relations. Please go ahead, sir.

Warren Kneeshaw {BIO 16549173 <GO>}

Thank you, Marcella. Good morning, everyone. Thank you for joining us for our fourth quarter 2019 earnings call. With me today are Ajay Banga, our President and Chief Executive Officer; and Sachin Mehra, our Chief Financial Officer. Following comments from our transactions, the operator will announce your opportunity to get into the queue for the Q&A session. There 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. As a reminder, in Q2 we updated our non-GAAP methodology to exclude the impact of gains or losses on our equity investments. We are excluding these items as we believe this will facilitate a better understanding of our operating performance and provide a meaningful comparison of our results between periods.

Our non-GAAP measures also exclude the impact of special items, which represent litigation judgments, settlements and certain (technical difficulty). In addition, we present growth rates adjusted for the impact of foreign currency. Both the release and the slide deck include reconciliations of non-GAAP measures to GAAP reported amounts. Please note that the growth rates we provide for switched volume, switched transactions and cross-border volume have been adjusted to normalize for the effects of deferring switching days between periods.

Starting this quarter we are further adjusting these growth rates to normalize for the effects of different number of carryover days between periods. (technical difficulty) days are those where transactions and volumes from days where we do not clear and settle are processed. Generally, we do not clear and settle dual message transactions on Sundays. These adjustments have been made to current and prior quarters. This information is being provided so that you can better understand the underlying growth rates of our operating metrics. Our comments on the call today will be on the basis of these adjusted growth rates. We do not normalize GDV growth rates.

Finally as set forth in more detail in our earnings release. I would 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 will now turn the call over to our President and Chief Executive Officer, Ajay Banga.

Ajay Banga {BIO 4676567 <GO>}

Thank you, Warren and good morning, everybody. So we closed our 2019 on a strong note. And for the year, revenue was up 16% and EPS was up 23% on a non-GAAP currency-neutral basis, I think these results reflect broad-based growth across each of our regions and the ongoing execution of our strategy as we continue to invest for the longer term.

On the macroeconomic environment, consumer spending remains relatively healthy, and we expect this to continue in 2020. We are however monitoring a number of economic and geopolitical factors as well as the potential effects of [ph] Coronavirus, that could impact this outlook. In the US, we are seeing stable growth with low unemployment and healthy consumer confidence. Our SpendingPulse estimates for Q4 show retail sales remained solid, up 3.1% versus the year ago, ex auto, ex gas.

In Europe, we see continued modest growth. UK spending actually held up reasonably well, again, according to our SpendingPulse estimates with year-over-year retail sales up (technical difficulty) in Q4 ex auto, gas and restaurants despite uncertainty around the potential impact of Brexit. In Asia Pacific, we are seeing modest GDP growth in the region overall, in part due to the support of favorable monetary policies in several markets.

We are pleased with the recent trade deal with China and obviously we'll continue our efforts to pursue a license to participate in that market domestically. The outlook in Latin America is mixed with growth in Brazil and Colombia, partially offset by weakness in Argentina and Mexico. Meanwhile, we are driving healthy double-digit volume and transaction growth for Mastercard across most of our markets and these results are a function of us growing our core products, of differentiating with our unique services, of expanding our digital solutions and footprint and of leveraging our multi-rail capabilities to capture new payment flows.

So let me start by talking about driving growth in the core (technical difficulty). We've done that through new wins as well as key renewals and expansions. Following on the heels of our recently announced extension with Citibank we are excited to announce a renewal and extension of our relationship with Capital One. We've also signed an agreement with software PayUs to launch new debit, credit and payroll solutions for small and medium-sized businesses later this year. And we renewed our deal with the Standard Bank Group of South Africa, the largest bank in Africa, which includes new issuance and will help us grow our share in that market and throughout the region.

On the co-brand front the Amazon rewards Mastercard has launched in Canada. MoneyLine, a US based mobile consumer finance platform has selected Mastercard as their exclusive partner for the new credit co-brand program and they will flip that existing consumer debit portfolio to us as well.

In the travel space, we won a new co-brand deal with Vistara Airlines in India, and have also expanded our long running co-brand relationship, Norwegian Cruise Line in the United States. Turning to prepaid, we've renewed our agreement with the network for Direct Express, which is the largest prepaid program in the world. This card issued by Comerica Bank is used by the US government to make fast convenient and secure federal benefits disbursements.

And in debit we have expanded our presence in key emerging markets in China and India. In China we entered a new deal to be the preferred debit partner of China Construction Bank, the second-largest bank in China, and are also launching our first debit program with China CITIC Bank. In India, we have maintained our debit leadership through renewed debit deals with both HDFC Bank and State Bank of India, the largest public sector bank in the country.

So now [ph] to differentiated services and co-products wins such as these I've just talked about frequently (technical difficulty) company. We continue to grow these services both organically and inorganically, and are making good progress in this regard. And for example, Brighterion's artificial intelligence platform and new data behavioral biometrics capabilities have been broadly integrated into our core security solutions to help customers minimize fraud and manage risk. And since joining Mastercard, Ethoca has signed over 350 new deals including our recent agreement with Microsoft (technical difficulty) streamline their dispute process and improve the cardholder experience.

And while on the topic of acquisitions, I think we have bolstered our Cyber Intelligence Suite a step further with our recent acquisition of RiskRecon, a leading provider of AI and data analytics solutions. RiskRecon's best-in-class, Cyber Risk Assessment capabilities are designed to help financial institutions, merchants, Corporation and governments secure their digital assets.

They will (technical difficulty) build on the current customer base and develop new cyber security services. We are very pleased to have the RiskRecon team as part of the Mastercard family and we look forward to offering these solutions to our customers.

So on to digital initiatives and our footprint there. We are expanding our digital solutions, the rollout of click to pay with new deals on our merchant tokenization solution and real progress on the contactless front. On click to pay we can announce that merchants such as Fresh Intranet [ph] (technical difficulty), and Saks Fifth Avenue are now live, enabling a faster and more secure guest check out experience for their customers.

