Q1 2022 Earnings Call

Company Participants

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

Other Participants

- Andrew Jeffrey
- Bryan Keane
- Dan Dolev
- Darrin Peller
- David Togut
- Georgios Mihalos
- Harshita Rawat
- Jason Kupferberg
- Lisa Ellis
- Ramsey El-Assal
- Rayna Kumar
- Sanjay Sakhrani
- Tien-Tsin Huang

Presentation

Operator

Good day, and thank you for standing by. Welcome to the First Quarter 2022 Mastercard Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) I would now hand the conference over to your speaker today, Mr.Warren Kneeshaw, Head of Investor Relations. Please go ahead.

Warren Kneeshaw {BIO 16549173 <GO>}

Thank you, Jamairia[ph]. Good morning, everyone. And thank you for joining us for our first quarter 2022 earnings call. With me today are Michael Miebach, our Chief Executive Officer; and Sachin Mehra, our Chief Financial Officer. Following comments from Michael and Sachin, the operator will announce your opportunity to get into the queue for the Q&A session. It is only then that the queue will open for questions. You can access our earnings release, supplemental performance data, and the slide deck that accompany this call in the Investor Relations section of our website, mastercard.com. Additionally, the release was furnished with the SEC earlier this morning.

Our comments today regarding our financial results will be on a non-GAAP currency-neutral basis, unless otherwise noted. Both the release and the slide deck include reconciliations of non-GAAP measures to GAAP reported amounts. Finally, as set forth in more detail in our earnings release, I'd like to remind everyone that today's call will include forward-looking statements regarding Mastercard's future performance.

Actual performance could differ materially from these forward-looking statements. Information about the factors that could affect future performance, are summarized at the end of our earnings release and in our recent SEC filings. A replay of this call will be posted on our website for 30 days.

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

Michael Miebach {BIO 16087573 <GO>}

Thank you, Warren. Good morning, everyone.

Russia's invasion of Ukraine marked a somber start to 2022, as war returned to Europe for the first time in decades. Given these extraordinary circumstances, we decided to suspend our business operations in Russia. We did not take this decision lightly given that MasterCard has operated in Russia for more than 25 years. We are now focused on the orderly suspension of business operations in Russia, and supporting the well-being of our employees and their families across the whole region. Even in the context of this challenging geopolitical environment, we're off to a strong start in 2022. We delivered robust revenue and earnings growth with further improvement in our underlying operating metrics, notably in cross-border travel.

Quarter one adjusted net revenues were up 27%, and adjusted operating income up 40% versus a year-ago on a non-GAAP currency-neutral basis. On the macroeconomic front, consumer spending remains strong, particularly as economies across the globe continue to reopen and pandemic related restrictions are lifted. Labor markets are firm with low unemployment rates and rising wages. Weighing against this healthy backdrop are a number of factors that they're monitoring, including inflationary pressures, supply chain constraints, geopolitical uncertainties, and COVID infection rates. They're monitoring these developments including the fiscal, monetary, public healthcare and other policy responses.

Let's look at this from a geographic standpoint. US retail spending remains healthy aided in part by the build-up of excess savings during the pandemic. According to our quarter one SpendingPulse report, which is based on all payment types including cash and check, US retail sales ex-Auto, ex-gas were up 4.7% versus a year ago. In Europe, spending trends are positive, although the invasion of Ukraine has introduced risks to economic growth looking ahead. Growth in Latin America continues to moderate following a strong rebound in 2021. Asia has generally lagged the recovery of other regions. We're seeing several countries relaxing COVID related restrictions, while others are facing stronger measures. Asia continues to have significant upside potential.

Looking at MasterCard spending trends, we continue to see strong growth. Domestic switched volume saw strength across a broad range of sectors, including retail, utilities, and professional spend. We also saw strong growth in travel and entertainment, including spending with the airlines, travel agencies, lodging, and restaurants. In terms of cross-border, where the growth was particularly strong, the recovery continued this quarter led by travel. Cross-border travel reached 2019 levels as of March for the first time since the pandemic began. Geographically, the cross-border recovery has been broad-based with improvement across all regions. Cross-border card-not-present ex travel continues to be strong.

Our strategy is designed to enable and capitalize on these trends and we're executing against our three key strategic priorities. One, expanding in payments; two, extending our services; and three, embracing new networks. Here's an update on how we're progressing against each of those.

