Q1 2020 Earnings Call

Company Participants

- Alfred F. Kelly, Chairman and Chief Executive Officer
- Mike Milotich, Senior Vice President of Investor Relations
- Vasant Prabhu, Vice Chairman and Chief Financial Officer

Other Participants

- Bryan Keane, Analyst
- Dan Dolev, Analyst
- Dan Perlin, Analyst
- Darrin Peller, Analyst
- Dave Koning, Analyst
- David Togut, Analyst
- Harshita Rawat, Analyst
- James Faucette, Analyst
- Jason Kupferberg, Analsyt
- Lisa Ellis, Analyst
- Sanjay Sakhrani, Analyst
- Tien-Tsin Huang, Analyst
- Trevor Williams, Analyst

Presentation

Operator

Welcome to Visa's Fiscal First Quarter 2020 Earnings Conference Call. All participants are in a listen-only mode until the question-and-answer session. Today's conference is being recorded, if you have any objections, you may disconnect at this time.

I would now like to turn the conference over to your host, Mr. Mike Milotich, Senior Vice President of Investor Relations. Mr. Milotich, you may now begin.

Mike Milotich {BIO 20581476 <GO>}

Thank you, Jordan. Good afternoon everyone and welcome to Visa's Fiscal First Quarter 2020 Earnings Call. Joining us today are Al Kelly, Visa's Chairman and Chief Executive Officer; and Vasant Prabhu, Visa's Vice Chairman and Chief Financial Officer. This call is being webcast on the Investor Relations section of our website at www.investor.visa.com.

A replay will be archived on our site for 30 days. A slide deck containing financial and statistical highlights has been posted on our IR website.

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

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

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

Alfred F. Kelly {BIO 2121459 <GO>}

Mike, thank you, and good afternoon everyone and thank you for joining us today. 2020 is off to a strong start with Visa's first quarter performance. It's a reflection of our focus on clients, It's a bit moving money globally seamlessly and safely. In our time today, let me first touch on our results and then discuss how to grow our core C2B or consumer payments business and capturing new payment flows, which is all part of our network of network strategies.

To start our first quarter results, we had a terrific quarter and the business is performing well. We reported net revenue growth of 10%. But if you adjust for exchange rates and very well currency volatility, our net revenue growth was approximately 13%. Our EPS growth was 12% or 14% on a constant dollar basis, excluding the impact of acquisitions made after Q1 last year. Key business drivers were largely consistent with the fourth quarter as we expected. For the first time in our history, total network volume this quarter with over $3 trillion. Payment volume grew at 8% globally, 10% excluding China and the UK. Cross-border volume rose 9% on a constant dollar basis and we processed nearly $38 billion total transactions on our network, up 11%.

Let me touch briefly on holiday spending starting with the United States, where the growth was similar to the 2018 and 2017 holiday seasons, which were both strong years. Credit growth was slightly better than last year and debit growth slowed slightly due to lapping tax reform, which had a positive impact on US debit growth throughout all of last year, including the holiday season.

E-commerce grew 3 times to 4 times faster than non-e-commerce. E-commerce also drove more than one-third of all consumer spend, up 2 percentage points versus last year. Retail spend growth was stronger than last year, fueled mostly by e-commerce. However, that was offset by slower growth in travel and restaurant spending.

To give you a brief sense of the holiday season in the other major markets, Brazil and Canada saw a slightly stronger growth than last year. The UK growth was similar to last year's levels and growth in Australia slowed slightly.

Now let's look at the core business overall for the first quarter. We are growing our core payments business in three ways through large clients and markets. Number two, making progress to capture the opportunity in emerging and other markets through new partnerships, including wallets & FinTech, and three, all while helping the ecosystem remove friction.

We continue to have significant renewals and wins among some of our largest financial institutions. Visa renewed our issuing agreement with Capital One effective January 1 of this year. We're very pleased to continue our long-standing relationship with Capital One. We recently renewed our agreement with DKB, our largest issuing bank in Germany and we're looking forward to developing new services and products within this exclusive innovation partnership. In the Caribbean, we have renewed a multi-year contract with Royal Bank of Canada for credit and debit. This agreement also includes some new debit wins covering 17 Caribbean countries and territories.

In Latin America, we are pleased to have won the credit and debit business for Santander in Brazil, Argentina and Uruguay. This leadership position with financial institutions also extends to merchants, as we are the leader in co-brands with 13 of the Top 20 portfolios globally. This quarter, we continue to solidify our leadership position. In the United States, we were selected for the new Venmo co-brand credit card, reflection of our strong partnership with PayPal. The opportunity for this product is quite significant as Venmo has over 52 million users currently.We're excited to continue growing our long-standing co-brand relationships with Caesars rewards and Harley-Davidson.

Sony has relaunched both of their co-branded credit cards connected with the Sony rewards program. Together, Sony and Visa are partnering in a number of ways to grow these programs and bring compelling offers to their cardholders. We already have a strong relationship with Costco as their co-brand provider in the United States, Taiwan, South Korea and Mexico, and just this quarter secured the China co brand. In Europe, Visa extended our co-brand partnerships with Norwegian Air Shuttle and S Group respectively.

In SEMEA, we renewed the Emirates NBD's credit business and half of that portfolio is represented by the Emirates Skywards co-brand program exclusively with Visa and the rest of the portfolio is bank-branded credit.

Our wins are not limited to just large issuers and merchants, as we continue to make progress to capture the opportunity in emerging and other markets through wallets and investments.