Further beginning in mid-2020 this year, Citibank plans to streamline the checkout experience at participating merchants by leveraging push provisioning to make the click to pay enrollment process much easier for Citi branded credit card holders in North America. We've also signed several deals with merchant for our tokenization capabilities, which as you know (technical difficulty) security and they sort of approve -- the approval rates improve and a better experience for merchant customers. Recent partners to sign on to use this tokenized card-on-file solution include Amazon, Stripe MercadoLibre, PayPal and several of the largest US wireless and telecom providers.

And on to contactless, well, I said, we're making real progress. This quarter contactless made up over 30% of global card present purchased (technical difficulty). Contactless provides a frictionless and fast payment experience, which is opening new categories of spend including displacing cash on small ticket purchases. The US point for growth on this front and the New York City MTA is a good example of the potential for rapid adoption by consumers. In fact they've surpassed 5 million taps since the launch in May and MTS plans to rollout contactless acceptance system-wide by the end of 2020.

And on to new payment flows (technical difficulty) capabilities which we're using to penetrate new flows including recent successes of Mastercard Send. Bank of America will now use Mastercard Send for their business to consumer card disbursements in the US on an exclusive basis. In the insurance space, All States will expand the use the Mastercard Send across an enterprise to power instant insurance claims payouts. PayPal will utilize Mastercard Send in 10 new markets across Asia Pacific (technical difficulty) to enable users to transfer funds from their PayPal wallet to their eligible accounts, and also leveraging our capabilities to help facilitate more efficient cross border payments.

So here's an example Swiss Bankers, a Swiss prepaid card issuer, launched a new money transfer service using Mastercard Send, that enables consumers to make secure payments to recipients' bank accounts, digital wallets and eligible cards in 18 countries. We're also partnering (technical difficulty) which is the Switchint [ph] in Russia and the Central Bank in Russia to bring cross border functionality to the Russian domestic faster payment system.

Moving on to Bill Pay, we've gone live in the US with our Bill Pay exchange product. We're leveraging technology from our transacted cycle position. Bill Pay exchange provides an enhanced Bill Pay experience for banks for consumers and for billers. And our initial launch partners include US Bank, a large buyer and -a media bank with (technical difficulty) Associates agreed to participate later this year. We plan to add additional functionality and new partners throughout 2020. We've also entered into a partnership with Pine Labs, so they provide a range of point of sale and prepaid solutions to merchants across India, Southeast Asia and the Middle East.

This partnership is focused on offering installment payment solutions to merchants and consumers across both card and real-time payment. (technical difficulty) we're also going to work with Pine Labs to offer a range of prepaid loyalty and cyber security services to customers. And this partnership is consistent with our strategy to deliver greater choice to consumers and be the partner of choice for our customers.

Open banking is a another area that we've work with for some time to develop the right set of comprehensive solutions and services that work for all the players in the ecosystem, banks, fintech, merchants and consumers. Our solutions are live today in Europe and we are focused on ensuring that the ecosystem can provide for the real-time exchange of information and transactions but most importantly protecting the interests and data of all participants, including our fintech and bank customers. We see open banking is an important global trend and a significant opportunity and believe that our leadership in data privacy as well as our scale in real time and cross-border payments are very key to optimizing open banking solution for banks or fintech, for merchants and for consumers globally.

Now beyond payments we made good progress on our digital identity solution. Here digital identity is aiming to allow individuals to own control and share their identity credentials their way, on the devices they use every day. We believe that our commitment to the responsible handling of personal information letting consumers (technical difficulty) ownership of their own data and giving them control over which data is used and how it is used is critical to our consumers' increasingly digital life.

Mastercard network is able to check a consumer's chosen credentials and confirm them for the intended recipient and purpose without ever taking possession of the underlying Identity data. So Mastercard uniquely positioned in this field, given our experience in governance and operating (technical difficulty), our focus on financial inclusion, our announced and clear sensitivity to data privacy and our commitment to investment in a global interoperable infrastructure.

We have recently launched pilots in public and private institutions in Australia, which actually is one of the countries at the forefront of digital identification and this set of pilots enables participants to use their digital identities to access certain government and student [ph] services. We've also additional digital identity (technical difficulty) and pilots that you will see us introducing in more markets throughout 2020 and we look forward to continuing to innovate and grow and embed ourselves on this front.

With that let me turn the call over to Sachin for an update on our financial results and our operational metrics. Sachin?

Sachin Mehra {BIO 15311008 <GO>}

Thanks, Ajay. So turning to page 3, you will see that we have delivered strong performance in the fourth quarter to end the year. Here are a few highlights on a currency neutral basis and excluding special items, as well as the (technical difficulty) and losses on the company's equity investments.

Net revenue grew 17%, driven by solid broad-based momentum in our core products and services. Acquisitions contributed approximately 1 ppt to this growth. Total operating expenses increased 12%, which includes a 4 ppt increase related to acquisitions. Operating income grew by 22% and net income was up 25%, reflecting our strong operating performance and which includes a 2 ppt and (technical difficulty) ppt reduction due to acquisitions respectively.

EPS grew 28% year-over-year to $1.96, which includes a $0.05 contribution from share repurchases and $0.02 of dilution related to our recent acquisitions. During the quarter, we repurchased about $1 billion worth of stock, and an additional $438 million through January 27, 2020.

So now let's turn to page 4 where you can see the operational metrics for the fourth quarter. Worldwide gross dollar volume or GDV growth was 12% on a local currency basis, down 2 ppt from last quarter, primarily due to the impact of the differing number of processing days between periods, as well as some lapping of previous wins.

