Q3 2020 Earnings Call

Company Participants

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

Other Participants

- Bob Napoli, Analyst
- Bryan Keane, Analyst
- Christopher Donat, Analyst
- Craig Maurer, Analyst
- Darrin Peller, Analyst
- James Faucette, Analyst
- Jason Kupferberg, Analyst
- Lisa Ellis, Analyst
- Ramsey El-Assal, Analyst
- Sanjay Sakhrani, Analyst
- Tien-Tsin Huang, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Q3 2020 Mastercard Inc. Earnings Conference 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. Thank you. Please go ahead, sir.

Warren Kneeshaw {BIO 16549173 <GO>}

Thank you, Casey, and good morning, everyone. And thank you for joining us for our third quarter 2020 earnings call. We hope you are all safe and sound.

With me today are Ajay Banga, our Chief Executive Officer; Michael Miebach, our President; and Sachin Mehra, our Chief Financial Officer. Following comments from Ajay, Michael and Sachin, the operator will announce your opportunity to get into the queue for the Q&A session. It's 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 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.

With that, I'll now turn the call over to our Chief Executive Officer, Ajay Banga.

Ajay Banga {BIO 4676567 <GO>}

Thank you, Warren. Good morning, everybody. We are now a few quarters into the pandemic and while individuals and businesses and society at large continue to face many challenges, we are also seeing some positive trends, both in terms of the trajectory of spending and the acceleration of digital payments that we are helping enable. For example, our SpendingPulse estimates for quarter three show US retail sales up 1.8% versus a year ago ex-auto ex-gas. We are also seeing positive numbers in countries like the United Kingdom.

Looking at the trends, volumes improved throughout the third quarter. In fact, if you exclude travel and entertainment, which has been particularly hard hit, our switched volume growth rates in September were similar to what we saw before the pandemic in Q4 of 2019. Using our four-phase framework, we have seen markets go through the containment and stabilization phases, and now we believe that most markets are in the normalization phase domestically with some approaching growth.

And so consistent with this, we have seen our revenue going in the right direction this quarter, as year-over-year currency-neutral growth was three percentage points better than last quarter and the domestic spending trends so far in October continue to remain steady. And we've seen some improvement in domestic travel in the quarter, including spending in categories such as lodging and restaurants. Cross-border travel however remains constraint. And while we have seen some improvement in travel within the EU during the quarter, cross-border travel outside the EU has shown only limited recovery. We believe travel will improve when consumer confidence recovers as a result of improved testing and safety protocols being put in place, medical advances occurring, and as border restrictions are lifted and there is increased international coordination of travel cross-border. [ph] When cross-border travel does improve, we will be very well-positioned to capitalize on that recovery.

So overall, we see signs of improvement, but we're not out of the woods yet as we are seeing in places like Europe, restrictions being put back in place. As we've said in the past, progress through the phases may not be linear, it's going to take some time and it will be positively impacted by the broad availability of successful therapeutics and vaccines. During this time, we remain focused on the things we can control, continue to execute against our strategy and invest in our business for the longer-term and manage our expenses in a disciplined way.

Our digital technologies help us drive the secular shift to electronic forms of payment that support our broad range of customers; banks, fintechs, neobanks and merchants. We are growing our core payment capabilities in credit, debit, prepaid and commercial with new and renewed deals. Our services which are helping our customers and consumers adapt to the changing environment are continuing to grow well, and they provide meaningful differentiation and revenue diversification. And our multimedia capabilities are providing choice to customers and consumers by addressing a wide range of payment flows.

So with that, let me turn the call over to Michael.

Michael Miebach {BIO 22831201 <GO>}

Thanks, Ajay. Picking up where Ajay left off, we're positioning ourselves for the future by driving this accelerated shift towards electronic payments. According to our research, almost seven in 10 people globally say the shift will likely be permanent. We believe that as the economies reopen, people will shop in stores again, but e-commerce will remain elevated from pre-pandemic levels as behaviors have changed and payment preferences have shifted. Our research also shows that about 60% of consumers plan to use less cash even after the pandemic subsides. As a result, merchants are becoming more digital and consumers and businesses are adapting how they interact at the point of sale, both in-person and online.

Regardless of how these trends play out, our solutions are available to support consumers, issuers and merchants, as their preferences and needs evolve either [ph] in-store or online. And we are partnering with digital enablers to bring our digital solutions to market at speed and at scale. Let me give you some examples.

First, consumers. Consumer want choice. Whether they want to pay using contactless, card-on-file, QR or via instalments, we are enabling that choice. Contactless growth continues to be fueled by increasing consumer adoption. In the third quarter, contactless penetration represented 41% of in-person purchase transactions globally, up from 37% in the second quarter and 30% a year ago. At the same time, we are enabling a safe and simplified experience for consumers across digital channels with our tokenization capabilities. This foundational technology is growing rapidly, with the number of tokenized transactions doubling year-over-year in the third quarter now accounting for 8% pf our switch transactions.

We're also enabling more consumers to participate in digital commerce. For example, Santander-Chile has rolled out digital debit Mastercard to all of their Maestro card holders. This quarter alone, we won deals that will lead to about 10 million Maestro cards being migrated to Debit Mastercard in the near future.

Second, let's talk about issuers. We have a set of digitally-enabled products and solutions that drive this accelerated secular shift, including Digital First solutions tailored to fintechs and neobanks; an issuing class with which we have an established leadership position. We're partnering with large global players like PayPal, as we make the PayPal Business Debit Mastercard available to businesses in five new markets in Europe, in addition to its current availability in the US, the UK and Germany. We've extended our deal with Nubank, one of the world's largest neobanks, and we'll maintain a leadership position with them in Brazil, as one of the neomarkets as they expand their operations in Mexico and Colombia. Mastercard also helps fintechs build and scale their businesses. We have signed several deals with fast-growing neobanks around the world, like Nickel in France, and Bnext in Spain.