In Africa, we have recently taken several steps to help accelerate the shift to digital payments. On the credentials side, mobile money wallets are already prevalent across Africa but without a virtual or physical network credentials associated with them, many international online services are unavailable to users. To help solve this problem, we announced a collaboration with MFS Africa, which is Africa's largest digital payments hub connecting through one API to more than 180 million mobile wallets on the continent to distribute Visa payment credentials across the continent.

In an effort to build acceptance, we recently announced an investment in partnership with Flutterwave, a pan-African digital payments platform that enables multi-payment acceptance and processing. Together, Flutterwave will further scale its consumer payment service called GetBarter and its merchant acquiring service called Rave through Visa products such as Visa Direct, Visa QR and virtual cards.

In addition, Visa established a strategic partnership and will acquire a minority stake -- equity stake in Interswitch, a company focused on the digitization of payments that processes more than 80% of domestic transactions in Nigeria and sales payment processing across 23 other countries in Africa and operates the largest domestic debit card scheme on the continent with 23 million cardholders. Our partnership will help accelerate Visa deployments of payment experiences leveraging Interswitch's processing and integration capabilities and scale their bill pay services across Africa.

As we grow our business in emerging markets and with new players across the globe, we're ever focused on improving the point-of-sale experience and reducing friction for the entire ecosystem. In the card-present environment, we continue to see meaningful momentum in Tap-to-Pay what we consider the Visa most friction-free way to pay in person. We have reached a point where one in every three card-present transactions that runs over our network is tapped versus one in four a year ago this quarter. This past year, we doubled the number of countries with face to face transactions are at least two-thirds contactless.

Transit continues to be a key user case and an important way to habituate tapping behavior. In New York City, on the MTA, Visa drives 2 million taps in November from the beginning of the pilot and 3 million in January. The MTA recently announced the Tap-to-Pay expansion to their entire system by the end of 2020. And we are currently pacing at 350,000 Visa taps a week on the MTA and nearly one in every 10 transactions in the New York Metro area is a Tap-to-Pay on a Visa card. We also launched Africa's first contactless transit system in Johannesburg this quarter in addition to launches in Ho Chi Minh City as well as Taiwan, Sweden and Ukraine.

In the e-commerce environment, Click to Pay or what we once called Secure Remote Commerce speaks to streamline the digital payment experience across networks offering greater security and improved sales. You may recall we launched with a select number of merchants in October and by the end of December, more than 40 merchants had adopted the new Click to Pay solution. Now that the holiday season is over, we recently completed the migration of 5,500 US merchants to Click to Pay. We expect to complete the migration of the remainder of Visa Checkout merchants in the United States over the coming months. Additionally, all 50 million consumers who were already enrolled with Visa Checkout were automatically converted to Click to Pay.

Globally, we continue to make progress on securing the ecosystem with tokens. Introduced in 2014, tokens have expanded into 107 countries equating to 6 billion tokenized transactions in 2019. We now have over 750 million tokens globally. Over the past 18 months, Visa signed, it is now live with the majority of large e-commerce platform for card on file tokenizations including Adyen, Braintree, CyberSource, PayPal, Stripe as well as some big e-commerce companies including Amazon and Netflix amounting to hundreds of millions of new tokens which is accelerating the pace of e-commerce transactions now processed over the Visa Token Service. Collectively, we have secured merchant and partner commitments for tokenization in the e-comm space that will add up to approximately $1 trillion in Visa payment volume.

Putting it together, our core business remains strong as we continue to win with traditional players, new players and seek to remove friction. Outside of our traditional C2B business, we're making progress in capturing new payment flows. In the card-based B2B space, we had several wins in the first quarter. In Singapore, we won the government procurement card for Overseas Chinese Banking Corporation or OCBC. With the Singapore government mandating the digitized payments by 2023, OCBC is targeting to capture a significant public sector procurement volume.

Within the SEMEA region, Visa signed a partnership with NEC Payments, a digital banking and payments processing platform to expand NEC's regional and international issuing business focused on virtual card for B2B payments such as travel and insurance. In Hong Kong, we partnered with Neat, a FinTech offering digital business account services to be an exclusive partner with Visa to issue virtual commercial cards.

Visa Direct served P2P, B2C and even B-to small business with over 700 million transactions in the first quarter of 2020. This quarter, we wanted to highlight significant progress in the B2B cross-border space. MoneyGram announced it is now live enabling international transfers that rely on Visa Direct. The new service, which has been available within the United States in September is starting with transfers to Spain and the Philippines. TransferWise, the global technology company for international payments, will also begin offering its customers the ability to send, to receive funds in real time through Visa Direct. The integrated capability currently available in six countries including Spain and Poland will soon be available across more countries in Europe.

Our continued progress with Visa Direct speaks to our network of networks strategy for consumers, businesses and governments to move money to anyone anywhere. Each new network endpoint be it a card, a consumer or business account or a wallet compounds the value of the capabilities we offer to partners and improves the customer experience through a single Visa connection.

As I talk about networks, it's hard not to mention Plaid, although I'm not going to cover it in too much detail until the transaction closes. We see Plaid as having the potential to deliver real value to Visa in multiple ways. We have received a number of questions on their revenue model. So I thought I would cover it quickly. Similar to us, they have a usage-based revenue model. Pricing is structured on a pay for API call basis and varies by product depending on the type of financial data consumed by the customers of the FinTech, which speaks to the power of their network. We are truly excited about the acquisition.