US GDV grew 9%, down approximately 3 ppt from last quarter with credit and debit growth of 12% and 7% respectively. Outside of the US volume growth was 14%, down 2 ppt from last quarter. Cross border volume grew at 16% on a local currency basis, driven by double-digit growth across most regions.

Turning to page 5 switched actions showed strong growth at 19% globally, reflecting in part the ongoing adoption of contactless. We saw healthy double-digit growth in switched transactions across most regions. In addition, card growth was 5%. Globally there are 2.6 billion Mastercard and Maestro branded cards issued.

Now let's turn to page 6 for highlights on a few of the revenue line items, again described on a currency neutral basis unless otherwise noted. The 17% net revenue increase was primarily driven by strong transaction and volume growth, as well as strong growth in our services offerings, partially offset by rebates and incentives. As previously mentioned acquisitions contributed approximately one 1 ppt to this growth.

Looking quickly at the individual revenue line items, domestic assets grew 14% while worldwide GDV grew 12%. The 2 ppt difference is primarily driven by pricing. Cross border volume fees grew 16% in line with cross-border volume growth of 16%. Transaction processing fees grew 18% while switched transactions grew 19%. The 1 ppt difference is primarily driven by mix.

Finally, on other revenues, which were up 25% including a 4 ppt contribution from (technical difficulty). The remaining growth was primarily driven by our cyber and intelligence and data and services solutions.

Moving on to page 7, you can see that on a currency-neutral, non-GAAP basis, total operating expenses increased 12%. This includes 4 ppt related to acquisitions, as well as 2 ppt related to the differential and hedging gains and losses versus the year ago period. The remaining 6 ppt of growth related to our continued investment in strategic initiatives such as (technical difficulty) safety and security, geographic expansion and new payment flows.

Turning to slide 8, let's discuss what we've seen through the first three weeks of January, where each of our drivers are generally consistent with what we saw in Q4. The numbers through January 21 are as follows. Starting with switched volume, we saw global growth of 15% similar to the fourth quarter. In the US, our switched volume grew 11%, switched volume grew -- switched volume outside the US grew 18% [ph]. Globally switched transaction growth was 19% similar to the fourth quarter.

With respect to cross border our volumes grew 15% globally, down 1 ppt sequentially. For the year, we expect cross border growth to be in the mid-teens range, and this is contemplated in our thoughts for revenue growth for the year.

Turning now to Slide 9 and our thoughts for 2020, we expect the economic outlook, to be similar to what we saw in 2019. Our business fundamentals remain strong with growth driven by a mix of new deals, new agreements and the expansion of our differentiated service offerings. We expect net revenue to grow at a low teens rate on a currency neutral basis excluding acquisitions. Rebates and incentives growth is expected to be higher year-over-year driven by renewed and expanded deals that Ajay just commented on.

In the first quarter net revenue growth is expected to be about 2 ppt lower than this annual estimate primarily due to higher growth in rebates and incentives. We expect that net revenue growth will increase throughout the balance of the year as we implement new wins and fees [ph] related volume. Foreign exchange is expected to have a minimal impact to annual growth, but is expected to be about a 1 ppt headwind in the first quarter.

In terms of operating expenses, we expect growth for both the year and the first quarter at the high end of the high-single digit range on a currency neutral basis, excluding acquisitions and special items. This is driven by our continued investments in digital analytics and security products and platforms to address new payment flows. Foreign exchange is going [ph] to have a minimal impact to OpEx growth for both the year and the first quarter.

Turning to M&A as you know, over the years we have used acquisitions to supplement our organic efforts and diversify our revenues. You have seen this in areas such as data analytics cyber and intelligence, loyalty, cost in developing multi wave solutions for our customers. This has helped expand our addressable markets drive new revenue streams and strengthen our core products and solutions.

As a reminder, we are disciplined in our approach as we work with our acquisitions to breakeven within 24 months of close. With that context, let me outline the expected 2020 impact of our recent acquisitions, which are progressing well. In terms of net revenues, we expect acquisitions to add about 2 ppt (technical difficulty) for the year and about one ppt for Q1, assuming that the transaction with Nets closes in the second quarter, which is our current estimate. Our OpEx acquisitions are expected to add an additional 7 ppt to 9 ppt to growth for both the year and the quarter.

For the year this estimate includes the full year effect of the acquisitions made in 2019, including purchase accounting and integration-related costs. This also assumes the anticipated closing of the transaction with Nets. A couple of other items of note beyond acquisitions. In other income and expense line we are at a quarterly expense run rate of approximately $50 million based on our current debt levels. This excludes gains and losses from our equity investments. With respect to tax you should assume a tax rate of approximately 17% to 18% for the year.

So just to sum all of this up, 2019 was an excellent year both in terms of financial performance and is setting us up for the view, we have signed a number of important deals, developed a strong pipeline of products to address growth in the short, medium and long-term and made several acquisitions to broaden our capabilities. We are pleased with the progress we are making and our outlook for 2020 is for continued strong growth.

With that let me turn the call back to Warren to begin the Q&A session.

Warren Kneeshaw {BIO 16549173 <GO>}

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

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Eric Wasserstrom from UBS. Your line is open.

Q - Eric Wasserstrom {BIO 3626772 <GO>}

Thanks very much and good morning. Ajay, I just wanted to see if we could get an update on the progress on Mastercard Track. And in terms of the US experience and maybe Australia, which I think was also recently initiated in the past year.

A - Ajay Banga {BIO 4676567 <GO>}

Yes. So Track actually you've got different elements. So Australia was part of their home B2B hub you are referring to. The US also had a B2B hub. But Track's an overall approach to the B2B payment space. That starts with having the right merchant directories and then connects sort of small business and business directories that are all compliance, run through in the fully informed directory, attached to a invoice presentment engine that also enables the payment optimization engine and the reconciliation system. That's all built inside.