Third, we're focused on helping merchants -- merchants as they shift to digital and develop omnichannel capabilities. For instance, we launched a POS capability in India with Worldline and Axis Bank that transforms smartphones into point-of-sale terminals with the ability to accept contactless, QR and remote payments. In the buy-now-pay-later space, in addition to our previous partner announcements, we recently announced the partnership with TSYS to deliver installment capabilities to issuers. In addition, we're also piloting simplified shopping experiences using AI and computer vision, such as enhanced drive-throughs at White Castle and Sonic, and checkout-free pilots at Dunkin' and Circle K.

And finally, we are partnering with digital enablers to bring our digital solutions to market. We just announced an expanded partnership with Marqeta, a digital processor, to introduce new product and launch additional card programs in new geographies. And talking about geographies. In Africa, as part of Samsung, Airtel Africa and Asante, to enable access to digital financing to consumers, entrepreneurs and merchants.

In parallel, we're driving hard to grow our core products. Leveraging these differentiated digital capabilities to set ourselves up well for the future. In the US, we are excited about our partnership with Chase to launch the new Freedom Flex Mastercard offering card members cash back on everyday-spend as well as our leading World Elite Benefits. We also expanded our relationship with Barclays Bank US, which will now include new products and services in addition to their consumer and small business credit portfolio.

In Europe, we continue to strengthen our position. We've signed a regional agreement with the Santander Group for their card business, securing a long-term partnership. We're also extending our relationship with ING as they grow internationally. And we've agreed to a long-term renewal with Swedbank, our largest customer in the Nordics and Baltics, which will become an exclusive Mastercard customer.

The (inaudible) in the US, the Wayfair Mastercard with Citi has launched and we will be the new exclusive network for the AARP credit co-brand program. In Canada, we have extended our co-brand relationship with Walmart. And we are happy that Taobao just launched its Mastercard co-brand issued by Bank of China in Hong Kong and Macau.

For us to focus on positioning ourselves for the return of travel, it includes partnerships with Emirates Skywards on their first co-brand credit card in the US; and the renewal of our exclusive co-brand agreement with Miles & More, the largest travel loyalty program in Europe, on their German portfolio. It also includes a focus on travel-oriented portfolios like WEX that you've heard us talk about over the last several quarters. We're also working hard to improve cross-border approval rates and optimize portfolios through our cyber intelligence and data and analytics services.

Now, speaking of services. It is important to note that our services have played a critical role enabling the wins I just mentioned. For example, our renewal and extension with ING will include our data analytics and data insight services. Services are a material driver of our revenue growth and a source of diversification, while we help our customers adapt quickly and securely to (inaudible) as they navigate through the pandemic into a rapidly digitizing world. One way we're helping our customers is through our cyber services and the use of artificial intelligence; an area we have been investing in both organically and inorganically.

We have developed a broad set of scalable AI capabilities which have been integrated into our network, our products and services, and here are some examples. Citibank is testing our AI platform to determine enhanced capabilities to mitigate credit loss. And Itau and Santander Mexico are using our AI to provide added security for consumers, while ensuring good transactions are approved.

And with that, let's turn to the account-to-account space where we believe there are significant incremental flows to address. For the last several years, we've developed a set of assets to comprehensively address these opportunities at the infrastructure, applications and services layers. We believe this combination allows us to best address the broad range of customer needs. At the infrastructure level, we continue to make good progress with our build-outs and have a strong position in all major geographic regions, including key markets like the US, the UK, the Nordics and Saudi Arabia. Building off our strong position in infrastructure, we're also making good progress at the application layer utilizing our multi-rail capabilities.

Starting on the consumer to merchant front. The Pay by Bank app in the UK, which extends our ability to compete for every day-spend along with our debit product, is growing both in consumer accounts and merchant acceptance. With Barclays set to launch with their nine million mobile banking app customers before the end of the year, together with the customers already on-boarded by HSBC, we will have around a third of the UK mobile banking customers enabled. We have streamlined our merchant on-boarding process and currently have more than 700 merchants signed up, such as the WHSmith Group. And with our distribution partners like Worldpay pay and others, we're well-positioned to expand acceptance even further.

In the bill-pay space, several new partners will be supporting the Mastercard Bill Pay Exchange, including FIS, Wescom Credit Union, Payrailz and MoCaFi on the consumer side, and KUBRA, PNC Bank and CSG on the pillar [ph] side. Bill Pay Exchange will now have access to approximately a third of bills paid annually in the US and be able to reach about a quarter of active US bill pay consumers.

In the B2B, we continue to develop the ecosystem around Mastercard Track Business Payment Service with Fiserv now live on the platform. We're also excited to announce an expansion of our long-standing strategic relationship with PayPal, who can now use Mastercard Send to power funds transfers to consumers and small businesses through all their brands; including Braintree, Xoom, Hyperwallet and iZettle. And finally, we are continuing to make progress in the services layer; including consulting, fraud prevention and a recent expansion in the UK for our trace [ph] anti-money laundering services.

In summary, managing our business through this normalization phase with agility, move any share and have good deal momentum, we're driving the accelerated shift towards digital payments and our clients see us differentiating ourselves with our services. We see domestic volumes rebound and are positioning ourselves well for the medium-term to long-term growth opportunity, including the return of travel, through continued investment in our strategic priorities.