To close, we're off to a strong start in the first quarter with much to be excited about as we look forward. We are deepening partnerships with traditional players in markets and expanding access with new players. We are removing friction in the ecosystem and we're making significant progress to capture new flows. This is all part of our network of networks strategy as we continue to focus on clients and moving money globally seamlessly and safely.

I want to take a quick moment to mention our Investor Day on February 11 here in San Francisco, which will simultaneously be webcast. You will hear from our knowledgable and deep bench of leaders, who will discuss our view on the evolution of the ecosystem and how we intend to deliver Visa's future growth through our customer -- consumer payments business, new flows and value-added services.

The formal presentation should run from about 8:00 AM to 2:30 PM Pacific Time, and we look forward to your participation.

With that, let me turn it over to the Vasant.

Vasant Prabhu {BIO 1958035 <GO>}

Thank you, Al, and good afternoon, everyone. We had a strong start to fiscal 2020 with results coming in consistent with our expectations. Excluding acquisitions and investment gains, constant dollar net revenue and EPS growth were 11% and 14% respectively. Exchange rates reduced revenue growth by over 1 point and EPS growth by approximately 1.5 points. The four acquisitions completed in the last six months increased reported revenue growth by approximately 0.5 point and expense growth by approximately 3 points.

Starting in fiscal 2020, we are providing adjustments to our GAAP numbers each quarter to help investors better track ongoing business performance. Non-GAAP results will exclude three items. One, the impact of equity investment gains and losses. Two, amortization of acquired intangible assets for acquisitions completed in fiscal year 2019 and forward. And three, certain non-recurring acquisition-related costs. Prior non-GAAP results were also adjusted to reflect this change. This quarter, the impact of non-GAAP adjustments is de minimis. In addition, you will find a helpful schedule on the first slide of our earnings presentation. In addition to GAAP and non-GAAP results, we provide the growth rate impacts of exchange rates as well as the inorganic impact of acquisitions. In other words, the revenue expense and EPS impact that acquisitionshad on our reported numbers this year, which were not in our reported numbers in the first quarter last year.

A few highlights from the quarter. Key business driver growth rates, payments volume, processed transactions and cross-border volumes were stable and consistent with prior quarters. Net revenue grew 10%. However, the underlying growth trend in revenues is masked by two significant drags related to currencies. First, a stronger dollar reduced nominal net revenue growth rates by over 1 point. Second, currency volatilities were have the lowest level we have seen in over five years. As maybe expected, the sharp decline in currency volatility had a significant impact on international fee revenue. If you adjust for the drag from unusually low currency volatility and the drag from the strong dollar, underlying net revenue growth is robust at approximately 13%.

Constant dollar payments volume growth of 8% slowed by 1 point compared to last quarter. This trend -- this change in trend is driven by differences in processing days when compared to the first and fourth quarters of last year. The processing day impact was over 1 point in the US and several points in Canada. Excluding the processing day impact, Q1 payments volume growth was similar to last quarter and second quarter service revenues associated with these volumes will be in line with our expectations.

Constant dollar cross-border growth rate, excluding volumes within Europe, were also stable at 9%. Our reported constant dollar cross-border growth rate accelerated 2 points to 9% as we are now lapping the pan-European e-commerce platform, which reoriented acquiring across countries last year converting transactions from cross-border to domestic. As we have discussed in the past, this shift had minimal revenue impact to Visa as cross-border transactions within Europe have revenue yields similar to domestic yields.

We repurchased 13 million shares of Class A common stock at an average price of $179.71 for $2.3 billion in the quarter. Our Board has authorized a new $9.5 billion share repurchase program. With this additional authorization and the $1.7 million remaining authorized funds, as of December 31, 2019, we have $11.2 billion available for share repurchases. Including our quarterly dividend of $0.30 per share, we returned approximately $3 billion of capital to shareholders in the quarter.

Turning now to our key business drivers and financial performance. Payments volume growth in constant dollars was 8%, credit was up 6%, debit was up 11%. Growth excluding China and the UK was 10%. As a reminder, Chinese domestic volumes are impacted by dual-branded card conversion which have minimal revenue impact. US payments volume growth was up 8% with credit growing 7% and debit 9%. Excluding the processing day impact I described earlier, growth accelerated almost 1 point due to a partial lapping of the Cabela's conversion and modestly higher fuel prices. Underlying consumer spending growth was largely consistent with the last quarter.

International payments volume growth in constant dollars was 8% and 12% excluding China and the UK. Growth in SEMEA remained robust at 22% with strong growth across Russia and the Middle East. Latin America also remained strong at 17% driven by some wins and strong performance at existing clients. Asia-Pacific excluding China grew 8% decelerating over 2 points primarily due to slower growth in Japan, Australia and Hong Kong. Europe excluding the UK grew 12%. UK growth remains weak and slowed 1 point after improving in each of the last two quarters.

Processed transactions continue to grow at 11%. Constant dollar cross-border growth of 9% was up 2 points from the last quarter, but stable at 9% excluding volumes within Europe. Both travel and e-commerce growth were in line with the last quarter, excluding volumes within Europe. Outbound commerce accelerated from Russia, Africa and across Europe, which was offset by weaker growth out of the US and Asia. Inbound commerce accelerated a bit into the US but decelerated a little into Europe, which is consistent with the weakening dollar compared to the pound and euro. Growth into China and Hong Kong remains weak.

Net revenues grew 10% or 11% in constant dollars excluding acquisitions. The impact of our acquisitions on revenue growth was approximately 0.5 point. Service revenue growth is consistent with the last quarter at 9%. Data processing revenue growth was also in line with the last quarter at 16%. International transaction revenue grew 9% decreasing 2 points from the fourth quarter despite a smaller exchange rate drag due to the unusually low currency volatility.