Then it uses (technical difficulty) distribution channels, one of which is something like the B2B hubs that we have talked about in the past, but you can also go to what are issuers agents and buyers' agents and there's a whole ecosystem there that we are getting into and putting our footprint into. So that's kind of where we are.

We piloted during 2019 with customers the full business payment service kind of solution, which we've been developing in the US and in fact also in Latin America. We are rolling it out globally, starting in the US, in the first quarter (technical difficulty), you will get some more geographies and more payments over time, that's what we are at, that's where we are going.

Q - Eric Wasserstrom {BIO 3626772 <GO>}

Okay, and if I just have one follow-up on that, to the extent that -- to what extent is the -- are the volumes and revenue benefits from the Mastercard Track hub in the SME B2B space contemplated in the 2020 outlook?

A - Ajay Banga {BIO 4676567 <GO>}

As we told you when we were discussing this at Investor Day as well this (technical difficulty) more developed. For example our corporate purchasing cards, our fleet cards, our SME cards, our virtual account numbers, our cross-border travel payment systems, those are all relatively well developed and are well factored into the way we think about 2020.

The B2B Hub to an extent because it's got Bank of America and First Hawaiian and Fifth Third in the US and MYOB in Australia, but that's like four customers across the world. And for a company of our size, well, that's important for B2B is the bigger picture.

What we're really talking about is adding those on over the course of the next two to three years. So we don't have that built in any great way in 2020. If we knock the lights out of that, that would be great. I have a view that this kind of thing takes a little time. Remember that as explained the ecosystem, not only do you build the technology across all of those phases. You also have to sign up all the distribution that enables you to connect with this relatively new ecosystem, that taxed specifically them.

Q - Eric Wasserstrom {BIO 3626772 <GO>}

Thank you very much.

Operator

Your next question comes from the line of Tien-tsin Huang from JP Morgan. Your line is open.

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

Thanks, good morning. Great results here. I was encouraged to hear the mid-teens outlook for cross border, I think getting a lot of questions on the Coronavirus and how to maybe frame that's [ph] I'll ask you guys. We built mine. How much of your cross border book is tied to the China region, and is there a way to maybe look back or reference ours or swine flu or something else to maybe give a clue on what this one might do. Thanks.

A - Sachin Mehra {BIO 15311008 <GO>}

Hi, Ken. Good morning, it's Sachin. Let me give you a little bit of a color on cross border. Right. So as I mentioned, we could see double-digit growth across most of our regions as it relates to cross border. And as I kind of sit back and I think about it, it would be a good solid steady performance coming out of the US. As it relates to EMEA, and -- that's Middle East and Africa and Asia-Pacific as well, we continue to see solid growth. We saw some softness in (technical difficulty) and Mexico, a function of the local environment out there but by and large, the business is running in a very healthy pace.

To your specific question around the impact of the Coronavirus, here is what I tell you. It's early days. Fortunately, a decent portion of our inbound and outbound cross border from China is e-com related. So it provides some level of a hedge. And we will continue to monitor the environment. It's too early to tell at this point in time, how this thing plays out.

A - Ajay Banga {BIO 4676567 <GO>}

Remember, Tien-tsin people have bought air tickets and they still time it out for the Lunar New Year. Now this thing goes much bigger and becomes a much more sort of urgent and immediate crisis across many parts of the world. Then we'll take a look at those numbers once again, but you're going to take this as it comes, one step at a time, and that's the only way to look at this carefully. You got to remember when SARS was on, and that was way back in the early part of the last decade in 2003 and 2004, the total business in China was also smaller.

The total size of our company was also smaller, and our ability to be a real player cross-border across many corridors, 18 years ago was very different. So I kind of wouldn't go too much on that. I would rather, think about the natural hedge that e-commerce, provides the fact that there's still a lot of travel there but that could change over the next few weeks. We will keep an eye on it very carefully.

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

Good, that's helpful, thank you for that. Just real quick follow-up, if you don't mind, just on the -- I think I heard you say, Bank of America Mastercard Send, that was an exclusive arrangement, is that the case? And I'm curious if that's maybe a new model that we can expect with that product.

A - Ajay Banga {BIO 4676567 <GO>}

Factually, correct, you did hear correctly. Your ears are in good shape, Tien-tsin, even if you had an ear pod shoved inside. But I'm not going to -- I can't tell you if that's a new model going forward. It's the way that in this particular case, Bank of America found value from what we are doing. I don't know yet. Some of these don't make a trend.

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

Great, thank you.

Operator

Your next question comes from the line of Craig Maurer from Autonomous. Your line is open.

Q - Craig Maurer {BIO 4162139 <GO>}

Yes, hi, thanks. I had a question about recent acquisition activity in the space, your largest competitor seems to have got in a somewhat different direction from what we've seen from your acquisitions and I wanted to get your updated thoughts on acquisitions that moved Mastercard closer to the consumer or closer directly to the merchant. Thanks.

A - Ajay Banga {BIO 4676567 <GO>}

Hi, Craig. We've done it -- well closer to the consumer. You got to remember we are a B2B2C Company. And so what we are not trying to do is get in between our customers and their consumers. That's really not. Where we are trying to do is to provide services or capabilities or product sets (technical difficulty) that enables that customer to be a merchant. It could be a government funded [ph] authority, a bank, or fintech reach their consumer better. That, yes, 100%. That we are into.

So for example, and your specific question are around how you reach fintechs and the like. I'm assuming that's fair. The reference to our competitor comes from -- we've built a series of capabilities in Europe where as you know PSD2 [ph] has changed the layout between fintech and banks, very substantive there. And there they are actually live with the whole idea of connect, protect and resolve and consult capabilities across a number of fintechs and banks and AISPs and PISPs and all the terminology that has now become part of the day to day conversation in Europe.

That's a fairly strong position for us. What I do want to make sure in all of this with merchants, for example, your question on merchants, we've done a series of transactions that provide data analytical and cyber security services to merchants. Ethoca is the most recent example. RiskRecon is even more recent than that. Loyalty rewards schemes that we bought some years ago are connected to that. Brighterion does a series of things with merchants and banks and fintech.