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

Sachin Mehra {BIO 15311008 <GO>}

Thanks, Michael. So turning to page three, which shows our financial performance for the quarter on a currency-neutral basis and excluding the impact of gains and losses on the company's equity investments. Net revenue was down 14%, reflecting the impacts of the pandemic and includes a 1 ppt benefit from acquisitions. Operating expenses were down 5% year-over-year or down 8% if you exclude the 3 ppt impact of acquisitions. Operating income was down 20% and net income was down 26%, both of which include a 1 ppt decrease from acquisitions. EPS was down 25% year-over-year to $1.60, which includes $0.03 of dilution related to our recent acquisitions, offset by a 3% contribution from share repurchases. During the quarter, we repurchased about $2.1 billion worth of stock and an additional $392 million through October 23, 2020.

So let's turn to page four where you can see the operational metrics for the third quarter. Worldwide gross dollar volume, or GDV, increased by 1% year-over-year on a local currency basis reflecting the effects of the pandemic. US GDV increased by 4%, with debit growth of 20%, partially offset by a credit decline of 12%. Outside of the US, volume was flat. Cross-border volume was down 36% globally for the quarter. As we have previously mentioned, the pace of recovery and lower-yielding intra-Europe volumes is stronger than other cross-border which is higher-yielding. Specifically, intra-Europe volume was down 23%, whereas other cross-border volume was down 49% as border restrictions were eased in Europe in advance of other locations.

Turning to page five, switched transactions showed growth of 5% in the third quarter globally. We saw positive growth in switched transactions across most regions aided in part by the continued adoption of contactless that Michael mentioned earlier. In addition, card growth was 5%. Globally, there are 2.7 billion Mastercard and Maestro-branded cards issued.

Now, let's turn to page six for highlights on a few of the revenue line items, again described on a currency-neutral basis unless otherwise noted. The decrease in net revenue of 14% was primarily driven by a decline in cross-border volumes due to the effects of border restrictions and social distancing measures, partially offset by growth in GDV, switched transactions and continued growth and services. As previously mentioned, acquisitions contributed approximately 1 ppt to net revenue growth. As a reminder, the transaction with Nets did not close this quarter as previously expected.

Looking quickly at the individual revenue line items. Domestic assessments were up 5%, while worldwide GDV grew 1%. The 4 ppt difference is primarily due to favorable mix. Cross-border volume fees decreased 48%, while cross-border volume decreased 36%. The 12 ppt difference is due to adverse cross-border mix mainly driven by a slower recovery in non-intra-Europe cross-border volumes at a higher-yielding than intra-Europe cross-border volumes. Transaction processing fees were up 1%, while switched transactions were up 5%. The 4 ppt difference is primarily driven by the adverse cross-border mix I just mentioned. Other revenues were up 6%, including a 2 ppt contribution from acquisitions. The remaining growth was driven by our cyber and intelligence and data and services solutions. Also just as a reminder, growth in other revenues was impacted by a difficult year-ago [ph] comp. Finally, rebates and incentives were up 2%.

Moving on to page seven, you can see that on a currency-neutral basis, total operating expenses decreased 5%. This includes a 3 ppt increase related to acquisitions, which was lower than expected primarily due to a delay in the closing of the transaction with Nets. Excluding acquisitions, expenses decreased 8%, which was also better than expectations, primarily related to actions taken to reduce advertising and marketing, travel, personnel costs and professional fee-related expenses.

Turning to page eight, let's discuss what we've seen through the first three weeks of October. One point to note, while the week ending October 21 shows higher growth metrics relative to the prior week, this is being primarily driven by the timing of significant promotional activity by an e-com merchant and their competitors. Through the first three weeks of October, each of the metrics are in line with recent trends adjusting for this e-com promotional activity.

Commenting on the specific metrics starting with switched volumes, we believe that most markets are in the normalization phase domestically with some approaching growth. When you look at how people are spending, card-present growth rates remain steady with strength in retail categories such as groceries, offset by some declines in T&E. Card-not-present growth rates remain healthy. Trends in switched transactions remain steady, benefiting from increased contactless penetration. In terms of cross-border, intra-Europe continues to outpace other cross-border volumes. As previously mentioned, intra-Europe yields are lower than those of other cross-border volumes.

So now turning to page nine, I'd like to provide you additional color on the cross-border trends across card-present and card-not-present. You can see the trends that we laid out through the course of the quarter continue. The e-com promotional activity I referenced also impacted cross-border growth for the week ending October 21. In total, if you look at the gray line, total cross-border continues in a similar band. If you look at the orange line, card-present spend has declined slightly following an uptick in travel over the summer holiday season. Card-not-present growth, which is the yellow line on the chart, continues to be resilient and as held up well. The green line represents card-not-present excluding online travel-related spend and remains positive. We continue to see strong growth across retail categories, particularly in discretionary areas like clothing and home improvement, as well as in non-discretionary categories, such as groceries. This line was particularly impacted by the e-com promotional activity.

One final point regarding all metrics. Given the recent increase in COVID-19 cases, we are closely monitoring the impact on spending of additional mitigation measures that have been put in place, particularly in Europe.

Turning to page 10, I wanted to share our thoughts on the upcoming quarter. As we previously established, given the ongoing uncertainty we will not be providing a forward view for net revenues at this time. We do intend, however, to continue to provide periodic updates to our operating metrics to help you understand the trends we are seeing.

First, I'd like to make a few comments on how I see our business shaping up in light of the pandemic. The story in non-T&E domestic volumes is quite encouraging. Specifically, as already mentioned, we are seeing volume growth rates ex-T&E in September similar to what we were seeing pre-COVID in Q4 2019. The impact of the pandemic on travel, and in particular, on non-intra-Europe cross-border travel remain significant. While we believe that cross-border will ultimately recover, it will take time for people to build their confidence in the safety of travel as we believe that is tied to the broad availability of vaccines and therapeutics likely towards the latter part of next year.

As a reminder, we will see improved growth rates due to lapping the effects of the pandemic before that starting in late March next year. All of this being said, we have always been well-positioned in the cross-border travel space and we continue to build on this position of strength through various initiatives with existing and new partners as Michael commented on. This will enable us to capitalize on the recovery in cross-border when it does occur.