Other revenues grew 22% slowing 13 points from the fourth quarter as we lap ASC-606 impacts from last year, partially offset by faster growth in our value-added services. Client incentives were in line with our expectations at 22.4% of gross revenue, up 80 basis points from last quarter. As we told you in October, we expected client incentives to step up from our fiscal 2019 exit percentage to the lower end of our full year outlook range in the first quarter due to the level of deal activity this quarter and last year.

GAAP operating expenses were up 14%. Excluding the amortization of acquired intangible assets and non-recurring acquisition-related costs from the four acquisitions that closed in the last six months, non-GAAP expense growth was 13%. Personnel expense growth is primarily driven by increases in staff to drive our growth initiatives, which we stepped up in the second half of last year. Acquisitions and some non-recurring expenses also contributed to personnel expense growth. Marketing expenses decreased 1% due to the timing of some spending as well as a reporting change that shifted some expenses to the general and administrative line. The impact of acquisitions added 2 points to non-GAAP expense growth. Exchange rate reduced reported expense growth by approximately 1 point.

Non-operating income/expenses include equity investment gains of $13 million, which we are now excluding in our non-GAAP results. Investment income also includes a small non-recurring benefit, which is exactly offset in personnel expenses, with no impact on earnings. Excluding these non-recurring items, investment income is lower this year due to falling interest rates and lower cash balances. Our tax rate of 17.7% was lower due to some items that are unique to our first quarter each year. This was anticipated and reflected in our outlook for tax rate this year.

Moving now to our outlook for the second quarter and the full year. First, let me share business driver growth for the first four weeks of the quarter. Through January 28, US payments volume growth was 10% with US credit growing 9% and debit 12%. Processed transactions grew 13%. Cross-border volume on a constant dollar basis grew 8% or 7% excluding cross-border volume within Europe. Cross-border volumes in the last two weeks of January are negatively impacted by the shift in the Chinese New Year, with potentially some initial effects of the Coronavirus outbreak.

As we look ahead to the second quarter of fiscal year 2020, we're assuming stable growth trends on key business drivers, payments volumes, processed transactions and cross-border volumes. The exchange rate drag on net revenues in the second quarter would be approximately 1 point, 50 basis points better than our prior outlook and consistent with the first quarter due to some weakness in the dollar since September. More than offsetting this small benefit could be the unexpected drag from currency volatility. The unusually low currency volatility so far this fiscal year continues to persist into January. As maybe expected -- as expected, client incentives as a percent of gross revenues will climb to the upper half of our outlook range of 22.5% to 23.5%.

Helped by the extra day in the leap year, second quarter net revenue growth rates are expected to be in the low double-digits and modestly better than the first quarter. Our second quarter revenue outlook does not reflect the potential effects of the recent Coronavirus outbreak in China. It is too early to assess this impact.

Second quarter expense growth is also expected to be modestly higher than the first quarter. As we had indicated in October expenses will grow at the highest rate for the year in the second quarter as marketing expenses ramp up relative to a low level of spend last year. Also, as the dollar has weakened, the exchange rate benefit on reported expense growth will be about 1 point, 50 basis points lower than we had anticipated in October.

Our non-operating income/expense in the first quarter had a run rate of around $65 million. When you exclude the $13 million gain from equity investments and a small non-recurring benefit I mentioned earlier, the run rate on non-operating expenses will be somewhat higher in the second quarter due to lower interest income as a result of lower cash balances and lower interest rates.

Our tax rate outlook for the second quarter remains unchanged at 19% to 19.5%.

Overall, we are maintaining our outlook for fiscal year 2020. I will mention a few adjustments and trends that we are monitoring. On the net revenue front, we are still expecting low-double digit net revenue growth in constant dollars. Based on current exchange rates and future expectations, the currency translation drag could be at the low end of our previous 1 to 1.5 percentage point range at approximately 1 point. The four acquisitions we have completed in the past six months are still expected to add around 0.5 point to net revenue growth.

As we highlighted in October, a significant factor impacting fiscal year '20 net revenue growth is the unusually high volume of renewal activity. In fiscal year '19, we renewed 30% of our payment volume with 15% renewed in the fourth quarter alone and we indicated fiscal year '20 renewal activity could be front-loaded with another 15% to 20% of payment volume renewed in the first half. Since then, it has become apparent that renewal activity in fiscal year '20 could be even higher with three to four large fund plan renewals now on a discussion which would bring this year's level of renewal activity almost on par with last year.

We are pleased about this since in most of these situations, we will most likely not only renew our existing business, but could also give a larger share of these clients over the term of our new contracts. One major client renewal is already complete and the others could get done in the next two or three months. As such, we now expect client incentives as a percent of gross revenues to be at the high end of our outlook range of 22.5% to 23.5% in FY '20.

Excluding acquisitions, and last year's MDL-related special item, our outlook assumes core expense growth in the mid to high single-digit range in constant dollars or 7% to 8%. This climbs to low double-digit growth when you add in the four acquisitions we have closed on in the past six months, which contribute 3 points to 4 points to expense growth. Based on current exchange rates and future expectations, nominal expense growth is likely to benefit by 1 point. As such, our expense growth for the year is expected to be in the double digits with 50 basis points, which is about 50 basis points higher than we expected in October.