So most of our acquisitions kind of cross this ecosystem. What I am committed to, is to doing it in a way that respects the rights and the privileges of all the different players of the ecosystem, and doing it in a way that (technical difficulty) data and privacy all through the system. So we will keep looking for acquisitions that enhance those few words I just mentioned. Security and privacy of data, these responsibilities and rights and the priorities of different players in the ecosystem. You'll see us doing that very carefully, very sensibly and keeping that.

Q - Craig Maurer {BIO 4162139 <GO>}

Okay. If I could ask one follow-up, just on the guidance, what's the thought process for rebates and incentives for the full year as a percentage of gross revenue.

A - Ajay Banga {BIO 4676567 <GO>}

Sorry, could you -- you broke up there Craig (inaudible).

Q - Craig Maurer {BIO 4162139 <GO>}

Yes, sorry, sorry.

A - Sachin Mehra {BIO 15311008 <GO>}

I think I got it, on rebates and incentives. Your question was what's the guidance on rebates and incentives. I'm not going to give you specific guidance, but what I will tell you has been -- do we expect the level of growth in rebates and incentives to pick up in 2020. That's on the back of the deals, which we've signed. That's all the news, as far as I'm concerned, because of the way it kind of plays out is these are new and expand (technical difficulty) these expand deals come with incremental volume. All of that kind of plays into the thoughts I've shared for 2020.

Q - Craig Maurer {BIO 4162139 <GO>}

Okay, thank you.

A - Ajay Banga {BIO 4676567 <GO>}

Craig, one last point on acquisitions, you should expect us to remain relatively committed to the idea of buying something that can breakeven at the end of the year too. And then it becomes part of our base. We no longer pull it out and you should expect that discipline from us. I believe that adequate targets in the ecosystem, (technical difficulty) priority areas that can help us grow while doing that in a way that transforms our company as it has done for the last 10 years in a sensible way, that is the right way to approach the value of an acquisition.

Q - Craig Maurer {BIO 4162139 <GO>}

Okay, thank you very much.

Operator

Your next question comes from the line of Lisa Ellis from MoffettNathanson. Your line is open.

Q - Lisa Ellis {BIO 18884048 <GO>}

Hi, good morning guys. So looking for a few comments on China, not on the Coronaviruses, just more broadly. It feels like with the recent trade agreement and then some of these announcements with and WeChat Pay opening up their wallets to cards, PayPal's I guess recent acquisition of GoPay there, it feels like the market might actually finally be loosening up. But on the other hand, we felt this way before. Ajay, I was just kind of curious, what's your current sort of optimism level around Mastercard getting access to the domestic China market, sense of timing likelihood. And then an updated view maybe on how you're thinking about approaching this market, given it's so different from others around the world. Thank you.

A - Ajay Banga {BIO 4676567 <GO>}

Yes. Lisa, I'm going to have to take away anything to do with the Coronavirus, I have obviously no answer, because that's got an impact that I don't yet know how to predict specifically for China. I mean we as a company have on that particular topic, we've actually given our employees, two extra weeks to work from home, using that ability so that we try to help them manage their own families and their own situation, in a way that's responsible for them. So they are clearly a bit [ph] nervous like everybody else is, about what's going on there.

So just move on from that. That said the trade deal itself, it is the first time that I've seen a trade deal where companies are mentioned by name, in terms of what should be agreed upon between two different governments in a bilateral trade deal. I hope that means, that all of us will get a better chance to play in the domestic ecosystem in China and then we will bring them our ability to party. And then we'll find and win, what we can win. We are late to the party because the digital players there have already built substantially good businesses and frankly with very good offerings. So they deserve to have won, what they have won.

The question will be how do we then break in and how well do we do in that and that's going to be our task in China. My general attempt about that part of the business is, I've seen this movie earlier, I'm going to only say anything about actually see something in writing that changes what our position on the ground is. Meanwhile, we're doing things. We publicly, there's been speculation that we are looking at partners to be able to go into the domestic processing business with. That's kind of one angle, which everybody is looking at. So are we. There's clearly an effort to build out the acquiring footprint, so that our acceptance expansion can begin to happen. There's an effort to build out the issuing relationships so that, that hit the ground running.

Meanwhile, you referred to Alibaba and WeChat accepting our cards into their domestic wallet, that's also been part of some effort. There's conversations going on with them on all kinds of partnership opportunities where we may compete or may not compete. So it's kind of -- there's a lot going on in China. We are hiring people. We've been doing that for the last two years or three years. We're building talent and skills on the ground. So kind of that's where we are. And I think my approach to the market there is, there will be infrastructure capability, build acceptance, build the right partnerships, build people and skills on the ground and learn how to do that in a market that is, as you said dramatically different from the others. So, I think local presence, local knowledge and local capability is going to be really important in China.

Q - Lisa Ellis {BIO 18884048 <GO>}

Terrific. And then maybe as my follow-up, just a quick update on the contactless deployment in the US. Do you have any updated stats on sort of where we are in terms of card issuance, merchant acceptance? And are you expecting in the 2020 outlook, an uptick in US volumes as a result of that, or is it more of a 2021 dynamic? Thank you.

A - Ajay Banga {BIO 4676567 <GO>}

I'm pretty certain that US contact associate growing throughout 2020 quite attractively, because if you look at the numbers of -- the number of bank partners that have committed to issue contactless cards for a minute, let's even forget Apple Pay and Samsung Pay that enable every card through their RFID devices to be used. If you just look at the number of cards, they're talking about 70% of our total cards in the US market will be reissued over this 12-month to 14-month period. My own personal cards are already contactless from Citi. And so, I think you will see that happening Cabela's is doing that. There's a bunch of others that are actually deeply embedded into the idea of contactless cards.