With that as background, I would like to make a couple of comments to help you with your modeling of revenues for the quarter. First, as you have seen, non-intra-Europe cross-border travel has seen minimal recovery since the onset of the pandemic. Given that these volumes are significantly higher-yielding than intra-Europe cross-border, this has resulted in a slow recovery in our cross-border revenues. As a reminder, this negative mix impacts both our cross-border volume fees and transaction processing fees, as you have seen in Q3. This will continue to be a factor so long as this mix persists. Secondly, we expect rebates and incentives as a percentage of gross revenues to increase by 2 ppt to 3 ppt sequentially, reflecting normal seasonal trends and increased deal activity as Michael mentioned.

Now, let's turn to operating expenses. Consistent with our four-phase framework for managing through the pandemic and given that we are in the normalization phase, we continue to carefully manage our priorities in order to preserve our ability to invest in our key long-term growth drivers; digital, cyber, data analytics, B2B and multi-rail solutions. For Q4, we expect operating expenses to be down low single-digits versus a year ago on a currency-neutral basis excluding acquisitions. This reflects our continued focus on expense management, as well as sequentially higher advertising and marketing spend related to promotional campaign.

With respect to M&A, we are pleased with the progress we have made towards securing regulatory approval for the transaction with Nets, and now expect that transaction to close in the first quarter of 2021. Based on this timing and the planned closing of the Finicity acquisition this quarter, we expect acquisitions to contribute in half of ppt to revenue, and approximately 4 ppt to 5 ppt to operating expenses in the fourth quarter. Other items to keep in mind for Q4. Foreign exchange is expected to be a 1 ppt headwind to revenues, and a 0 ppt to 1 ppt headwind to operating expenses.

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 non-GAAP metrics. And finally, we expect the tax rate of approximately 20% for the quarter 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>}

Thank you, Sachin. Casey, we're now ready for the Q&A session.

Questions And Answers

Operator

Great, thank you. (Operator Instructions) And your first question comes from the line of Craig Maurer with Autonomous Research. Please go ahead. Your line is now open.

Q - Craig Maurer {BIO 4162139 <GO>}

Yeah, good morning. Thanks for taking the questions. So synthesizing everything you're saying and piecing together what you said on cross-border, it sounds like effectively we should be modeling an extended period here of depressed yields perhaps through the start of 2022. Is that how you're thinking about things?

A - Sachin Mehra {BIO 15311008 <GO>}

Hey, Craig. It's Sachin, so let me take that one. I think the thing to actually focus on is the following. When you think about cross-border, you should think about intra-Europe cross-border and non-intra-Europe cross-border, but the other dimension you should think about is personal travel relative to business travel. And I think what you should -- our expectation in terms of how we think things will evolve is going to be tied to the availability of vaccines and therapeutics.

Our view is personal travel comes back quicker than business travel does. Personal travel for Mastercard represents a substantial portion of our total cross-border. So the way I would think about that is to think about it in the context of as travel starts to come back, we'll see personal travel, which is a substantial portion of our total cross-border, come back sooner than business travel. And that should be tied to how we see the evolution of the COVID vaccine and the therapeutics taking place.

That's the way I would think about it.

Q - Craig Maurer {BIO 4162139 <GO>}

Okay. Considering the other commentary you had, refresh our memory in terms of the yield dynamic in card-not-present/e-com versus card-present, considering it seems that obviously the direction is favoring e-com at this point.

A - Ajay Banga {BIO 4676567 <GO>}

Hey, look, I mean this is what I'd tell you. In terms of the opportunity for yields on card-present versus card-not-present as the way you should think about it, generally at the baseline the yields are pretty consistent. Clearly, when you have card-not-present transactions, you have the opportunity to leverage the strong capabilities we at Mastercard have from a services standpoint, such as our fraud and analytics capabilities, which when layered on and are more relevant in the card-not-present environment, calls for the yields to be higher in card-not-present over card-present.

Q - Craig Maurer {BIO 4162139 <GO>}

Okay, thank you.

Operator

Your next question comes from the line of Ramsey El-Assal from Barclays. Please go ahead. Your line is now open.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Ramsey, you may be on mute.

Operator

Once again, Ramsey El-Assal from Barclays. Please go ahead. Your line is open.

A - Warren Kneeshaw {BIO 16549173 <GO>}

All right, let's go the next one please, Casey.

Operator

Certainly. Your next question comes from the line of Lisa Ellis with MoffettNathanson. Please go ahead. Your line is now open.

Q - Lisa Ellis {BIO 18884048 <GO>}

Good morning. Thanks for taking my question. You mentioned on the call that tokenization -- I think this is the first time you disclosed some of these metrics, so digging into them. Tokenization doubled -- tokenized transactions, I guess, doubled year-on-year and is now 8% of the total. Can you elaborate a little bit on what's going on with tokenization? Specifically, how is the implementation of SCA in Europe impacting the rollout of tokenization? And then what kind of tools that are you using to drive this rollout? So for example, at some point will you implement a liability shift or something like that similar to what you did with EMV, or kind of how is it expected to roll out over the next couple of years, especially in light of this dramatic shift into e-com? Thank you.

A - Ajay Banga {BIO 4676567 <GO>}

Hey, Lisa. It's Ajay. I'm going to kick [ph] it off, and I'm going to let Michael -- he is the European expert. (multiple speakers) but here's the deal. First, tokenization to us is building the foundation for safe, secure and frictionless online, contactless kind of commerce. But think of tokenization as being extendable also to card-present transactions eventually, so that wherever card data exchanges hands in any form, the actual data that exchanges hands is not the data that can be reused without unlocking cryptograms. That's the objective.