As I indicated earlier, non-operating expense had a run rate of approximately $65 million in the first quarter. This expense will move modestly higher in each successive quarter of this year due to declining interest income from lower rates. Our full year outlook for tax rates remains unchanged at 19% to 19.5%. Q1 tax rates were lower than the full year outlook due to some items that are unique to our first quarter each year and were largely anticipated in our full year outlook.

Excluding the four acquisitions, our outlook for adjusted fiscal year 2020 EPS constant dollar growth remains in the mid-teens built off fiscal year '19 EPS of $5.40. Four acquisitions are expected to dilute EPS by $0.05 to $0.06, a 1 point drag on EPS growth. Based on current exchange rates and future expectations, exchange rates could reduce EPS growth by approximately 1 point. Including the acquisition and exchange rate impacts of around 2 points, our outlook for adjusted fiscal year 2020 nominal EPS growth would be in the 12% to 14% range. We still expect for the fourth quarter to be the highest EPS growth quarter.

Our fiscal year 2020 outlook does not include any impact from the Plaid acquisition. We will update our outlook when we have more clarity on the timing for closing on the transaction. When we announced the acquisition, we gave you some preliminary estimates of revenue and earnings implications for fiscal year '20 and '21.

With that, I'll turn this back to Mike.

Mike Milotich {BIO 20581476 <GO>}

We're now ready to take questions, Jordan.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Jason Kupferberg from Bank of America. Your line is now open.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Hey, good afternoon, guys. So just wanted to start on the incentive side. I mean, the guidance change here is really only 0.5 point, I mean if people were previously modeling the middle of the range. So I'm just wondering if you expect to make up for that 0.5 point through better gross revenue or does it feel more like you just may land net revenue slightly lower within that overall unchanged low double-digit guidance range, especially since the currency volatility has fallen off as you guys pointed out?

A - Vasant Prabhu {BIO 1958035 <GO>}

Yes, couple of things, Jason. Yes, we will see how incentives play out for the year, but the way it looks right now, the renewal activity will be higher and so we are signaling that it could be at the upper end of the range, and as you said, if people were in the middle of the range, that's 0.5 point higher. On the other hand, we are signaling that if exchange rates stay roughly in the range they are in on where people are expecting, that is about at the lower end of the range too. So you pick up some of it there. In terms of currency volatility, we were able to absorb most of it in the first quarter, and still get very close to, as you saw, what our expectations were. We're factoring that into our second quarter outlook. What is going to be for the second half I think we'll wait and see. It's not something you can predict further out and time will tell.

A - Mike Milotich {BIO 20581476 <GO>}

Next question.

Operator

Our next question comes from Dan Dolev from Macquarie. Your line is now open.

Q - Dan Dolev {BIO 16010277 <GO>}

Hey guys, thanks for taking my question. So, quick question on cross-border, it looks like a nice uptick. Can you maybe talk a little bit about that? Thank you.

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

Well, I guess it -- remember last year, Dan, you had a number of things going on, especially at the back end of the quarter with government shutdown, Brexit, US-China trade talks et cetera. So we were expecting some uptick off of some of those factors that had a negative impact on cross-border at the time. And so we're back up in what I think we would expect to be a fairly normal range at this point.

A - Mike Milotich {BIO 20581476 <GO>}

Next question please.

Operator

Our next question comes from Tien-Tsin Huang from JPMorgan. Your line is now open.

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

Thanks so much. Everything was really consistent here, but just looking at the regional volumes, just a couple questions or clarifications. On the Asia front, it looks like it's slowed to the 4% zone. I'm curious what's the outlook here based on what you see? And then with

Europe pretty stable, softened and pushed to the low end of the 8% to 9% range, but I know you guys have made a lot of investments there, what are your expectations for Europe? Can you sort of break out of this zone based on some of the investments you've made? What do you see there? Thank you.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yes, I might start and I'm sure we'll add. In Asia, we highlighted three areas. Japan was really more of a quarter-over-quarter comparison, there were some changes in consumption taxes in Japan that seem to push some spending into the period ahead of the tax going up. So it was pushed more into the last quarter and so it's -- we don't think that's a ongoing issue. The other one was Australia. Australia, you had some of the wildfire impact and that seems to be one of the bigger factors there. And last was Hong Kong, and you saw, you know what some of those are, we have seen impact in Hong Kong from some of the protests going on. So that was pretty much here. Across the rest of Asia, the trends are very good. In Europe, UK is a big chunk of our business and the UK has been very weak and actually slowed through the elections, and had a very relatively weak holiday season and slowed by a point in the quarter. If you take the UK out, growth was a pretty healthy 12% in the rest of Europe.

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

You know I think I'd add two points point Tien-Tsin. One is that the consumption tax that Vasant referred to, now the government has decided to rebate some of that consumption tax when people do contactless transactions in Japan as part of the government's push on the cashless going into the 2020 Olympics in Tokyo. So that's actually -- turn out to -- hopefully be a good thing not only to stimulate spending, but to stimulate Tap-to-Pay spending. The other point on Europe, as Vasant rightly pointed out, the UK has been a bit of a drag for us. But we've been extremely focused on the continent and had some -- we've had some good wins in FinTechs and some good renewals and those things are in the pipeline and I'm -- I feel pretty good about where Europe is going to head over the next couple of years in terms of growth.

A - Mike Milotich {BIO 20581476 <GO>}

Next question.