On the acceptance side, as you know, all new terminal going on are embedded with contactless. So the large retailers like Target and 7-Eleven and CVS have announced that they will accept contactless payments. And in fact, over half of US card-present transactions are now happening at contactless enabled merchant locations. And when the MT rolls in on system-wide in New York City and there are other transit systems beginning to do the same in their cities, I think you will get the impetus. Some of it will come in 2020, to your earlier question. More of it will come in 2021. But outside the US that kind of growth pattern is pretty strongly embedded. You know that in Australia, over 80% of transactions under AUD100 are contactless. So there is a lot going on in that space.

Q - Lisa Ellis {BIO 18884048 <GO>}

Excellent. Thank you. Nice quarter as always guys. Thanks a lot.

A - Ajay Banga {BIO 4676567 <GO>}

Thank you.

Operator

Your next question comes from the line of Chris Donat from Piper Sandler. Your line is open.

Q - Chris Donat {BIO 15390389 <GO>}

Good morning. Thanks for taking my question, and thanks for the work on contactless as an NPA writer, I deeply appreciate not having to swipe anymore. The question I want to ask, Ajay, was about the other revenue and the percent -- or the portion of that it's organic. And just how sustainable is this roughly 20% level of growth in organic other revenue and/or is it even possible to accelerate with some of your work on the data and other offerings?

A - Ajay Banga {BIO 4676567 <GO>}

Sachin, go ahead.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure. Hey, Chris. So very quickly some color around the other revenue line item, right. I mean, you've seen that in Q4, we've talked about 25% growth rate in other revenues. That had about 4 ppt coming from acquisitions. So that's why you come up with your number of about 20% for Q4. Let me give you some context. There are three main components, which are there in other revenues. Some of our services lines roll up here, things like cyber and intelligence products, data analytics, consulting and managed services as well as loyalty, right. A significant portion of (Technical Difficulty) recurring in nature, although there are some such as consulting and loyalty engagements that are project-based and can have some timing between quarters.

The second item which is there in other revenues is our Vocalink related revenues. And again this is recurring in nature. And finally, we put a number of our recent acquisitions and I know you said net of acquisitions, but remember the acquisitions, which we have done will at some point in time become the equivalent of organic growth, to your sense. And we put those into the other revenue because of the (Technical Difficulty) model. So net-net-net, I would tell you a decent portion of other revenues is recurring in nature, although we are not providing specific estimates for this line item, I will say other revenues excluding acquisitions. We expect that will grow faster than the overall company growth rate.

A - Ajay Banga {BIO 4676567 <GO>}

Remember that the -- a lot of the acquisitions are basically either meant to enhance what Sachin started with, which is our data analytics capability or our cyber and security capability, or our managed loyalty capability. A number of -- not all of them, but a number of them. When you do that and two years into acquiring them to become part of the base, they then become part of organic revenue and expenses. So we have to manage the business in a way that at the end of the second year, breaks even each of them individually and then starts becoming margin-accretive in the third year. That's the discipline that's embedded inside the company's P&L line by line with each business that acquired single entity during the year. So absolutely, I expect that organic growth will continue to be good in that line item. And as Sachin said, probably higher than that of the whole company.

Q - Chris Donat {BIO 15390389 <GO>}

Okay. And just as a follow-up, Sachin, on the project-based component of that, is that, that's relatively small though, right. The recurring component of the other revenues much more significant, right?

A - Sachin Mehra {BIO 15311008 <GO>}

The recurring component is more significant than the project based component. As I mentioned, it's the project-based stuff is typically our consulting and managed services and loyalty pieces. But then again you go back into cyber intelligence recurring in nature, Vocalink recurring in nature, a lot of these things are things where you signed agreements and then they to stay in play for some time. So, yes.

A - Ajay Banga {BIO 4676567 <GO>}

There's been a lot of efforts has gone into convert some of the non-recurring into recurring and the manner in which we sign deals and have to work with partners. Part of the idea of what we like is recurring revenue, but that's non-recurring because it opens it all.

Operator

Your next question comes from the line of Darrin Peller from Wolfe Research. Your line is open.

Q - Darrin Peller {BIO 16385359 <GO>}

Hey, thanks guys. I just want to hone in a little more on cross border for a minute just given that it did show a little bit of a deceleration into January, I think you said 15% and comps do get easier. So just, I know you talked about mid-teens for the year. But can you give us more color on what type of activity you're seeing in terms of specifically e-comm versus travel. And then I don't think I've ever heard you update what the e-comm percentage of cross-border actually is, if you can help us with that.

A - Sachin Mehra {BIO 15311008 <GO>}

Yeah. So on cross-border, first, I would just kind of caution and say we're three weeks into the month of January and the 1 ppt decline, which you're seeing between 16% in Q4 and 15% in the first three weeks of January, I wouldn't make too much of that rate. Hence the comment which I made about still expect mid-teens from a cross-border standpoint. Just, but more specifically around some color on what we're seeing in cross-border standpoint, steady growth in the US, right? As it relates to our card-not-present cross border, we see that at approximately 20%, and that's fairly consistent as we've seen over the past few quarters. As it relates to region-by-region, and in Q4, our APMEA region, which is the combination of Asia Pacific and Middle East and Africa, saw some accelerated pace, as I mentioned earlier. And on the flip side, in LAC, we saw some level of weakness in Mexico in particular. But there are puts and takes every quarter on this. That's really the color which I've got. It's steady as it goes as far as (multiple speakers) growth right now. And then we'll pick it up from there.

Q - Darrin Peller {BIO 16385359 <GO>}

All right. Just a quick kind of housekeeping, I mean you still expect Nets to close. I think you said first half, I just want to verify that and if you could remind us of any potential financial impact that we should expect on the year with that on the top and bottom line. And then also when you think of Ajay, just make sure that deal doesn't preclude you from doing other meaningful deals this year. Are you really on the active hunt right now for something in the first half?