That also, therefore, provides us with a terrific realm to see more transaction than we used to in the past. Which, by the way, is one of the reasons why our transaction percentage that we see is growing up from -- over the last decade from 40-something-percent to 55-plus percent today. And that enables our data and services business to power itself on a higher level of growth.

That's the logic of tokenization. That's the investment in it. The fact that it's now 8%, which, as you said, is doubling over last year in terms of number of transaction, you should view that as a continuing trend that we are going to push as hard as we can with every ounce of energy in our selling system. That's the first part of the answer.

Does it connect to Europe yet? Not yet any differently from others because secure customer authentication, SCA, is still not fully implemented, as you know, in Europe because there was an extension granted on how and when they will go through. Will that be very much help point [ph] to our organization? Yes, but not yet in those numbers. So what you're seeing is really efforts across the board, across markets, across geographies for us to build a foundation for this safe, simple, smart product of the future.

A - Michael Miebach {BIO 22831201 <GO>}

And despite the fact that Ajay isn't European, I think he told the European story. The only thing I would add is as we did the foundational work over the last two years, three years around tokenization, particularly the merchant tokenization, our (inaudible) product, we've made the implementation so much easier. We're talking about a very light lift for merchants, which is driving some of this acceleration here.

A - Ajay Banga {BIO 4676567 <GO>}

And finally, Lisa, this is useful for merchants, as Michael said. It's useful for fintechs. It's useful for banks. It's useful from a point of view of governments because it adds the security in the system. This is a good thing and it's standardized across the industry, which makes it get to scale.

Q - Lisa Ellis {BIO 18884048 <GO>}

Thank you.

Operator

Your next question comes from the line of Darrin Peller with Wolfe Research. Please go ahead, your line is now open.

Q - Darrin Peller {BIO 16385359 <GO>}

Hey, thanks guys. When we look at the other revenues line, it just was -- it changed a little more than we had expected. If you could just give a little more detail into what went into that, and really the investments you're making in that category, which I know is sort of a catch-all for a lot of the newer services you have. What should we expect from that over the next year or two in terms of opportunities for further investment and growth in that area? Thanks.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure. So, Darrin, so in other revenue as we've kind of previously discussed, it's got -- a large part of our services revenue sits there. There are several other revenue items related to acquisitions which we've done in the services area which again sit in that. So there is a bunch of stuff which goes into the other revenue line item.

I think the way you should think about it is the following. Our services capabilities and the revenue we generate from our services capabilities, continue to be in great demand in the marketplace and they're growing well. Bottom line, point number one, really important for us to get out there because there is a lot of demand coming from our customers on that. What you are seeing in terms of other revenue growth in Q3 is -- and the reason is -- it's we grew at 6% ex-acquisitions that grow at about 4%. We had a tough year-over-year, so last year that other revenue line item was growing at 30% ex-acquisitions.

So look, at the end of the day, last year the growth rate we had was driven by some really strong demand in the third quarter for our consulting capabilities which came through there. And really what I would say is longer-term the way you should think about services in general and other revenue as well is they continue to grow faster than the core, they're in good demand in the marketplace, including those which we've developed organically as well as the acquisitions we've done, including things like Ethoca, RiskRecon; all of which, candidly in the current prevailing environment with increased digitization, are even more in demand.

So that's the way I'd think about it.

A - Ajay Banga {BIO 4676567 <GO>}

The only thing I'll add to that, and this is Ajay, is that the services in other revenue is a number of different businesses. It's not one thing. So there's data analytics, there's loyalty, there's cyber security. It's a catch-wide [ph] pays from lumpiness across quarters, but those when we started out 10 years ago, they were 4%, 5% of our revenue. It is currently running, Sachin, at what level?

A - Sachin Mehra {BIO 15311008 <GO>}

Services is north of 25%. 25% (multiple speakers) yeah.

A - Ajay Banga {BIO 4676567 <GO>}

Somewhere between 25% and 30% of our revenue depending on the quarter. So you can imagine the focus that Michael and team are putting into it. You should expect to see more activity in that space; in data analytics, in AI, in cyber security. You should expect Michael to be continually driving new differentiation in that space.

Q - Darrin Peller {BIO 16385359 <GO>}

All right, that's helpful. Thanks, guys.

Operator

Your next question comes from the line of Bob Napoli from William Blair. Please go ahead. Your line is now open.

Q - Bob Napoli {BIO 1526298 <GO>}

Thank you, and good morning. Just a question on the M&A side. It seems like there is a lot more regulatory overview of acquisitions by large tech companies like -- including Visa and Mastercard, but you sound very optimistic about closing Finicity and Nets. Obviously, Visa getting a lot of overview on Plaid. Are you seeing a lot more -- a lot heavier regulatory review of acquisitions, and does that change your M&A strategy at all?

A - Michael Miebach {BIO 22831201 <GO>}

Hey, Bob. Michael here. So, we are actively engaging on the two that you mentioned; that's Nets and that's Finicity. As Sachin pointed out earlier, we are confident that Nets will close into the first quarter. We're very happy that we got the in-principle approval from the EU Commission there. We're working through the remedy. So that is a process that's well-understood and on track for us, so a high level of confidence there. When it comes to Finicity, we continue to be quite optimistic as we work this through that it will close in the fourth quarter.

Now, the level of oversight and engagement around antitrust topic; we're obviously aware of that and we're following the news as everybody else does. Now, when we look at Finicity where the confidence that I just talked about there really relates to why we like Finicity. We like Finicity because they have really strong data management practices. We like them because they have an in-the-light-of-day set of relationships with banks and with fintechs on both sides, so very transparent business model. We like them particularly because of the approach that they took to create a world of open banking that really favors the consumer, to use their data with their consent and only with their consent. They created the Financial Data Exchange around it, which is now the emerging standard globally on how to do open banking in a proper way.

