Q2 2023 Earnings Call

Company Participants

- Devin Corr, Head of Investor Relations
- Michael Miebach, Chief Executive Officer
- Sachin Mehra, Chief Financial Officer

Other Participants

- Ashwin Shirvaikar, Analyst
- Bob Napoli, Analyst
- Bryan Keane, Analyst
- Dan Dolev, Analyst
- Dan Perlin, Analyst
- Darrin Peller, Analyst
- David Togut, Analyst
- Harshita Rawat, Analyst
- Lisa Ellis, Analyst
- Rayna Kumar, Analyst
- Sanjay Sakhrani, Analyst
- Tien-Tsin Huang, Analyst
- Timothy Chiodo, Analyst

Presentation

Operator

Good morning. My name is Audra, and I will be your conference operator today. At this time, I would like to welcome everyone to the Mastercard Inc. Q2 2023 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions)

Thank you. Mr. Devin Corr, Head of Investor Relations, you may begin your conference.

Devin Corr {BIO 17274566 <GO>}

Thank you, Audra. Good morning, everyone, and thank you for joining us for our first quarter 2023 earnings call. With me today are Michael Miebach, our Chief Executive Officer; and Sachin Mehra, our Chief Financial Officer. Following comments from Michael and Sachin, the operator will announce your opportunity to get into the queue for the Q&A session.

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

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

With that, I will now turn the call over to our Chief Executive Officer, Michael Miebach.

Michael Miebach {BIO 16087573 <GO>}

Thank you, Devin. Good morning, everyone. So starting with the big-picture, our momentum continued into the second quarter with net revenue up 15% and operating income up 16% both versus a year ago on a non-GAAP currency-neutral basis, once again demonstrating the strong fundamentals of our business. Consumer spending has remained resilient with spend on experiences in travel remaining our focus.

On the macroeconomic front, we continue to monitor a number of factors. First, the overall labor market remains strong, including wage growth and consumers continue to be supported by credit and savings. These are key factors of consumer spending. Second, the efforts of central banks to curve inflation are showing signs of progress, despite this inflation remains elevated and we are in a period of tight monetary policy across many countries.

Economic growth will continue to vary country-by-country and sector by sector.

Looking at our switch volume trends, domestic volume growth remains healthy. We continue to see strength in T&E with some recent moderation in both inflation and spend and select international markets. Cross-border travel continues to show strength, reaching 154% of 2019 levels in the second quarter. We remain well-positioned to capitalize on this trend with our travel-oriented portfolios and our initiatives in areas like loyalty and marketing.

Cross-Border card-not-present ex-travel continues to hold up well. We're monitoring the environment closely and are ready to adjust investment levels as appropriate while maintaining focus on our key strategic priorities. As a reminder, these priorities are, one, expanding in payments; two, extending our services; and three, embracing new networks. First, we're expanding in payments by continuing to win deals with a diverse set of customers, powering growth in acceptance, capturing a prioritized set of new payment flows and exploring new ways to ensure payment choice by leveraging multiple alternatives including card rails, ACH blockchain and open banking.

Back to the top of this list. We are winning deals across the globe through a combination of our innovative products, differentiated services and our solution-selling approach. I'll share a few examples from each region. Let's start in Europe where we announced a significant win with only credit across all card products. Expanded our partnership and put in place a first-of-its-kind single card Multimarket strategy spanning 13 banks, 12 markets and 20 million cards. UniCredit selected Mastercard due to our innovative digital capabilities shared focus on sustainability and proven ability to support their client needs.

In Germany, the previously-announced conversion of approximately $10 million of Deutsche Bank's credit and debit cards to Mastercard has now started. These wins build on a prior success in the UK, where there are now $16 million NatWest Debit Mastercard is live in market. When combined with the Santander and first direct migrations, approximately 27 million debit cards have now shifted to Mastercard across these three portfolios in the UK.

Turning to North America. Mastercard will partner with Fiserv's Money Network for all US state and federal government benefit in wage disbursement debit programs. Up north, Coast Capital, Canada's largest Federal Credit Union will be converting their consumer and small-business portfolios to Mastercard. The partnership highlights our shared commitment to local communities with issuance through Collabria Financial Services.

In addition, we have a new agreement with Tim Hortons, the largest fixed-service restaurant brand in Canada. Tim Hortons will launch a new Mastercard Credit Card and we'll be using a broad set of Mastercards digital, analytics and fraud services and technologies. Our relationship with Santander in Latin America continues to grow. In Mexico, we established a long-term exclusive deal with Openbank, their new digital bank. We also renewed the Fiesta Rewards co-brand credit card, Santander has key offering within the consumer portfolio. In Brazil, we will be Santander's exclusive partner across the commercial portfolio. And we've expanded our partnership with fast growing security [ph], one of Brazil's largest credit unions.

In Asia Pacific, we've extended our relationship with Standard Chartered Bank, which will enable us to grow our consumer credit presence across key markets in the region. We've also expanded our partnership with HSBC through the launch of the Travel One card in Singapore, Malaysia and Vietnam. Travel One will provide instant in-app rewards redemption powered by the Mastercard rewards system.

With all of these cards, people do need a place to use them. We continue to power growth in acceptance by establishing new partnerships and scaling new technologies. This quarter, we announced partnerships with both Alipay and WeChat Pay to enable international travelers to easily link any Mastercard credit or debit card to Alipay and

WeChat Pay digital wallets. The partnership allows visitors to make payments with 10s of millions of QR code merchants across China. I just returned from China, where I saw firsthand how this is helping international travelers, shop and pay in more places in a simple way. Slide paying like a local. And this will be valuable as inbound cross-border travel to China improves from approximately 50% of 2019 levels in the second quarter.