A - Ajay Banga {BIO 4676567 <GO>}

On the deal front, I am. As I said earlier, we look at 40, 50, 60 deals in a year. And in some years we close none or one or two. And last year provided more than that number. And I will say (technical difficulty) people who are like moms [ph] in our -- in Santa's Shop, they're working very hard on this. I sure like that reference. And they're working really hard on this thing and they produce stuff and then we kind of look at it and say that one doesn't make sense either because it doesn't fit our strategic profile or the M&A numbers don't make sense or that somehow it doesn't respect those principles. I was speaking about when I was asking Craig's -- answering his question.

Or some of them do and then yet others get a lot longer because the negotiation doesn't work out or the due diligence scares the heck out of us. And so it just carries on like that, I don't know how to give you an answer. I would tell you, nothing's changed. I've been on the hunt from the day I joined and still in the hunt.

A - Sachin Mehra {BIO 15311008 <GO>}

Yeah, I'll just add to Ajay's comment, you asked specifically about Nets. Obviously we're going through the regulatory approval process as we speak right now. It's our estimate to close Nets in the second quarter of this year, that's the basis of what I've given in the nature of thoughts for 2020 where I kind of mentioned to you that on a full year basis, we expect about 2 ppt contribution from acquisitions on revenues and somewhere in that 7% to 9% growth in OpEx related to acquisitions.

Q - Darrin Peller {BIO 16385359 <GO>}

All right, guys. Thank you.

Operator

Your next question comes from the line of Trevor Williams from Jefferies. Your line is open.

Q - Trevor Williams {BIO 20976822 <GO>}

Hi, good morning, and thanks for taking my question, and sorry to pile on the China theme, but I'm just curious on the outbound cross border volume from China. So as China Union Pay and WeChat and pay have been partnering more with acquirers globally to expand their acceptance footprint outside of China. I guess I'm just wondering, longer term, how much of a risk, you think there could be to your outbound cross border volume just if acceptance of those three big Chinese players reaches critical mass, just at least in the major tourist hubs. And I'm not sure if I caught this, in response to the question from Tien-tsin. But I was just wondering what percentage of cross-border is Chinese outbound?

A - Ajay Banga {BIO 4676567 <GO>}

Second part is there any specific just we just don't know [ph]. The first part, I can tell you what's was going on. I mean look first of all, this is not a new issue of these bilateral agreements between both card [ph] and the Chinese digital wallets with players outside. You should know that card specifically is concerned because the way the Chinese rules changed over time, what used to be a dual branded cards we are still a large number of that, all the new issuance is single branded. So banks that are issuing our cards in China and we are issuing lot of cards there every year.

Those are all now, single branded and therefore when they go overseas those cards can only be running on Mastercard rails and their transaction (technical difficulty) on to somebody else's risk, that's just factual.

And so just as there is a put and a take on both sides of that, similarly in the case the digital wallets outbound while in -- both inbound and outbound used to be not us playing in Alipay and WeChat. You've now known and seen that they have announced for inbound and there is always ways for them to work with them like they are already doing on different aspects of their outbound work. Will that lead to a complete, open system or not? I don't know. Will that change. We have been also operating domestically, because the total scale and size of our operation with them will change. I don't know, we'll see.

Meanwhile there's, a lot of volume that comes out of China, which has been enabled by the new digital players that I don't believe is going away from us. This is -- it's the bigger size of the pie game that we are also talking about. And so our growth on cross border out of the China has been relatively healthy. It goes through its quarterly ups and downs, it goes through stuff but it's relatively healthy and I presume that will stay that way over the next few years.

Obviously Coronavirus and stuff as we discussed already could change a quarter here or quarter there. I don't know that yet. And we are very carefully keeping an eye on it, but in the big picture, I still see lots of opportunity on our bond cross border from China.

Q - Trevor Williams {BIO 20976822 <GO>}

Okay. Now that's really helpful. Thank you. And just one quick follow-up. I was hoping to just get a little bit more color around some of the mix dynamics. So I know last quarter was a bit unique. You had negative mix across domestic assessments cross border and transaction processing. In our domestic assessments there was a couple hundred basis point benefit this quarter just with pricing, but it looked like transaction processing was lower again due to mix just relative to process transaction growth, just curious anything there that you can provide just color wise to help explain the delta. Thanks.

A - Ajay Banga {BIO 4676567 <GO>}

Yeah, so our transaction processing growth rate, and as you know switched transactions are growing at a nice clip at 19% and we're pretty much in line from a transaction processing fee standpoint. What I would tell you is, as the business grows, and as we do more in the nature of contactless payments so on and so forth and you start to proliferate down into smaller ticket payments, it does have an impact from a mix standpoint. You would expect to see that.

It's depending on market and (technical difficulty) question, I wouldn't make too much of the disparity between the two. The other thing I would tell you is in transaction processing fees there are line items, which are beyond just the high correlation to switched transactions. In other words, some portion of our services related revenues also are comprised in the transaction processing fees.

Q - Trevor Williams {BIO 20976822 <GO>}

Okay. No, that's very helpful. Thanks guys.

Operator

Your next question comes from the line of Jason Kupferberg from BOA. Your line is open.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Thanks, good morning guys. Wanted to start with a question just on, US credit volume growth still remains quite robust here. I'm wondering how many more quarters of tailwind do we have from Cabela's before that laps. Are you seeing any noticeable uptick from the Apple Card, Venmo card or any commentary on kind of the consumer versus the commercial pieces of US credit and just at a high level trying to get a sense of the sustainability of these double-digit levels as you do get to some tougher comps, I think in the next few quarters.