So, we feel really quite good about that. Other acquisitions as they come, we'll continue to work that within the respective regulatory environment, so not any change to our M&A strategy.

Q - Bob Napoli {BIO 1526298 <GO>}

Thank you. Appreciate it.

Operator

Your next question comes from the line of Jason Kupferberg with Bank of America. Please go ahead. Your line is now open.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Hey, thanks, guys. Just wanted to ask two things. First, just the delta between switched transaction growth and transaction processing revenue growth. I think there was about a 4.0 spread there. And then just a number of issuers have talked about improved US credit volumes in September and October. Wondering if you guys saw that as well as you deconstruct the domestic volume numbers. Thanks.

A - Sachin Mehra {BIO 15311008 <GO>}

Hi, Jason. It's Sachin. On transaction processing fees and the delta between transaction processing fees and the growth in switched transactions, it is primarily being driven by the adverse cross-border mix. As you know, the component of our cross-border revenues which come in transaction processing fees, and when the proportionate share of intra-Europe versus non-intra-Europe is tilting in favor of intra-Europe transactions, it has the adverse impact, which is what you're seeing come through there. And in Q3 that's exactly what's kind of driving that delta.

On your second question on performance of credit, we do have actually seen an improvement in credit performance quarter-over-quarter, much in line with what you're hearing from the issuer side. In fact, I would say across all regions there's been good improvement in our credit volume metrics. And the reality is, as we are starting to see these trends come through relative to the second quarter in terms of domestic volumes and transactions, that's manifesting itself in the debit improvements we've seen as well as on the credit side.

So it's very consistent with what you're hearing from the issuers.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Okay, thanks.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure.

Operator

Your next question comes from the line of Tien-Tsin Huang with J.P. Morgan. Please go ahead. Your line is now open.

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

Okay, thank you so much. And there were a lot of questions on yields, and I understand that geography matters on cross-border and I think Craig asked about card-present and card-not-present, but just in general, any comments or any call-outs on product mix and how that impacts your yields as well as maybe even client mix if more spending is going to bigger merchants and marketplaces, any call-outs there?

A - Sachin Mehra {BIO 15311008 <GO>}

Hi, Tien-Tsin. So the call-out which I -- in addition to commentary which we've shared around yields in general, as well as the mix shift which is taking place between intra-Europe cross-border and non-intra-Europe cross-border, is travel by and large happens to be more credit-oriented and recovery of travel ties closely to how the metrics show up on credit as well.

And so the only point I can make is that as we start to see travel come back, which we very well expect to come back, like I said, personal travel probably before business travel, I think from a product standpoint what you can expect to see is that the credit volumes start to come back in a more meaningful manner just because that's the more prominent product used there.

The other piece is certainly prepaid as well in the travel business. As you know, we've got bunch of prepaid products which are very focused on travel-oriented business and that too will start to see that come through once travel comes back.

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

Got you. Thank you.

Operator

Your next question comes from the line of James Faucette with Morgan Stanley. Please go ahead. Your line is now open.

Q - James Faucette {BIO 3580933 <GO>}

Great, thanks. Just a quick question for me on taxes. They were -- came in a little bit higher than we had modeled. Is that attributable once again to geographic mix, and we should expect to see that normalize as overall trends and volumes normalize? And I guess just a quick question there. And then looking a little bit longer and at new products, can you talk a little bit about how we should think about the Buy-Now-Pay-Later road map? And in the MCI platform, I know that earlier this quarter you announced an agreement with global payments TSYS. How should we think about the economics of that platform developing and impacting Mastercard's business overall?

A - Sachin Mehra {BIO 15311008 <GO>}

James, on taxes -- the tax rate question which you had is being driven by a shift in the mix of our earnings -- the geographical mix of our earnings. And really what I've shared with you in terms of our outlook for taxes for Q4 reflects the current mix as we see it.

Look, longer-term what I would tell you is as things revert back to the mean, and I perfectly well expect that over time things will revert back to the mean, one would expect to see that come through in the nature of our tax rate as well as the mix starts to readjust back to what we use to see in the pre-COVID days.

A - Michael Miebach {BIO 22831201 <GO>}

Yeah. On the Buy-Now-Pay-Later space, obviously this is -- it's a hot space. We're very active in this area. The whole range of partnerships as you recall over the last couple of quarters; Jifiti, Divido, our Pine Labs investment, our Vyze acquisition and now TSYS, so different regionally-oriented ways to go to market. Afterpay, not to forget those guys. It's different regional models to go to market.

In terms of the economics question that you asked related to that it does play out in markets differently, but broadly speaking, the way we get involved in buy now and pay later is not to get involved in the credit side of it, but get involved in the side of connecting merchants as well as lenders. So here that -- you should think about that as fee-driven. We don't see the credit impact on our P&L, but it's a nice transaction business and links directly to the payment, and therefore, puts us in an ideal position to benefit from that.

Operator

Your next question comes from the line of Bryan Keane with Deutsche Bank. Please go ahead. Your line is now open.

Q - Bryan Keane {BIO 1889860 <GO>}

Hi, good morning. I was going to kind of ask a follow-up on that and I understand credits being impacted by travel. Just trying to think post-pandemic, is it possible that we see credit continue to lag those [ph] norms because of these new models, new lines of credit like BNPL, and maybe the growth in debit the outsized growth continues? Just trying to think about some of the changes post-pandemic, and how you guys think about that. Thanks.

A - Michael Miebach {BIO 22831201 <GO>}

Well, let me start on that. First of all, I think -- picking up on Sachin's earlier comment. Credit and travel, there is a higher degree of correlation. As travel comes back, you'll see that reflected in credit. I think generally the point about us providing choice and payments to consumers is the key point. So, we'll see credit, we'll see debit, QR push payments. That's why we have a multi-rail strategy. We benefit from all that regardless of what the mix is, but I do expect credit to come back, while we saw a the significant growth in debit on the shorter-term.