First, we're expanding in payments by continue to grow card payments and leaning into innovation in new payment technologies to capture other prioritized payment flows. We're driving growth in card payments through new consumer, small business, co-brand, and fintech wins. On the consumer and small business front, I'm excited to announce an enhanced partnership with Wells Fargo which include several new elements. Wells Fargo will now issue MasterCard small business credit cards, and for the first time in almost a decade, consumer proprietary and co-brand credit products.

We're also excited to announce that we have deepened our relationship with our long-standing partner Capital One. In addition to renewing our existing business, we will also be their issuing network for a larger number of new originations across both their consumer and small business products. However, on the small business front we are expanding our small business portfolio with first National Bank of Omaha, also partnering with the bank and Verizon to launch a new Verizon business Mastercard targeting Verizon's small business customers. In total, these partnerships will help us continue growing our US small business market share.

Outside the US, we're driving commercial card growth through new partnerships, with leading B2B tech companies like Clara. We will be flipping Cara's business portfolio in Mexico to Mastercard and are working with them to launch new programs in five additional markets across Latin America.

Turning to co-brands, we've made substantial progress to ensure we are well-positioned to capitalize on the return of travel. We have renewed and expanded our exclusive partnership with American Airlines, one of the largest co-brand programs in the United States. American will continue to leverage our capabilities, including SessionM, and we'll participate in our Start Path program to identify new tech partners who can help drive innovation across the airline.

And in the UK, we have launched two new Barclaycard Avios cards with Barclays and International Airlines Group loyalty. Outside of travel, we've expanded our relationships with leading retailers including a new co-brand program with Victoria's Secret and a renewal of our Ulta Beauty co-brand offering open partnership with Brit [ph] Financial.

We're also continuing to advance our leadership in the digital and fintech space through new product launches and new partnerships. We're partnering with PCA Digital, the digital banking arm of the largest private bank in Indonesia, to launch a digital first Mastercard debit product catering to millennials.

And in Latin America, we assigned a regional partnership with global payment processing platform Galileo. The partnership establishes Mastercard as Galileo's preferred partner across several markets in Latin America, and they will work to integrate and distribute several of our products and services to help their fintech customers.

In addition to driving new wins, we are leveraging our service capabilities to execute against many of the large portfolio migrations that are in flight. In Europe, our consulting teams are engaging with our partners at Santander, NatWest and Deutsche Bank to ensure a smooth and timely transition, and to identify opportunities to optimize those portfolios.

Santander is the bulk of the way through a 9 million card migration and be expected to be complete by early next year. While NatWest commenced the issuance of Mastercard at the end of last year, and plans to migrate their entire 16 million card portfolio by the middle of 2023.

Deutsche Bank's 10 million consumer and commercial credit and debit cards will be reissued as Mastercard branded cards, with the credit migration starting quarter four of this year, and the debit migration commencing early next year.

Similarly, our team in the US is supporting key migrations including GAP Inc, Merrick Bank, and First Interstate Bank. All the migrations are on track, with GAP Inc scheduled to be completed this summer.

We're also expanding in payments by leaning into payments innovation in areas like installments and cryptocurrencies. Here are a few examples. Our open loop Mastercard installments program has been very well received and is progressing according plan. Remember, Mastercard installment is built into our network, making buy-now-pay-later available to millions of consumers and merchants worldwide.

We continue to add a wide array of new lender and fintech partners including, Amount, Deserve, i2c, Lithic, and Sutton Bank. In this quarter, we announced several merchant partners who are excited to support Mastercard installments, including Bass Pro Shops and Cabela's, H&R Block, 6th Avenue [ph] and Walgreens. US customers will begin offering Mastercard installments to consumers this quarter, and international expansion is planned for later this year.

And we continue to build solutions to support the crypto economy with a principled approach focused on three key areas. First, helping consumers easily and safely purchase cryptocurrencies and NFTs. In addition, we are enabling consumers to spend their crypto holdings on card and cashing out their crypto wallets via Mastercard Send. Second, providing identity, cyber and consulting services for market participants, including engaging with central banks as they design and develop central bank digital currencies. Third, preparing our core network to directly support digital currencies.

Making substantial progress in each of these areas. This quarter, the Gemini Mastercard which offers crypto rewards went live across the US. We also partner with Nexo to launch a new crypto card in Europe, one that uses consumers' digital assets as collateral to back their credit line. And we established several other international crypto card partnerships, including banks in Europe, and Opera, Nexo, and Bellow in Latin America. On the crypto services front, Mercado Libre will be leveraging cyber traces AI and cyber capabilities to bring security and trust to their digital wallets in Brazil.