Operator

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

Q - Darrin Peller {BIO 16385359 <GO>}

Hey, thanks guys, just a couple of quick ones. One is on the -- look, the improvement in volume we're seeing in January seems to really underscore the comments you made around like nuances in calendar Q4 like the processing day. Just if you can comment on what you're seeing in terms of the consumer given are these improvements into January just timing or you actually see a healthier type of spending trend? And Al, just one quick follow-up also was around the rebates incentives given so many are being done now. Can you just comment on the types of returns you're expecting to see for those? Are these longer contracts than they used to be or are they coming with more value-add offerings? Something along those lines would be great.

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

So I think Darrin, other than in the UK, the consumer has held up pretty darn well. And our volume in this last quarter, when you factor in the processing day change, this is kind of a bit of an anomaly, but if you look in September, the last day of September in 2018 was a Sunday and a lot of merchants and acquirers hold volume on a Sunday. So we'd ended up having a bunch of one days where a lot of volume for one day got pushed into the first quarter of ' 19. We did not have that same phenomenon this past quarter because the last day of September this year was a Monday. So we just simply had a dynamic that it was hard -- we had it hard to grow over. And so when you actually adjust for that, our growth quarter-over-quarter was pretty similar.

So in general I think the consumer has held up quite well and there's no reason to see it go down other than again if depending upon where this Coronavirus ends up going and that who knows at this point. Just to be clear, when you ask about rebates and incentives, when I was referring to the rebate, that was a rebate being given by the government in Japan. I don't know whether that's what you are referring to. But in general, where we are trying to obviously strike the right balance in terms of incentives that we do in deals, try to make many of them, as many of those incentive dollars growth-oriented as possible so that as partners volume picks up, their incentives pick up, but we're also getting the associated volume with them. And as we think, you probably know, Darrin, we obviously push for contracts that are as long as possible. There is to some degree most of them kind of fall in a 5- to 7-year cycle. Every once in a while, there's some 10-year deals. And then there's issuers that like to do deals every couple of years and those would tend to be more of the issuers that are dual issuers.

So it's always a bit of a balancing act to try to get to the right level, but I think we try to structure these incentives in smart ways where they are growth oriented, they are focused on consumption of a different numbers of Visa products and try to build relationships with with issuers that go well beyond just an issuing relationship to encompass Visa Direct, to encompass tokenization et cetera.

A - Mike Milotich {BIO 20581476 <GO>}

Next question.

Operator

Our next question comes from Bryan Keane from Deutsche Bank. Your line is now open.

Q - Bryan Keane {BIO 1889860 <GO>}

Hi guys. Wanted to ask about Capital One, I know Mastercard also announced the renewal with Capital One. So maybe you could help us sort out how that contract rates and if this is a net positive for both networks? And then just secondly, Vasant, on expense growth, I think your comments last quarter was, it was expected to be similar to the fourth quarter, which I think was around 11.4% and it came in a little bit higher. Was there any pull forward expenses because I think operating margins that the Street were expecting were a little higher than that came in. Thanks so much.

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

Bryan, let me just quick point on Capital One and I'll let Vasant comment on acquisition. Look, Capital One has been a classic dual issuer and it always depends on what portfolio each network happens to have and how they perform at any given point in time, but they are a big terrific bank with a lot of innovative people on their team. We love working with them, and so it's a good thing for us and I'm sure that that's what I would say, it's a good thing for them as well.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yes, expense growth was a couple of points higher than we might have expected, some of it is exchange rate. So as you saw the exchange rates were somewhat better than we -- the exchange rate impact was somewhat better than we expected on revenues, which means on the expense side, it was somewhat worse. I think that was about a point and and as we -- as I indicated in my comments, there were a few other non-recurring types of things that added another point. So in general, there weren't any real surprises there or pull forward of investments, there were just a couple of these kinds of items.

A - Mike Milotich {BIO 20581476 <GO>}

Next question please.

Operator

Our next question comes from Trevor Williams from Jefferies. Your line is now open.

Q - Trevor Williams {BIO 20976822 <GO>}

Hi, good afternoon and I appreciate you taking the question. This is a little bit higher level, but I'm curious internationally with a couple of government-backed systems like Mir in Russia and Troy in Turkey that mandate domestic processing, I guess first just how you see your role in the economics you can earn in both of those markets over the longer term?

And then second, more broadly, if you're comparing today's backdrop to, I don't know five or 10 years ago, just what kind of threat you guys think nationalist payments agendas could pose to the international business going forward? Thanks.

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

Trevor, some of these domestic processing platforms and domestic schemes are not terribly new. Our objective is to work closely with both regulators to make sure it's an even playing field and then work closely with our clients to make sure that we get a fair share of business. Many times, our processing network of VisaNet actually is just plain and simple, has a lot more richness to its various offerings and people -- we've had cases where banks see that and prefer to profit with us because of the investments, the level of security, level of innovation.

So we'll continue to be up against this kind of this backdrop, but I think it's still allowing us to grow at healthy levels and we're trying to partner in a thoughtful way as much as we can.

Your question about the backdrop on nationalism today versus 10 years ago, I think you'd have to say, it has become a little bit more pronounced because it wasn't that nearly as prominent a decade or so ago. But again, I think our job is to continue to innovate, work closely with regulators and with our clients to have as much of an even playing field as possible and continue to show that processing on Visa or minimally partnering with Visa, as your scheme has good advantages to it that people want to work with us.

A - Mike Milotich {BIO 20581476 <GO>}

Next question please.

Operator

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

Q - Harshita Rawat {BIO 18652811 <GO>}

Hi, good afternoon. Thanks for taking my question. Al, if I look at the long-term history of your growth versus your largest competitor, it's been quite stable, more recently though over the last one or two years, you've seen some delta open up between your volume metrics and your peers. So can you talk about some of the drivers of this and more importantly if we look out next few years, can we expect the gap to narrow because of what you're doing with FinTechs internationally, and also the strength in Visa Direct?