So that would be my outlook on the short-term future.

A - Ajay Banga {BIO 4676567 <GO>}

And think about -- this is Ajay. Think about whether you say credit on a credit product or credit on a Buy-Now-Pay-Later product, it's still credit. It's paying later. You're either paying now, paying later or paying in advance. There's no third way to pay. Paying in advance is prepay. Paying now is debit or pay by account, which is again our multi-rail approach, or credit which is credit cards or by now, pay later.

We are not going to shoehorn consumers into one place or the other. Our job is to offer choice to our partners; merchants, fintechs, banks and then let them play the right approach with their consumer base. So our kind of approach for this is that the need for some degree of a pay-later product remains. Whether it's on one rail or the other happens to be just two options that we would offer both of.

Q - Bryan Keane {BIO 1889860 <GO>}

Thank you.

Operator

Your next question comes from the line of Chris Donat with Piper Sandler. Please go ahead. Your line is now open.

Q - Christopher Donat {BIO 15390389 <GO>}

Good morning. I wanted to ask one follow-up question on the spending trends in your commentary about October and having one large e-commerce merchant. Do you have any thoughts on if that might be affecting like pulling forward some of the traditional holiday spending, or is that not really a factor? And then also if you could comment on how much travel might typically contribute to a fourth-quarter increase relative to the third quarter in spending activity.

A - Michael Miebach {BIO 22831201 <GO>}

Hi, Chris. Michael here, so let me start with that. So when we look ahead from from this October week into the rest of the year and the holiday spending season, I think we can already tell this is going to be a holiday spending season. It's a little bit different in terms of when and how and where consumers spend. In fact, it is our view that it has actually started. So it started earlier than what we've seen in previous years, really with that particular e-com merchant's promotion.

So as we look ahead, our spending policy is actually forecasting, if you take out automotive and gas, a growth in US retail sales of 2.4% throughout this holiday spending season. And the categories, we've talked about them earlier where we see some of that spend will go. Predominantly continued trend of home furnishing, anything that happens around that kind of diameter of your home. Athleisure clothing and electronics, that's what we expect to outperform.

And what will help all of this is some of the shift to omnichannel on the merchant side. So, we'll see the continued rise of digital, but at the same time, wherever possible in light of social distancing measures, we also look out for shopping local trends in your community, in your city. So both of that will play out, but that's our view on the next months to come.

Q - Christopher Donat {BIO 15390389 <GO>}

Thank you.

Operator

Your next question comes from Sanjay Sakhrani with KBW. Please go ahead. Your line is now open.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thanks, good morning. Michael, I know you mentioned the result of surveys you conducted on the usage of electronic payments, but I'm curious if you have a view as to whether or not consumers are likely to travel more in 2021 versus 2020, all else equal. I know there's a lapping effect, but do you think that you could see a better magnitude of improvement in cross-border, all else equal, as people are getting vaccinated?

And then second question is just on the non-travel cross-border spending volume growth. Do you think it could still grow 20-plus percent in 2021 and beyond? Thanks.

A - Michael Miebach {BIO 22831201 <GO>}

All right. Hey, Sanjay. So first on, I wish I had a crystal ball and what's going to happen, but it is currently our view that the personal travel -- first of all domestic, but generally personal travel has come -- is coming back first. People want to see their families, so there's like pent-up demand, you've been locked up for months. So, we do look for that as to come back faster. And I just put the [ph] holiday, interestingly enough, and other people do the same.

So that is -- it's a somewhat uninformed view, but when you look at our mix, as Sachin earlier said, predominantly our exposure on the travel side is towards domestic to start with and then business travel, so we see that increasing. And it's not going to be kind of a light switch moment sometime next year. It's going to start to build out as codification [ph] on travel corridors gets better, as testing protocols of airlines and at airports gets better, it will be these various steps that get us back to return of travel with personal travel to start with.

On the second part of your question, I'll hand it over to Sachin.

A - Sachin Mehra {BIO 15311008 <GO>}

Yeah, so I'll just -- one comment, Sanjay, on what Michael just said. As well as it relates to personal travel, I think it's instructive to also see what's going on in domestic travel right now. So you are starting to see domestic travel start to return. And if you see the mix of how domestic travel is returning, you're seeing both on travel come around quicker. Not to say that business travel is not coming around. We're starting to see a little bit of business travel come around on the domestic side.

So if I would extend that over to start to think about what the patterns look like on cross-border and particularly the long-haul cross-border, we expect with the pent-up demand that Michael talked about that personal travel will come back sooner than business, but business will come back as well in cross-border. It will tie closely to the vaccines and the therapeutics. Very important for us to kind of keep a line of sight on that because at the end of the day, consumer confidence is going to be a very key determinant of how people feel about getting on planes for 12 hours, 13 hours, 14 hours. So, I think that's important as to how we think about this from a framework standpoint.

On the second part of your question on non-travel cross-border, look, I mean the secular trends are underway. You are seeing them. You're seeing the amount of digitization which is taking place of payment flows. You're seeing the capabilities that we are building in that space to enable that secular trend and the acceleration of that secular trend. And we don't see the cross-border space as being too different in terms of how we see the e-commerce in cross-border playing out over the longer-term.

More and more merchants are going omnichannel and that's really important. In the past, there were smaller merchants who felt like it was okay just to be having acceptance of the physical point of sales. They're moving more denominate channel moment. We're doing a bunch to enable that. We're doing a bunch on doing things from a card-on-file standpoint, tokenization as Ajay mentioned. So, I think those are all the things which we've got to kind of keep pushing on to capitalize on these trends from a secular standpoint. And we expect that the non-travel card-not-present component will continue to grow nicely going forward.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thank you.