In the online environment, we are scaling our Click to Pay capability to enhance the guest checkout experience. Click to Pay transactions grew over 70% year-over-year in the second quarter and the technology is now live in 30 markets. In the quarter, we added Chile, Bahrain and Slovakia. And NatWest Group became the first bank in the UK to go live with Click to Pay push provisioning for cardholders.

Shifting to new payment flows. We are making tangible progress in this area. In commercial point-of-sale, we've extended our partnership with Brex to support the international expansion of their commercial portfolios. We expanded our relationship with My POS, continues to drive new merchant acceptance across more than 30 European markets while also migrating their small business debit portfolio to Mastercard. And we've established an exclusive partnership with Australian lender Grow Finance to introduce credit cards to their small-business customers later this year.

In B2B accounts payable, we remain the market leaders in virtual cards. We continue to drive growth by tapping into new use cases. For example, we established an exclusive partnership with easy transfer and Greater China. This competitive flip leverages our virtual card capabilities to support cross-border tuition payments for international students. We're also making it easy for buyers and suppliers to integrate virtual cards into the technology platforms they already use. Building on our prior announcements with SAP at Coupa if recently partnered with GEP to integrate our virtual card technology into their payables platform.

And on the supplier side, we launched Mastercard receivables manager with Build Trust, the solution streamlines the processing of virtual card transactions with suppliers and automates the integration of reconciliation data into accounts receivable systems. This is a great solution and it builds on partnerships with companies like Boost Payment solutions who we have been working closely with Mastercard to expand and optimize commercial acceptance.

And finally, new flows. We continue to deploy our disbursement and remittances capabilities in new ways and across new geographies. In the US, we partnered with top sports gaming processor into checks, who will make Mastercard Send available to gaming operators for payouts. Careem Pay, one of the largest digital wallets in UAE will use send to top-up their wallets using Mastercard. And on the cross-border front, we partnered with Alfardan Exchange in Qatar to facilitate remittance services and support cross-border travel.

Our work in real-time ACH continues to support these new flows. Our historical approach has been to expand our infrastructure reach into new markets. Going forward, we will be focusing on delivering and scaling in the markets we already are serving while building applications and services in these key locations in line with our overall strategic and financial objectives. And at blockchain, we're introducing the Mastercard multi-token network MTN. MTN is a set of foundational capabilities designed to make transactions within digital asset and blockchain ecosystems all secure, scalable and interoperable.

We believe in the potential blockchain technologies. However, regulated money such as bank deposits and CVDCs needs to be part of the solution and they should interoperate with traditional systems. We can help with that. MTN is the natural evolution of the work we have already done in this space. The initial Sandbox will kick-off in the UK this summer.

Now turning to services. Our services informed decision-making of our customers. They help them create stronger connections and greater loyalty. Payments and services reinforce each other multiplying our impact and the value we deliver to all our partners. Our services help many -- drive many of the wins I mentioned earlier. So here are a few additional examples.

We recently launched our consumer fraud risk solution, which leverages our latest AI capabilities and the unique network view of real-time payments I just mentioned to help banks predict and prevent payment scams. AI is a foundational technology used across our business, it has been a game-changer in helping identify such fraud patterns. We've partnered with nine UK banks including Barclays, Lloyds Bank, Halifax, Bank of Scotland, NatWest, Monzo MTSB to stop scam payments before funds leave a victims account.

CSB [ph], one of the first banks to adopt the solution indicated that has already dramatically increased its fraud detection since deploying the capability. We're combining our loyalty, consulting, analytics and identity services in different ways to help our customers capitalize on the travel recovery. This quarter, we extended our broad-based partnership with Expedia Group. Together, we will combine Mastercards' loyalty solution with Expedia's extensive travel supply to enable Mastercard cardholders to book travel using loyalty points.

We also partnered with Thomas Cook in India to issue prepaid cards for international travel. The proposition includes cardholder access to over 450 cross-border travel offers through Mastercard Travel Rewards.

And earlier this month, I met with our partners at Deutsche Bank and Lufthansa in Frankfurt. We re-signed -- re-signed our long-standing partnerships with Lufthansa Group for its Masimo loyalty program and welcomed Deutsche Bank as the new issuing partner. In this enhanced relationship, you will see a combination of our loyalty solutions, personalization capabilities and digital user experiences help the partnership take off to the next level using airlines peak.

We're also leveraging our personalization and Test & Learn capabilities to help our partners across the ecosystem enhance the customer experience and improve acquisition and conversion rates. For example, the combined dynamic yields personalization capabilities with our marketing services to drive digital customer acquisition for Ecobank in Nigeria. In addition, HP Inc. has partnered with us to deploy personalized bank content for their consumers across Canada and Europe. And on the merchant side, we are working with 7-Eleven in Australia using our Test & Learn capabilities to support their rollout of new store concepts involve its food and beverage offerings.

Our third strategic priority area is embracing new networks with a focus on open banking and digital identity. We continue to make progress in open banking and establish a series of new and expanded collaborations this quarter, including ones with Freddie Mac, (inaudible) based out of France and DAPIN in the UAE. These entities will leverage our smart and consumer permission data to drive increased financial inclusion and make digital interaction simpler and safer.

Turning to digital identity. We're driving adoption across several new verticals, including travel, ticketing, retail and financial institutions. Travel provider, FlightHub, is using our identity solutions to help travelers book their new next adventure. Sports teams across the US, including the New Jersey Devils, use these solutions to enable fans to buy tickets while reducing fraud in ticketing platforms. Major League Baseball used our new detect technology to ensure that all-star votes were authentic for this year's all-star game.

In retail, we partner with IKEA, who is using Ekata to help reduce friction and fraud. And financial institutions like (inaudible), a digital banking platform for Black and Latinx, communities are using our capabilities to authenticate consumers in real time, making financial empowerment a reality for more people.