A - Sachin Mehra {BIO 15311008 <GO>}

Hi, Jason. It's Sachin. So very quickly I want to give you a little color on -- I mentioned earlier about, in my prepared remarks, something about lapping wins. The Cabela's portfolio has begun to lap as part of our Q4 metrics, as I mentioned earlier. So also Krogers but then for all the market share wins, which we've had over the course of the last 12 months, that's starting to roll on. So you are starting to see some of the effect then in the nature of Apple Card, so on and so forth.

Also I will mention that we talked about the deals we signed with Citi, and Capital One. We would expect that, that will also start to roll-in. So little bit of puts and takes, there will be previously won portfolio which will lap. And then there will be new portfolios and new market share wins, which will come in. So all in all, a good performance from a credit standpoint in the US, as you mentioned.

Q - Jason Kupferberg {BIO 6867809 <GO>}

And just one for Ajay. I'm curious to get your thoughts on synergies potentially between Nets and Vocalink. I know there's some differences there in geographic exposure, but are there some broader enhancements to your alternative network capabilities from the Nets deal, or are these just kind of separate offerings for different segments of the real-time payments market?

A - Ajay Banga {BIO 4676567 <GO>}

Yes and yes, actually. So it's a really good question. What we are buying -- it's a really good question. What you are buying with Nets Corporate Services in the Nordics is not just the similar thing to what VocaLink does. So VocaLink both operates the infrastructure, provides for the software real-time payments as well as batch processing and ATM (technical difficulty), but also provides applications and services on top of that infrastructure in the United Kingdom.

That is more similar to the 327 deal that we have signed in the Nordics where with the banks in the Nordics, we are going to implement fast and real-time payments capabilities using VocaLink's sort of structure and then operate it for them in the Nordics. We are doing that in a number of other countries around the world. We're doing it in different flavor, some of them are software deals, some of them we will operate everything for Saudi, Peru, the Philippines and so on, right? So there's that element.

The Nets corporate services piece, that we've bought and that we are trying to close on in the second quarter of the Nordics, actually provides for using all those underlying services for payments and bills and they connect all the B2B payment systems, they connect all kinds of in the players in the Nordics and outside of the Nordics with Nordic players. So, that's a whole different capability. Quite hopeful that we can apply both these solutions to different segments as well as enhance each other's capabilities in different markets around the world. So Paul Stoddart who runs all this for us and came out of Vocalink. He used to be the Chief Operating Officer of Vocalink when we first bought them, Paul is kind of the guy who is running all this for us and stitching it together over the next period of time. It's a great question.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Thanks.

Operator

Your next question comes from the line of Joseph Foresi from Cantor Fitzgerald. Your line is open.

Q - Joseph Foresi {BIO 15029155 <GO>}

Hi. I was wondering if you could talk about the margin profile of the business short and long term. I know you've given comments on the back -- in the past that you don't run the business to the margin, but given the differences between you and your competitor, I was wondering if you could give a little bit more color on your -- on the progression or cadence there?

A - Ajay Banga {BIO 4676567 <GO>}

My view has been that we will -- it's a mathematical calculation on business in some ways. So long as you keep revenue and the margin appropriately and you manage your expenses right, this business has a higher fixed costs in a lower variable cost per transaction. If you add more capacity and you pump more volume through it, you will find us of growing at the margin, even on your operating margin, that's just math. What's changing along the way is that we are trying to take that math and apply that surplus we get to building and diversifying the revenues of this Company and those -- when you acquire those businesses, they may not follow that. But over time they get there as a number of our services businesses used to be less recurring back to an earlier question, now they have got a much higher profile of recurring revenue.

A number of our services businesses, their margins have grown over time as the volume being put through them. Thanks to their access to our network of distribution and partners increases. So our attitude towards our margin is healthy growth, not kind of pushing that at what we've managed to. We managed gross and net revenue and we managed to expenses and we managed that kind of space for our future. We don't actually manage to margin. That's why I said, we'll keep a healthy margin of 50 plus because I want you to know I'm not going to throw money away, kind of my reference to even the acquisitions and the discipline around the acquisitions, but the idea is that we would eventually, always through math, be growing sensibly. You could see it over the last few years.

Q - Joseph Foresi {BIO 15029155 <GO>}

Got it. And then just as a follow up -- I'm sorry just (Multiple Speakers). Okay, great. I appreciate it. Well, this will, I'll make it a softball then. So you can end on a good note. (Multiple Speakers) yes, well, I'll do my best now. Focuses on it. Great. So, but you've done a great job of expanding your addressable market into new areas. We talked about B2B and contactless and I know China is on the horizon, maybe over the long term. Which of these areas are you most excited about in the short term over the next year? Where should we be spending our time because there's just it seems to be an expanding amount of areas in their expanding addressable market? Thanks.

A - Ajay Banga {BIO 4676567 <GO>}

I think over the short term, we should continue to remain very focused on our cyber and intelligence services business and you should look forward to more growth in contactless. Everything else just by the major of the ecosystem that we work in, has a longer time to result than these. These ones we are able to put to a solution system, in a form that enables us to have a little more control over the outcome than we would in the others and we've got to work everybody towards it.

Q - Joseph Foresi {BIO 15029155 <GO>}

Great, thank you.

A - Warren Kneeshaw {BIO 16549173 <GO>}

All right, thanks, any final comments, Ajay?

A - Ajay Banga {BIO 4676567 <GO>}

Yes, sir. First I want to wrap up very quickly. Thank you for all your questions. We've had another strong year. We had broad based growth across each of our regions. This is driving solid deal momentum. We're trying to capture new flows through the conversation, we were just having with our multi-rail capabilities. Our recent acquisitions are performing well within the (Technical Difficulty) debt that we've talked again today. We look forward to working with our new colleagues from RiskRecon. We've got another one, the next corporate services on the horizon. When that comes in, we are going to work hard with them and we are progressing well against the three-year performance objectives that we laid out for you for 2019, 2020 and 2021.

With that, thank you all for this being a part of this journey and thanks again for joining us.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Thank you.

Operator

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