Operator

Your next question comes from the line of Ramsey El-Assal from Barclays. Please go ahead. Your line is now open.

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

I wanted to ask you about Central Bank-backed digital currencies and it seems like that's becoming a much more a real option that's being explored by Central Bank. Can you give us your thoughts about the sort of the opportunities or challenges for Mastercard when it comes to Central Banks kind of getting directly involved with issuing digital coins? Then just a quick, both on there, any update on Click to Pay and apologies if you already addressed it, but just any update there in terms of how it's progressing in the context of the (inaudible). Thanks.

A - Michael Miebach {BIO 22831201 <GO>}

All right, Ramsey. Michael here. Let me take the second part of your question first, get that out of the way. So Click to Pay, I'm making good progress in consumer rollout, as well as in adding merchants. We're looking at 10,000 merchants here in the US. As far as consumer rollout goes, we've talked to you in previous quarters about push provisioning through some large banks, particularly Citi here. So this is growing at double-digit rates in terms of adding consumers. That's very, very encouraging.

And what I thought is a very interesting data point, as you start to look at consumers that have used the Click to Pay experience, it is a very slick experience. We start to see that about a third of transactions is happening from returning user. So, you start to see habit-building here, which is really quite encouraging.

We're planning right now with some of the other EMV co-partners to look at international expansion. The plans are getting ready. Just to mention three countries that are slated for next year, ABC; Australia, you see Canada, here you see Brazil. So some massive countries on the docket for next year. So that's moving ahead.

Central Bank digital currencies; big topic. Particularly in the light of COVID, you see a lot of governments that have increased interest in modernizing their payment stacks. They're looking at various tools on how to do that. Before the crisis, there was a whole range of governments looking at Central Bank digital currencies, and I think with the crisis more are even considering that as a tool.

We are engaged with a very significant number of governments around the world. All regions -- major regions around the world in terms of a dialogue on what is the best answer to what a government is trying to do. If you look at some of the more prominent examples that are out there, if you look at Sweden, the Riksbank, there is a thought behind the Central Bank digital currency approach to deal with a world where there is no cash left.

In the Bahamas, they are looking at the cost of cash. In South Africa, they are looking at financial inclusion. So there is a whole range of different motivations, and we're trying to work with those governments to understand what those motivations might be. Central Bank digital currency is the best answer possibly, and some other instances it might be real-time payments or it might be yet something else that we haven't even thought about. So that's the first part of the dialogue.

We have come to the conclusion that the construct of a Central Bank digital currency is an important aspect. This is an ENC currency, so the Central Bank as in mining the currency is ensuring the resilience of the infrastructure is critical. While the private sector has a really important role to play in terms of -- has a really important role to play in terms of innovation on top of that infrastructure. You think smart contract, you think all sorts of solutions that make the life of consumers and businesses easier.

Now, why are we a relevant partner in all of this, how does this affect all of that? First of all, we have invested for years in cryptocurrency assets. We are the leading payment player when it comes to patents around crypto. So that is -- that puts us in a good position. We have a long track record in consulting with governments. If you look at some of the more prominent examples, we are having a seat at the table to see where this goes.

I'll give you one particularly important aspect of intellectual property that matters here. Once you have a Central Bank digital currency, it's going to make a difference as consumers as to how do you actually spend it. So the link into an acceptance network is critical. So, we hold some patents in that space that link these transactions right back into our network where they can be used in -- we can bring value and it brings value to us.

So, Ramsey, big topic. We're supportive wherever it makes sense and we're engaging governments around the world.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Thanks, Michael. I see we're getting close to the top of the hour. Just to wrap up, do you have any comments?

A - Michael Miebach {BIO 22831201 <GO>}

All right, I do have comments because it is -- it's that one call. That is a very special call here and I'll tell you why. First of all, thanks for your questions and before I hand it back to Ajay, I do want to acknowledge that Ajay will be taking on his new role as the Executive Chairman at the start of the next year. So it will actually be his last earnings call as CEO. So, I want to thank Ajay for his tremendous leadership all throughout. He is making gestures right now. You should see him.

I know he has both close relationships with many of you, and I look forward to doing the exact same and continue to provide you with straightforward information about Mastercard, about our business and what we do. On a personal note to you, Ajay, I'd like to thank you for all your help during this transition period, and I look forward to continuing to work with you in our new roles. Ajay, over to you.

A - Ajay Banga {BIO 4676567 <GO>}

Thank you, Michael. And I actually was counting back during this call, and this is my 44th earnings call and I hope you, Michael, have a similar run. I do want to thank all of you who have been so supportive of our company during my time over the last decade. And for taking the long-term view and for trusting us to make the right investment choices to drive growth for this company over the long-term.

You've seen the results. We've grown our suite of core products, we've developed world-class digital capabilities, we have resulted in significant share growth over time with banks, with fintechs, with merchants. We have developed a rich set of services that both support both core payment products, they also help to diversify our revenues, and we are a true multi-rail payment provider. We've positioned ourselves for growth in new payment flows like B2B, as well as in areas beyond payments such as open banking and digital identity.

From '09 to 2019, revenues have grown over three times, from $5.1 billion to $16.9 billion. Adjusted net income has grown over five times, from $1.5 billion to $7.9 billion and the share price has reflected it's performance, this morning's performance, notwithstanding.

Michael has an awesome company with a wider array of assets and capabilities in an industry with secular tailwinds. Yes, we have to continue to execute, while investing for the next decade. And I have no doubt challenges will lie ahead like the pandemic that is still with us, economic and societal challenges, as well as nationalistic tendencies. But I also have no doubt whatsoever in Michael's skills as a leader and in the quality of the wonderful people in this company as we look ahead.

Thank you. Have a great day.

Operator

And ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.