So in summary, we delivered another strong quarter of revenue and earnings growth, supported by resilient consumer spending, particularly in travel and experiences. Our strong deal momentum continues with new wins and expanded relationships powered by our services across a range of partners, including UniCredit, Fiserv, Tim Hortons, Brex and many more. Our differentiated capabilities, diversified business model and focused strategy positions us well to capitalize on the significant opportunity ahead.

Sachin, over to you.

Sachin Mehra {BIO 15311008 <GO>}

Thanks, Michael. So turning to Page 3, which shows our financial performance for the quarter on a currency-neutral basis, excluding special items and the impact of gains and losses on our equity investments. Net revenue was up 15%, reflecting resilient consumer spending and the continued recovery of cross-border travel as well as the continued growth in our value-added services and solutions.

Operating expenses increased 13%, including a minimal impact from acquisitions. And operating income was up 16%, including a minimal impact from acquisitions. Net income and EPS increased 11% and 14%, respectively, both reflecting a sizable discrete tax expense this quarter related to foreign tax legislation enacted in Brazil. EPS of $2.89 includes a $0.22 reduction due to the discrete tax expense I just mentioned and an $0.08 contribution from share repurchases. During the quarter, we repurchased $2.4 billion worth of stock and an additional $497 million through July 24, 2023.

So let's turn to Page 4, where you can see the operational metrics for the second quarter. Worldwide gross dollar volume, or GDV, increased by 12% year-over-year on a local currency basis. In the US, GDV increased by 6% with credit growth of 8% and debit growth of 3%. Outside of the US, volume increased 16% with credit growth of 14% and debit growth of 17%. Of note, we have now completed the NatWest debit migration in the UK.

Overall, cross-border volume increased 24% globally for the quarter on a local currency basis, reflecting continued improvement in travel-related cross-border spending. While this is sequentially lower versus Q1, this is due to tougher comps as we opened up post-Omicron last year. When you look at the trend versus 2019, you see continued strength. For example, cross-border travel is at 154% of 2019 levels in Q2, which is up 6 ppt from the prior quarter. On the same basis, cross-border card-not-present excluding travel continues to hold up well in relation to 2019 levels, up 2 ppt from the prior quarter to 210%.

Turning to Page 5. Switched transactions grew 17% year-over-year in Q2. Both card-present and card-not-present growth rates remain strong. Card-present growth was aided in part by increases in contactless penetration as contactless now represents over 60% of all in-person switched purchase transactions. In addition, card growth was 8%. Globally, there are 3.2 billion Mastercard and Maestro-branded cards issued.

Turning to Slide 6 for a look into our net revenues for the second quarter, which came in above our expectations. As a reminder, earlier this year, we revised our disaggregated revenue disclosure. Net revenues are now broken down into two new categories payment network and value-added services and solutions.

Now getting into the numbers described on a currency-neutral basis. Payment network net revenue increased 14% primarily driven by domestic and cross-border transaction and volume growth and also includes growth in rebates and incentives. Payment network net revenue was higher than anticipated primarily due to higher revenues related to FX volatility and the timing of planned deal activity.

Value-added services and solutions net revenue increased 16% primarily due to the continued healthy growth of our cyber and intelligence solutions driven by our underlying driver growth and the demand for our fraud and security solutions and strong demand for consulting and marketing services, which was partially offset by other solutions.

Now let's turn to Page 7 to discuss key metrics related to the payment network, again, described on a currency-neutral basis unless otherwise noted. Looking quickly at each key metric. Domestic assessments were up 11%, while worldwide GDV grew 12%. The difference is primarily driven by mix. Cross-border assessments increased 29% while cross-border volumes increased 24%. The 5 ppt difference is primarily due to favorable mix as higher-yielding ex-intra-Europe cross-border volumes grew faster than intra-Europe cross-border volumes this quarter.

Transaction processing assessments were up 16%, while switched transactions grew 17%. The 1 ppt difference is primarily due to lower revenues related to FX volatility versus the prior year. Other network assessments related to licensing, implementation and other franchise fees were $270 million this quarter. As a reminder, these other network assessments may fluctuate from period to period.

Moving on to Page 8. You can see that on a non-GAAP currency-neutral basis excluding special items total adjusted operating expenses increased 13% primarily due to increased spending on personnel to support the continued execution of our strategic initiatives.

Now turning to Page 9. Let me first comment on the operating metrics -- trends in the second quarter. Versus 2019, overall spending has remained resilient. When viewed year-over-year on a sequential basis, we are seeing some moderation in both inflation and spend in select international markets as well as more difficult comps. As it relates to the first three weeks of July, our metrics are holding up well, generally in line with Q2 when indexed to 2019.

Just for your information, we have included all the data points from this schedule excluding activity from Russian-issued cards from current and prior periods in the appendix.

Turning to Page 10. I want to share our thoughts on the remainder of the year. Let me start by saying that our business fundamentals continue to remain strong as overall consumer spending remains healthy and we continue to deepen our relationships with partners across the globe. Domestic spending patterns have broadly normalized post-pandemic.

Cross-border travel continues to grow at a healthy pace, now above 150% of 2019 levels. While the travel recovery has progressed well in most regions, there remain pockets of opportunity, notably into and out of China. We remain well-positioned to capitalize on this continued growth with our travel-oriented portfolios and related service offerings. Cross-border card-not-present ex-travel continues to hold up well.

While we are monitoring a number of macro and geopolitical factors, our base case scenario for the year continues to assume consumer spending remains resilient buoyed by strong labor market and reflects current spending dynamics and the ongoing recovery of cross-border travel.

For the year, our outlook is broadly unchanged. We expect net revenue growth for the full year 2023 to remain in the low teens range on a currency-neutral basis excluding acquisitions and special items. As a reminder, this growth rate would have been approximately 1.5 ppt higher if you exclude Russia-related revenues from 2022. Foreign exchange is expected to be a tailwind of 1 ppt for the year and we expect a minimal impact from acquisitions.