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

Thank you, Harshita. Look, both companies have performed extremely well on a number of dimensions. If you look at this most recent quarter, we're very pleased with our results, and look, MasterCard had a great quarter and they've had some good quarters the last couple of years as have we. That said, a few points. First of all, volume metrics don't have any standards attached to them. And it's -- so it's difficult to do an apples-to-apples comparison between the two companies and really understand what's going on fully in terms of the volume.

On the revenue side, the revenue deltas have been a bit smaller in the number of the recent quarters. There's huge mix differences in our business. We've got a very big position in the United States and we want to trade that for the world, it's just plain and simple, a much more mature market that doesn't have the same high double-digit, mid double-digit even over 20% kind of growth prospects to it, but we are certainly pleased to have the partnerships with the banks that we have and the position that we have in the United States.

Last point I'd make is that, my expectation is based on the investments that we're making in value-added services, in new payment flows, working with FinTechs, working with neo banks, working on engagement with our existing customers, building out our acceptance footprint, that I'm quite confident that over time, we'll close that gap and continue to perform very well for our investors.

A - Mike Milotich {BIO 20581476 <GO>}

Next question please.

Operator

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

Q - Lisa Ellis {BIO 18884048 <GO>}

Hi, good afternoon, guys. A question on Visa Direct. You mentioned the greater than 700 million transactions in 1Q, you've highlighted previously that Visa Direct was growing in the triple digits. So I guess, question one, is it still growing that rate? And then also, how are the yields tracking in Visa Direct? I mean, is it sort of comparable to debit? I know there's a lot of cross-border in there too. And last one, Al, really to Visa Direct I promise, but you mentioned a few new partnerships, as you complete the Earthport integration, what are some of the major use cases for Visa Direct you're seeing rolling in as we move through 2020? Thank you.

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

So, first of all, Lisa, our growth of Visa Direct remains incredible, it didn't quite get the triple-digit growth this quarter, but it was very, very high single-digit -- double digits and close to that level. In terms of yields, we really haven't talked much about it, but to your point, Visa Direct is going to increasingly have some -- more cross-border transactions that will run over that platform and that our push platform, and that is obviously a very good thing for us.

I think when we talk about use cases, I think they're going to fall into some of the same buckets they fall into today, P2P, disbursements, remittances, and jobs. I think that those businesses will continue to grow and you will see on Investor Day that we'll highlight a good number of Visa Direct use cases with quite a few specific examples. So we look forward to taking you through it on the 11th.

A - Mike Milotich {BIO 20581476 <GO>}

Next question please.

Operator

Our next question comes from David Togut from Evercore ISI. Your line is now open.

Q - David Togut {BIO 1496355 <GO>}

Thank you. Good afternoon. Given the ongoing weakness you're seeing in UK volumes and the incremental 1 point deceleration you called out, could you update us out on your growth pivot, moving employees out of London and into some of the higher growth markets of Italy, Poland and Germany and when might this growth pivot accelerate your volume growth in Europe?

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

David, we don't have any active plan to kind of move people out of the UK. We're just plain and simple as we grow the business, adding employees on the continent and certainly adding the vast majority of the employees we would add in that region or in market offices on the continent. First, I'd also comment that I'm certainly hopeful now that at least there is some clarity around the Brexit outcome that we might find a new normal in the UK that would allow their economy to pick up, certainly I was in Davos last week and certainly the officials in the UK that I talked to feel as if that it's on the verge of starting to come back. We'll see what happens. In terms of the continent, you know in many of these markets, we've been behind, plain and simple, and over the last four or five quarters, we've been -- after we got the integration behind us, we started investing in fairly significant ways and we're winning deals and trying to build our credit business, build our acceptance footprint and so it takes a little bit of time for the pipeline to work its way into the numbers, but I think over the next couple of years, we'll start to see some real payback for the progress that we're making now in -- on the continent of Europe.

A - Mike Milotich {BIO 20581476 <GO>}

Next question please.

Operator

Our next question comes from Sanjay Sakhrani from KBW. Your line is now open.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thanks, I appreciate your commentary on the Coronavirus, but I was wondering if you could dimensionalize the cross-border China business and maybe any impact it may have and sort of how you could address it?

And then secondly on the three to four unplanned renewals, is there any context as to why it's happening that banks are choosing to renew early? Thanks.

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

So, on Coronavirus, let me start with, it's certainly just too early to know. When we look at our numbers, we see some declines, but Chinese New Year this year was earlier this week January 25. And last year in 2019 it was February 5. And spending slows around the holiday. So we're -- given that we're about 12 days earlier this year, it's hard to know what's really impacting the volumes at this stage. That said, there's definitely going to be impact, I mean when planes are being halted both in and out of China and you're probably reading as we are, the companies are telling their employees to stay home, so even for the e-commerce world, if employees are staying home who is picking -- who is picking goods and shipping them. So I think for sure, there'll be some impact. And -- but we'll have to see how pronounced it gets and how long it goes. I'm not into predicting game for that at the moment.