Now, turning to our second strategic priority, services. As I've noted before, our services support differentiate our core products, and have played a critical role in enabling many of the wins I mentioned. We also continue to extend our services across multiple growth vectors through new payment platform capabilities, new verticals and new you use cases. Here are a few examples.

First, earlier this month we completed our acquisition of Dynamic Yield. Now that the transaction is closed, we will combine Dynamic Yield's personalization platform and decision engine with our SessionM loyalty platform, and our test and learn experimentation software. The result will be a truly differentiated consumer engagement and loyalty hub for our customers.

Second, we announced that we're expanding our consulting services into three new practices dedicated to open banking and open data, crypto and digital currencies and ESG. We've seen increased customer demand and a growing portfolio of successful engagements in these areas. For example, we are supporting Handelsbanken and Intesa Sanpaolo design programs that advance their ESG priorities. We're helping Wirex explore innovations in crypto.

And finally, we're expanding the breadth of our customer base and deploying our capabilities to solve for a wider range of use cases. For example, we deployed our test and learn capabilities to help tailored brands, optimize retail operations, and improve marketing efficiency for the leading menswear brands. And we deployed our FX capabilities with Santander in Spain to help streamline dispute resolutions, improve the customer experience.

Beyond expanding in payments and extending in services, our third key priority area is embracing new networks. Our current focus is on two areas, open banking and digital identity. Our open banking and multi-rail strategies are converging, enabling us to leverage our unique set of assets to address new flows in verticals like rent payments.

For rent payments, the risk of ACH returns due to insufficient funds is a significant pain point in both rentals and landlords. To address this challenge, we're launching a new suite of smart payment decisioning tools. These solutions use Finicity's open banking capabilities to recommend the optimal payment day and payment rail for each transaction based on cost, speed and risk.

The bill payment alliance, a collection of more than 2 million rental homes will be one of the first fintech partners to launch these capabilities. And we plan to expand these solutions across a broad range of bill payment verticals. In addition, be continue to extend our open banking reach with Finicity and IR by penetrating new verticals and establishing new partnerships.

We continue to enhance our capabilities of the mortgage vertical and are now expanding into the auto lending vertical. We're leading the way in terms of provisioning permission-based income, employment and asset verification information. And we've partnered with Stripe, who will be using our open banking capabilities for a variety of use cases. We are also extending our open banking reach through data access agreements with partners like Pfizer [ph], which will enable direct API connectivity to thousands of SIs in the United States.

In the digital identity space, Ekata continued a strong performance in quarter one, securing deals with financial services companies including MoneyLion and several leading buy-now-pay-later providers. In addition, we recently joined forces with Microsoft on a collaboration to improve digital transaction approval rates and reduce fraud. The solution enables issuers to optimize authorization decisions using network and merchant specific authentication data.

Combined, open banking on banking and digital identity extend our value of before and after the payment transaction, and into new digital transactions. These are attractive and growing opportunities and we are uniquely positioned to be successful in both.

In summary, our business fundamentals remain strong, and we delivered robust revenue and earnings growth again this quarter, which also reflects our disciplined approach to expense management. We're executing against our strategic priorities, notably expanding our share with key issuers. In addition, we've worked hard to expand our travel oriented portfolios which positions as well to capitalize on the strong recovery in cross-border travel.

And last but not least, we want to reflect on what is most important, the safety and well-being of our employees and their families who have been impacted by the war. Our thoughts are with them and the people of Ukraine.

Sachin, over to you.

Sachin Mehra {BIO 15311008 <GO>}

Thanks, Michael. Turning to Page 3, which shows our financial performance for the quarter on a currency-neutral basis, excluding special items and the impact of gains and losses on our equity investments.

Net revenue was up 27%, reflecting the continued execution of our strategy and the ongoing recovery in spending. Acquisitions contributed 2 ppt to this group. These revenues were above expectation primarily due to stronger than expected cross-border and domestic volumes, favorable cross-border mix, and FX related revenues.

Operating expenses increased 13%, including a 6 ppt increase from acquisitions. Operating income was up 40%, which includes a 1 ppt decrease related to acquisitions.

Net income was up 61%, which includes a 20 ppt benefit due to the recognition of a one-time discrete tax benefit related to a US Tax Regulation. published in the current period, and a 1 ppt decrease from acquisitions.