Our expectations for operating expense for the year are also unchanged with growth expected to be at the high end of a high single-digit rate on a currency-neutral basis excluding acquisitions and special items. Acquisitions are forecasted to add about 1 ppt to this growth, and foreign exchange is expected to be a headwind of approximately 0 to 1 ppt for the year.

As Michael mentioned, we are prepared to proactively adjust our operating expenses if we see meaningful changes to topline growth. With respect to the third quarter, year-over-year net revenue is expected to grow at a low double-digit rate, again, on a currency-neutral basis excluding acquisitions and special items. Coming off a strong Q2, this sequentially reflects a lower anticipated contribution to growth from revenues related to FX volatility.

Foreign exchange is expected to be a tailwind of approximately 3 ppt, and acquisitions are not expected to have much of an impact for the quarter. From an operating expense standpoint, we expect Q3 growth to be at the high end of a high single-digit rate versus a year ago on a currency-neutral basis excluding acquisitions and special items. Acquisitions are forecast to add approximately 0 to 1 ppt to this growth, and foreign exchange is expected to be a headwind of approximately 1 to 2 ppt.

Other items to keep in mind. First, on the other income and expense line, we forecast an expense of approximately $90 million for Q3. This excludes gains and losses on our equity investments, which are excluded from our non-GAAP metrics. Second, we expect a non-GAAP tax rate of between 18% and 19% for Q3 and Q4 based on the current geographic mix of our business and the recent US tax guidance that allows for more tax credits to be claimed related to 2022 and 2023.

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

Devin Corr {BIO 17274566 <GO>}

Thank you, Sachin. Audra, we are now ready to begin the question-and-answer session.

Questions And Answers

Operator

(Operator Instructions) We'll take our first question from Tien-Tsin Huang at JPMorgan.

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

Hi, good morning. Good to talk to you, guys. Just wanted to ask on the UniCredit win there. That was a nice one just outside of the top 10, it looks like, in Europe. So you mentioned a multi-market strategies, what they're going after, and I heard sustainability also as a reason for the win. I'm just curious, thinking about this as a case study, is this a new trend? Why are they employing the strategy now in the wake of a lot of the macro uncertainty, open banking, and there was a lot of talk about pan-European schemes and whatnot? So I'm -- just wanted to study this a little bit and if there's any comments on timing pricing as well? Thanks.

A - Michael Miebach {BIO 16087573 <GO>}

All right. Tien-Tsin, thanks for the question. So this is a fantastic win. We're excited about that. As I laid out, it's very unique. This is a pan-European bank, so cutting across 13 banks in 12 markets. It's a wide strategy. Therefore, it's single card, multi-market and it cuts across a lot of our digital capabilities. So I think the breadth of our offering on the digital-first side as well as our services are a key aspect of us winning this particular portfolio.

In the sustainability part, we see this across a whole range of customers who are all looking at climate as the question of the century to solve, what can be done, the consumption question in the context of payments. There's so many angles to it. Our price is planned position on (inaudible) first place into that. So that is particularly important to UniCredit. So here again, we had a meeting of the minds.

In the end, it comes down to part of the migration, and you alluded to this in your question, do we stand ready to serve their needs from day one as the migration starts. We've proven this with Deutsche Bank, we've proven it with NatWest and so forth. So this is something that is not new to us. So we're excited to see this unfold over the near future.

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

Great. Thank you, Mike.

Operator

We'll go next to Harshita Rawat at Bernstein.

Q - Harshita Rawat {BIO 18652811 <GO>}

Good morning, thank you for taking my question. Michael, I want to ask about FedNow, which is now finally launched. I know you've commented on this before very early days and far from any sort of ubiquity or potential retail payment use cases. But you've had also a lot of experience working alongside real-time payments owning some TAM. So how are you thinking about FedNow and the risk (inaudible) in that? Thank you.

A - Michael Miebach {BIO 16087573 <GO>}

Thanks, Harshita. Yeah, we're all monitoring what FedNow is doing. They are now going live. So this is clearly a milestone, a good opportunity to look at this topic again. Our view on this really hasn't changed. So in the end, it comes down to what problem are you trying to solve. What are merchants looking for? Merchants are looking for reach to consumers, so scale matters. What are consumers looking for? Consumers are looking for safe ways to pay in a predictable fashion, ubiquity available. So those are all factors that haven't changed with this launch.

We built that acceptance. We have a brand, the two interlocking circles that represent trust so that addresses a lot of what merchants and consumers are looking for. And we strengthened the position -- the proposition over years, contactless, Tap on Phone, buy now, pay later, Mastercard Installments, Click to Pay and so forth. So that's good.

The Mastercard debit proposition is strong and we keep evolving that. So it's well understood now FedNow is launching. So as we look at that, we will obviously continue to compete and offer our services to our banking and issuing partners. At the same time, in our experience, to your question, we have stayed close to these systems in various other countries in the end, ending up partnering with most of them.

So here, we'll have to see where it goes live, going live doesn't mean that it is broadly available yet. It is early days, as you said. It doesn't have features. It doesn't have a consumer platform as such. You can't access it through your mobile banking app. All of that is what our solution today provides. So we have to see where it goes. Head on competition but the mindset of partnership and where it makes sense for us and where this goes.

It is important to say that we do have solutions for these systems. If you look at the Chase Pay by Bank solution that we put into the market, so that's exactly leveraging these kind of flows that would run across these systems, generally P2P-focused. Some noncard penetration verticals run across these particular systems. So we see that as an opportunity. And Chase by Bank app will be one of those ways to go in after that. We've done similar kind of solutions in the UK, in Europe, and so forth. So more to come. We'll stay very close. At this point in time, I think we have a better solution in the market.

Q - Harshita Rawat {BIO 18652811 <GO>}

Very helpful, thanks.