In terms of the early renewals, what tends to happen is probably about half the time it's us and half the time it's the client who says, as we're talking to them about deepening our relationship and we're talking to them about all the dynamics that are going on in payments and/or we're talking to them about building a deeper relationship by them consuming more and more of Visa's capabilities and solutions. If a deal is going to be up in a year or a year-and-a-half or two years, it's usually longer than that. But as the deals going to come up in, say, year-and-a-half to two years or less, one of the two of us, I'm sure the client will say why don't we just get our deal done and extend it out a number of years, so that we can focus on all of these capabilities and we can work together on trying to grow the business versus starting down a path where we are -- the consumer -- the client is going to consume more Visa products and then we have to halt that everything while our teams on both sides go into a negotiation mode and it just goes down the (inaudible) progress. And I think what's happening because payments is just more complex than it was four or five years ago and the number of offerings is greater than it was even to two or three years ago. I think that this is what's kind of driving this, I don't want to call it phenomenon, but it's driving this occurrence and this year as Vasant said in his remarks, there are four decent size financial institutions that were not scheduled to be up this year, they were not built into our numbers or incentives. One of them is already done, I referred to it in my remarks with Vasant, and they are on the deal that we did with them in South America. There's three others where there's live discussion going on right now and it's too early to tell whether the deal definitely gets done or not, but my expectation is that more likely than not at least a couple of them that were not planned will get done.

A - Mike Milotich {BIO 20581476 <GO>}

Next question please.

Operator

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

Q - James Faucette {BIO 3580933 <GO>}

Thank you very much. I wanted to ask about the acquisitions that you've been doing and perhaps the change in reporting what they may indicate in the past. Visa has done a lot of investments in companies and FinTechs et cetera even before FinTech was coined as a term, but it seems like you've picked up at least in the last year, the pace of acquisition. Is this part of a -- should we expect more acquisitions and you to be more active and actually acquiring companies than you have been in the past? Or is this maybe a little bit of anomaly? Just wondering how you're thinking about incorporating some of the development that's happening outside Visa into into Visa proper?

A - Vasant Prabhu {BIO 1958035 <GO>}

Well, I think Al may add some more things, we'll will talk more about this at Investor Day, but just a quick response to that question. I don't think we are deliberately stepping up the level of acquisition activity or investment activity in some kind of change of direction, and our approach has always been, we build any core capability and if it is faster or cheaper or there is talent that we can get from the outside, that would be valuable, then we would consider acquisitions and there is a logic to every one of those we did.

On the investment side, typically when it is complementary capabilities, we prefer to partner and we do lots and lots of partnerships as you know, our business is built on partnerships. Occasionally, we get into a situation where a company may like us to invest or we want to invest because we do want to enhance our relationship, get closer, have a better commercial agreement, get some exclusivity and so on. The reason the volume has gone up to some degree is because, as you know, there is a lot of activity now there is in terms of companies with business models and capabilities that are very valuable to us, either add capabilities for us to own or capabilities to partner with. So it reflects what's going on in the marketplace too. And the pace of activity will depend on exactly applying the criteria I just mentioned. It could go up if we find more that meet our criteria or it could go down.

A - Mike Milotich {BIO 20581476 <GO>}

Next question please.

Operator

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

Q - Dan Perlin {BIO 1758057 <GO>}

Thanks. Al, you went through a pretty exhaustive list of break it down core versus new flows and then reduced friction is kind of three big tenants of growth, What I'm trying to I guess parse out is, how do you break those out, I mean is core like 80% of the growth as we think about the next couple of years, then layering in these other two to three assets or how should we kind of parse out that as we kind of think through all of these opportunities for you? Thanks.

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

We'll get there on Investor Day, we'll talk a lot about all three of these items. To be very honest, we don't have that mix that we're trying to get to across the three items that you cited. We're trying to make sure that we do as well as possibly can against all three to try to make sure that we're delivering sustained good levels of revenue growth and just -- some of it will depend on what's happening at a particular point in time in economies and where we end up choosing to put investment dollars. So there's a lot of factors that go into it. But we're not setting out to hit some certain mix, we're setting out to do a really good job in our core business, we're doing -- try to extend the business through new payment flows and value-added services and with the acquisition of Plaid extend the business and our network of networks business even further. So that's really what our objective is Dan.

A - Mike Milotich {BIO 20581476 <GO>}

And one last question, Jordan.

Operator

Our last question comes from Dave Koning from Baird. Your line is now open.

Q - Dave Koning {BIO 7310416 <GO>}

Hey, guys. Thank you. When we look at cross-border, the reported volume growth all through last year was pretty slow and I know that has to do with just currency rate, but the revenue growth was way, way above volume growth. This quarter, volume growth has gotten better, but the disconnect I guess between volume and revenue has gotten smaller, like that gap between volume and reported revenue growth has gotten smaller. Why is that and should it be closer -- should it stay closer like that throughout this year?

A - Vasant Prabhu {BIO 1958035 <GO>}

Yes, the delta between volume growth and revenue growth are driven by a variety of factors. The most important are currency related, right? Most of the time the delta is driven by currency impacts. Clearly, pricing plays a role. So there were some pricing in there that was causing the revenue growth to be faster than volume growth. Currency effects can then move it one direction or the other. And then when volatilities move in a big way and this quarter we had a very big move, if you look at volatilities, they're at five-year lows now, not seen since 2014.

Historically, those have corrected over time so that we think is a transient thing but when volatilities decline, the revenues related to those volatilities are also in that line, and this quarter, those had a big impact. If volatilities were the same year-over-year, our revenue growth would have been fairly comparable to last quarter on the international fee line.

A - Mike Milotich {BIO 20581476 <GO>}

Thanks, Jordan. And thank you all for joining us today. If you have any additional questions, please feel free to call or email our Investor Relations team. Thanks again and have a great day.