Operator

We'll go next to Sanjay Sakhrani at KBW.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thanks, good morning. I had a question on the Fed routing rules on debit. I guess the card-not-present transactions went through in July. I'm just curious sort of how you see the opportunity there. It would seem like you're in a good position to take some share.

A - Michael Miebach {BIO 16087573 <GO>}

Right. So the clarification came to networks available as of July 1. So we put that in place and we said we would and we're ready to do that. It's still early days. We have to see where that goes. But as you rightly said, Sanjay, we stand ready to compete. And that is certainly -- we will look for the opportunity, and I'm sure we will find it.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Great. Thanks.

Operator

Next, we'll go to Lisa Ellis at Moffett Nathanson.

Q - Lisa Ellis {BIO 18884048 <GO>}

Hi, good morning. Thanks for taking my question. And Michael, in the prepared remarks, you highlighted that with Mastercard's all-time ACH strategy, you're sort of in the phase of transitioning from building out infrastructure to focusing more on building applications and services.

Just kind of taking a step back, it's always been a big differentiator for Mastercard that you own infrastructure and fast ACH with Vocalink and Nets Corporate Services. Can you just kind of comment a bit on the movie over the six or seven years? Like, how has that helped differentiate Mastercard in the -- in terms of being able to capture account-to-account network payments, new flows, et cetera? Thank you.

A - Michael Miebach {BIO 16087573 <GO>}

Thanks, Lisa. So real-time payments, when the rise of real-time payments started 2016, '17 and so forth and we invested into Vocalink, it was clear at the time that we wanted to be in the infrastructure, infrastructure application services. That was a bit of the logic. At the time, we needed the street cred and we needed the talent so we can participate in this trend from day one. That was the first season of the movie, so to say, to stick with your analogy.

Where we are today? We build out an enviable and unique position in real-time payments, having a footprint in 13 of the top 50 GDP countries where we run and partially operate real-time payment infrastructure. Our strategy was we will be in the markets that matter and we don't win to be in the markets that don't matter. So we feel we've reached that point. And now it's really to drive up scale and use that infrastructure position.

The business in itself of running these systems in these markets is attractive enough. As we pointed out, we're going to focus on building out a set of applications and services on top of that. If you recall from the prepared remarks where I talked about the scam -- the anti-scam solution in the UK with these non-UK banks, it's a fantastic example of how our expertise in these markets has positioned us to rally nine banks around the table to come up with a market-wide solution.

Now not everything that we will do will be market-wide solutions. There will be individual customer solutions, but we feel we have muscle in this space. It's not going to go away. All these government payment systems out there, more and more real-time payment solutions will come up and I think we will be in demand. And because we've done it for a long time, we'll have a seat at the table.

Q - Lisa Ellis {BIO 18884048 <GO>}

Thank you.

Operator

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

Q - Darrin Peller {BIO 16385359 <GO>}

Hey, thanks, guys. Can we touch on value-added services for a moment? I mean it's been a good tailwind for some time. I think it grew just about 1 point below transactions this time around. And you mentioned strength in cyber and some other categories offset by -- that were offsetting others. So I'd be curious to get a little more detail as to what -- where the strengths and weaknesses of value-added services now, including the other? And then more importantly, just how much room do you think you have across those different categories to keep that growth alive and cross-sell well into your meaningful payments business?

A - Michael Miebach {BIO 16087573 <GO>}

All right. So let me start, and then Sachin can add a bit around the various dynamics around growth rates and so forth. So as I said in prepared remarks, payments and services complement each other. The strategy is the combination of both and then we extend that into new networks. So that's the starting point. We remain convinced that, that is a key reason that all those wins I just talked about earlier are happening. So central to our strategy.

Our services, in aggregate, continue to grow faster than the core. So we continue to diversify our revenue base. We like that. We want to continue to do that. There's a whole range of services to choose from. We could do lots of things. We have pruned our strategy when it comes to processing because we didn't feel that was such a differentiator. But we felt that cybersecurity in a world that is rapidly digitizing is just going to drive the biggest demand and we're seeing that coming through in the numbers when I look into our C&I business, which grow at a very healthy clip.

If you think about our D&S and data analytics business, here, we keep on building out the value chain. It's a vertically integrated value chain we have -- where we have Test and Learn, we have loyalty and you go all the way into personalization. That is before, after, during the transaction, helping our customers run a better business. I don't see an end to the demand.

In fact, that is key to our segment diversification strategy. So running at a healthy clip. I don't see any moderation here. This is continue -- will continue to grow. And you should see us continue to build out across the key aspects of services in cybersecurity and data analytics insight. So we love this business and we'll continue to nourish it.

A - Sachin Mehra {BIO 15311008 <GO>}

Hey, Darren, it's Sachin. Good morning. A couple of additional thoughts. So Michael kind of covered off the strength we continue to see in our value-added services and solutions and that's indeed the case. But you got to remember that growth rates move around quarter-to-quarter on this area. And so we should all focus on the longer-term trends out here.

As it relates specifically to Q2, when you look at growth rates for value-added services and solutions in Q2 of 16%, I assume you're looking at the sequential trend out there. One point to keep in mind is that there was a 1 ppt drop in Q2 on account of acquisitions. So Q1 had the impact of acquisitions. Q2 doesn't have it because it kind of lapped that acquisition period. So that's one piece.

And then specifically in my comments, I talked about the strength in Cyber and Intelligence as well as in some of our Data and Services capabilities was offset by other solutions. And it's really all about what the growth rate trends are for Cyber and Intelligence and Data and Services relative to growth rates and things like real-time ACH, especially on the infrastructure level. So when we talk about other solutions, think about it in the context of things like real-time ACH, which tend to grow at a lower pace there.

So historically, what we had spoken about was just services. Now we are talking about value-added services and solutions. When we think about services in the historical context, in Q2, that services growth rate was more like 18%. So just for a reference point beyond that.

Q - Darrin Peller {BIO 16385359 <GO>}

Understood. Very helpful, thanks.

Operator

We'll move next to Timothy Chiodo at Credit Suisse.

Q - Timothy Chiodo {BIO 16128908 <GO>}

Great. Thank you for taking the question. I want to dig in a little bit on another business that is important to your -- both your volume and your revenue growth algorithm over the medium term, which will be Mastercard Send. You touched a little bit on some of the Cross-border use cases. I believe many of the initial use cases were much more domestic but it's evolving over time. Maybe you could just dig in a little bit more to some of the cross-border use cases that are really gaining traction.

A - Michael Miebach {BIO 16087573 <GO>}

So Timothy, let me start off with that. So our Send business domestic and cross-border together, that's how we look at it. There's a big chunk in there which is cross-border disbursement remittances, as you rightly said. The way that we go after that is by adding new geographies. I gave you three markets that we've added this year Chile, Bahrain and Slovakia. So there is tremendous reach -- unparalleled reach in what we have in our cross-border proposition, 100 countries around the world. Then, there's new ways to go after it and that is the use cases.

So earlier when I was talking about gaming payout, some of that is domestic, some of that is international. The whole workers remittances piece Alfardan in Qatar, those are important corridors. We very specifically go after these corridors, Middle East into South Asia, and so forth. So it's pretty methodological. But there's another way that -- which I haven't talked about on how to accelerate this business and this is how we make it easier for customers to onboard with us.

So cross-border service express, which is kind of prepackaged solution around cross-border payments is another way for us to accelerate this business. So new geographies, new use cases, corridor-specific, great methodology. I think we have the right kind of assets here across our HomeSend integration across our Transfast acquisition, the

MasterCard proprietary system, and our card reach. So all in, this is growing at a very healthy pace. And we like that business a lot. We are experts in cross-border, as you know, on the card side and we're building that out here -- over here in cross-remittances and disbursements.

Q - Timothy Chiodo {BIO 16128908 <GO>}

Excellent. Thank you for taking the question.

Operator

We'll go to our next question from Rayna Kumar at UBS.

Q - Rayna Kumar {BIO 17409639 <GO>}

Good morning, Michael and Sachin. Thanks for taking my question. Both of you in the past have discussed how B2B remains a large opportunity for Mastercard. Can you talk about what trends you're seeing in B2B payments in this macro environment? How you're progressing against capturing the TAM and if you're seeing any slowdown in corporate spending as companies potentially tighten their budgets?

A - Michael Miebach {BIO 16087573 <GO>}

Thank you, Rayna. I'm noticing a lot of questions coming for me means that there isn't a lot of questions in the numbers, which is fantastic. And I love to talk about B2B.

Let me take the lens, Rayna, that's a little bit broader here on commercial overall. So I feel like I'm repeating myself here, but we're choosing priorities because they are growing at a healthy clip. So it's the story for commercial growing at a healthy clip. So this is -- we're seeing a quarter-over-quarter -- quarter to year growth above the consumer side. There's particular strength in our international markets business and we've sustained elevated levels of growth when we compare this back to 2019, all the noise of COVID out of it.

We have two main focuses in this area. One is commercial point of sale and the other one is our B2B accounts payable business commercial point of sale, now this is a tremendous total market opportunity, massive TAM out there and it's likely penetrated by cards today.

The way we look at this is, this isn't really about building new systems. This is about penetrating with the tools that we have today, targeting SMEs and corporate T&E, purchasing fleet, all of that with our existing capabilities that we have plus our complementary solutions like smart data and easy savings and so forth. So a lot of cash and checks out there, a lot of opportunity with cards that we have today. So we leverage that. We built out a separate vertical in the company. We're focusing hard and we're seeing the growth rewarding us for that.

On the B2B side, this is accounts payable, trusted relationships, this is invoice payments and so forth. This is an even larger TAM with a lot of clear pain points. Companies are looking to automate these processes, digitize these processes, get rid of the paper and virtual cards is a solution that works tremendously well. We, as I called it out earlier, we are the leaders in virtual cards. But the solution isn't perfect.

So we invested a lot of energy through our product teams to make it better and better. What I was saying earlier on Receivable Manager, this is a way to automate the acceptance of virtual card payments, build it into the accounts receivable system, automate it to get the benefits of virtual cards without some of the manual processes that we have to go through over the past year.

So this is a real breakthrough. This business is going to be hugely important for us going forward. We called it out in November 2021 at our Strategy Day. It's one of our biggest growth opportunities. We feel we're ahead in the market and we're seeing the healthy growth and that will be remaining a focus for us.

Operator

We'll go next to Ashwin Shirvaikar at Citi.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Hey, good quarter guys. Michael, since you said Sachin's not getting enough questions, maybe I'll ask a numbers question.

A - Michael Miebach {BIO 16087573 <GO>}

Yes, please.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

I wanted to figure out sort of the cadence of operating expense 3Q versus 4Q, it sort of looks like -- it looks like you're kind of exiting the year a little bit higher than the 3Q levels in terms of growth. So what's causing that as well as -- I know your cadence of spending tends to be longer term in nature, but are there product or service call-outs in terms of the types of investments that you're making that's most pertinent now?

A - Sachin Mehra {BIO 15311008 <GO>}

Hey, Ashwin, good morning. So look, what we shared with you is our thoughts around what we think operating expenses look like in the third quarter. And I've given you what -- the full year numbers or what our expectations for the full year numbers are. So I think you can kind of back into what our operating expense growth rate is going to be or is expected to be in the fourth quarter. There's nothing unusual going on from an OpEx standpoint in Q4.

Honestly, I would tell you, if you look at it on a year-over-year basis growth rates -- when you back into those numbers, you'll see there's nothing really unusual going on there. Broadly speaking, on OpEx, here's what I would say. We continue to remain focused on driving our operating expenses in what matters. It's the strategic priorities. It's making sure we're channeling our capital in the appropriate manner to drive growth both in the short, medium and long term. And that's what we'll continue to do.

As you know, we are a people business to a large extent, because a lot of what we do from a tech development standpoint is around people. A lot of what we do from a sales standpoint is around people. So that's what we invest in. So when you see growth rates in terms of operating expenses, I tend to call out personnel as one of the line items essentially for that reason alone which is the growth comes from people and people are the ones who actually bring the assets that are there for -- which allow us to deliver that revenue. But really nothing unusual going on from an OpEx standpoint as we exit the year.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Okay, great. Thank you.

A - Michael Miebach {BIO 16087573 <GO>}

Yeah. So we keep top and bottom-line growth in mind. But there is a tremendous opportunity ahead of us right now. So we are using this tailwind that we're currently seeing to continue to invest. You see the list of wins, the growth momentum in B2B, the growth momentum in services. So this is the time to continue to nourish that business and invest and you will see us do that in a very prudent and disciplined fashion.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Understood. Thanks.

Operator

We'll go next to Dan Dolev at Mizuho.

Q - Dan Dolev {BIO 16010277 <GO>}

Hey guys, thank you so much for taking my question. I appreciate it. Just a quick question on the guidance. Like, obviously, results are very strong. You exceeded your second quarter guidance on revenue. What was the thought process of not boosting the guidance for the year? Thank you.

A - Sachin Mehra {BIO 15311008 <GO>}

So Dan, a couple of thoughts here. One, again, remember we shared guidance in terms of ranges and that's what we've shared out here as well, right. And when you think about ranges, it -- that's what they are in essence. Point number two is, some of the beat which we had in Q2, as I mentioned in my prepared remarks, was driven by, what we call, timing of deal activity. We still expect to be active in the markets. We still expect to vigorously compete in these markets.

And so I kind of intentionally mentioned that as timing only because we do expect that as the year progresses, we will continue to be active in the market. So I think you should take that into consideration as well. And then my only other comment I'd make is, in Q1, we had modestly increased our thoughts relative to what we had shared right at the start of the year. So when you bring all of that together, that's kind of our thinking behind what we shared from a full year guidance standpoint.

Q - Dan Dolev {BIO 16010277 <GO>}

Got it. Thank you so much.

Operator

We will go next to Bob Napoli at William Blair.

Q - Bob Napoli {BIO 1526298 <GO>}

Thank you, and good morning. On open banking, Mastercard has been pretty aggressive in investing in open banking. But I just like some additional thoughts on -- maybe on how that's progressing? And then how open banking maybe sits into other strategies like embedded finance and Banking as a Service.

A - Michael Miebach {BIO 16087573 <GO>}

All right. So open banking, as you know, we specifically called that out as one of two opportunities in new networks. The trend is here to stay. That's pretty clear. This whole notion of people got to use their data footprint to avail better financial services. There's a lot more regulation coming around that. PSD3 in Europe is coming out. So this train is -- has left the station, that's good, we're on it.

The way we look at it is, we have to move beyond connectivity. We had a good start. We are well connected here in the US through our Finicity asset and in Europe through our Aiia assets and we're very busy now building use cases on top of that, and this is where we think the future is going. Initial demand of Finicity was very clearly in lending-oriented use cases and asset verification use cases. That feels -- that is where the demand is today.

To Sachin's earlier point, where do we invest? we invest where we see the demand in the near-term event. So that is where we're optimizing. But you're already starting to see as we're going beyond these lending use cases with our -- solutions like our Chase Pay by Bank solution here in the US. This is using a payment success indicator, which is using open banking data to tell a biller this is a good time when there is balance on an account fees now bill. That is what the payment success indicator does. That is powered by Mastercard's open banking technology.

So our near-term use case is clear, that's working. Connectivity, we're well positioned with our two assets and we're very busy building out use cases. And obviously, we're excited to see Pay by Bank with Chase launched in the third quarter as we said to you.

Q - Bob Napoli {BIO 1526298 <GO>}

Thank you.

Operator

We'll take our next question from David Tog -- excuse me, David Togut with Evercore ISI.

Q - David Togut {BIO 1496355 <GO>}

Thank you. Good morning. Cross-border volume growth remains very strong, but on Slide 9 clearly, there's a deceleration from April growth through June, especially in Cross-border travel. So my question is, for the second half, what growth rate in Cross-border volume is embedded in your guidance? And then, if you could go a little bit under the hood, what do you see in Cross-border travel volumes? Maybe a little more texture on what you're seeing by country in Europe, you gave kind of overall data and some thoughts on China.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure, David. So a couple of thoughts first. Let's start at the highest level, which is the value prop of Cross-border travel still remains incredibly strong. So we've got a strong value prop. We have a strong presence in the market. As you'll remember, as we were going through COVID, when everybody had stopped traveling, we used that as an opportunity to continue to bolster our position in Cross-border. And that's paying dividends right now.

The fact that we were building portfolios and winning portfolios at that point in time is helping us actually drive strong growth in Cross-border, broadly speaking, but also in travel.

Now specifically to your question around trends, I think you're looking at year-over-year growth rates. When you are looking at what the Cross-border travel trajectory is month-over-month, the declines you were talking about. I'd encourage you to look at the right-hand side of Slide 9, which talks about the numbers indexed to 2019. And there, you could see actually there's an accelerating trend in cross-border travel.

So said differently, you can see that in Q1, our cross-border travel as a percentage of 2019 was 148%. In Q2, that was 154%. In the first three weeks of July, that's 157%. The reason that's important is because the year-over-year growth rates are getting impacted by tougher comps from last year. And I think that's important to actually keep in mind.

In terms of regional color, I would say that regions are performing well. Look, I mean, the beauty of what we've got at Mastercard is a diversified business model. It's diversified across multiple dimensions. Across payments and services, across products, across channels of sale, across regions. And the fact that we've got this presence -- strong presence across various regions helps us in the Cross-border side as well. And really, what you're seeing is good sustained growth in Cross-border, both on travel as well as non-travel across the globe. We're seeing accelerating trends in Asia Pacific, which we had very much expected and spoken about. That's what you're seeing coming through in the nature of the numbers here.

We still think there are pockets of opportunity on a going-forward basis, in particular going into China and coming out of China. Just as a reference point, Michael talked about how Cross-border travel inbound into China stood at approximately 50% of 2019 levels in Q2. That just goes to show what the opportunity remaining there is. Conversely, Cross-border travel outbound from China was approximately 70% in Q2. And so that -- both those numbers will give you an indication of where the opportunities lie on a going-forward basis.

And as we continue to do what we're doing in terms of winning more portfolios, enriching our proposition, leveraging services such as our loyalty programs, that just helps us position us well on a going-forward basis. So that's the kind of color I'd like to share with you on this. Broadly speaking, I think we're in a very good place as it relates to cross-border.

A - Michael Miebach {BIO 16087573 <GO>}

One thing to add here, that is the current imbalance in the market between demand and supply. So there's still an unlock there as in airline capacity, airport capacity and all of that will unlock. So the combination of the underlying desire to travel, how that trend is coming through our position -- strong position in the travel industry with our portfolios, Expedia and Lufthansa, just to add to here and this (inaudible) of capacity over time will be a very good mix. This is an exciting space, people just want to be out there.

Operator

We'll go next to Dan Perlin at RBC.

Q - Dan Perlin {BIO 1758057 <GO>}

Thanks, good morning. I just wanted to maybe dig a little deeper on the commentary around this moderation in inflation and spending, Sachin, that you called out. Particularly, what can you tell us about kind of the downdraft in average tickets during the current quarter? And then, maybe more specifically, are you seeing any discernible signs or indications of trade-downs from the consumer that would be high corollaries to slightly weaker consumer spending as opposed to this resiliency that -- it sounds like you guys are continuing to talk about? Thank you.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure, Dan. So a couple of thoughts. I mean it's no surprise, I think you guys are all seeing that inflation while still remaining at high levels has started to moderate, right. So you're seeing that come through in terms of the nature of spend, right. We're a nominal value business. And at the end of the day, right, inflation -- declining inflation quarter-over-quarter will have an impact. So that was important to actually call out.

And then, I also talked about how there's a moderation in select markets -- international markets. The reality is when you look at markets, and this is not broad-based, right. There are select markets where -- let's take a market like the UK.

At the end of the day, rising interest rates and high inflation levels, ultimately, will put a squeeze on people's ability to spend. That doesn't mean that the consumer isn't necessarily resilient. The consumer remains resilient on a more holistic basis. But at the margin, right, what you start to see is as, say, for example, mortgages get reset, when mortgages get reset, they're getting reset of high-interest rates. What it's doing is it's squeezing the wallet or share of wallet which would be available for other discretionary categories of spend.

So you're going to see a little bit of that trend come through which is what we were kind of calling out. But all of that is factored into our thinking as we think about the rest of the year and in my full year guidance. So that's really, in essence, what we were kind of thinking about.

So again, I'll summarize it by saying there's recent reductions in inflation. There's a little bit of moderation in select international markets and really, we haven't seen this as being broad-based. We haven't seen this as something which is causing concerns for us. It's very much in line with what we've been thinking about from a guidance standpoint. And I'll remind you that at the end of the day, Cross-border continues to be strong, back to the question which David just asked. So kind of bring that all together, right, we feel good about what the strength of the consumer is.

Q - Dan Perlin {BIO 1758057 <GO>}

Excellent. Thank you.

A - Devin Corr {BIO 17274566 <GO>}

I think we have time for one more question.

Operator

And we'll take that question from Bryan Keane at Deutsche Bank.

Q - Bryan Keane {BIO 1889860 <GO>}

Hi guys, good morning. Thanks for fitting me in. Sachin, just want to ask about X -- FX volatility and how it impacts the model. I know Cross-border assessment revenue growth was above volume, so it had a positive yield. I think in your peers -- one of your peers' reports, it was actually negative and they called out the lack of FX volatility. So just trying to understand how it impacts Mastercard's model.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure, Bryan. So first, the -- when we talk about FX volatility, you see that in our numbers in transaction processing assessments not in Cross-border assessments. It is tied to the activity of outlier [ph] settle, which is why it sits in transaction processing assessments. And what I called out was the higher growth rate in cross-border assessments relative to volume was driven by what we call a favorable mix, which is the fact that our inter volumes, which is everything ex intra-Europe, right, are growing at a faster pace than intra-Europe.

Inter volumes tend to be high yielding as compared to intra. And that's the reason you had that positive kind of gap between where revenues were on Cross-border assessments and where volumes were. And again, the volatility comment I made was tied to transaction processing assessments, which is where it sits.

A - Devin Corr {BIO 17274566 <GO>}

Thank you. Michael, any closing comments?

A - Michael Miebach {BIO 16087573 <GO>}

All right. Thanks, Devin. The first thing I want to say, you should all know that Warren sits in the other room and is listening to us. So this is the first time solo -- (inaudible) by Devin and we're delighted with this next chapter now. As always, I want to make a comment about all the people at Mastercard who make this happen, the 30,000 of us. I sent them a note earlier today with the results saying that, this is the value that you guys deliver every day. So just wanted to share that with you.

And with that, thank you for your support, your questions today, and we'll talk to you soon. Take care. Bye-bye.

A - Devin Corr {BIO 17274566 <GO>}

Thanks, everyone.

Operator

And this concludes today's conference call. Again, thank you for your participation. You may now disconnect.