EPS was up 65% year-over-year to $2.76, which includes a $0.36 contribution from the one-time discrete tax benefit. And a $0.05 contribution from share repurchases. During the quarter, we repurchase $2.4 billion worth of stock and an additional $599 million through April 25, 2022.

So let's turn to Page 4, where you can see the operational metrics for the first quarter. Worldwide gross dollar volume or GDV increased by 17% year-over-year on a local currency basis. Off note, data related to sanctioned Russian banks was not reported to us, and hence such amounts are not included in Q1 2022. In the US, GDV increased by 14%, with credit growth of 31% and debit growth of 1%, reflecting the recovery of credit spending on travel and the lapping of stimulus.

Outside of the US, volume increased 19%, with credit growth of 20%, and debit growth of 18%. Cross-border volume was up 53% globally for the quarter with intra-Europe cross-border volumes up 50%, and other cross-border volumes up 56%, reflecting continued improvement in travel-related cross-border. For the first time since the onset of the pandemic, cross-border volume was above 2019 levels for all regions and cross-border travel was above 2019 levels for the first time in March.

Turning now to Page 5, switched transactions grew 22% year-over-year in Q1, and were at 150% of 2019 levels. Card-present and card-not-present growth rates remained strong. Card-present growth was aided in part by increases in contact-less penetration in several regions.

With respect to card counts, as a result that the suspension of our business operations in Russia, cards issued by Russian banks are no longer active on our network and are therefore excluded from our card counts this quarter. Accordingly, card growth was lower at 4% this quarter. If you exclude Russian issued cards from current and prior years, card growth would have been 9%. Globally, there are 2.9 billion Mastercard and Maestro branded cards issued.

Now, let's turn to Page 6 for the highlights on the revenue line items, again described on a currency-neutral basis, excluding special items, unless otherwise noted. The increase in net revenue of 27% was primarily driven by domestic and cross-border transaction and volume growth, as well as growth in services, partially offset by growth and rebates and incentives. Acquisitions contributed approximately 2 ppt to this growth. I'd also like to point out that in the first quarter the suspension of business operations in Russia had a minimal impact to the overall growth rate of the company, as the loss of volume was offset by one-time benefit of lower rebates and incentives due to the absence of a customer incentive agreement renewal in Russia.

Looking quickly at the individual revenue line items. Domestic assessments were up 21% while worldwide GDV grew 17%. The 4 ppt difference is primarily due to unreported volumes from Russian related sanctioned customers and equivable mix. Cross-border volume fees increased 57% while cross-border volumes increased 53%, both ahead of expectations. The 4 ppt difference is primarily due to favorable mix as higher-yielding ex-intra-Europe cross-border volumes grew faster than intra-Europe cross-border volumes this quarter.

Transaction processing fees were up 27%, while switched transactions grew 22%. The 5 ppt difference is primarily due to favorable cross-border mix and FX related revenues. Other revenues were up 20%, including a 7 ppt contribution from acquisitions. The remaining growth was driven by our cyber intelligence and data and services solutions.

Finally, rebates and incentives were up 30%, reflecting the strong growth in volumes and transactions, and new and renewed deal activity. As a percentage of gross revenues, rebates and incentives were lower than expected, primarily due to the absence of a planned customer incentive agreement renewal in Russia, a higher mix of cross-border revenues, and the timing of new and renewed deals.

Moving to Page 7. You can see that on a currency-neutral basis total operating expenses increased 13%, including a 6 ppt impact from acquisitions. Excluding acquisitions, operating expenses grew 7%, primarily due to increased spending on advertising and marketing, higher personnel cost to support the continued investment in our strategic initiatives and increased data processing cost.

Turning to Page 8, let's discuss the operating metrics for the first three weeks of April. For your reference, to help you understand the trends in the business ex-Russia, we have included an appendix later in this deck to show all the data points from the schedule, if you excluded activity from Russian issued cards, from current and prior periods.

Going through the metrics in turn, starting with switched volumes. For the first three weeks of April we grew 23% year-over-year, down 4 ppt versus Q1, primarily due to the cessation of activities in Russia. If you exclude Russia-related volumes from the current and prior periods, switched volumes grew 27%, down 1 ppt versus Q1. Switched transactions grew 14% year-over-year through the first three weeks of April, down 8 ppt from Q1. Again, driven primarily by the absence of Russia-related transactions.

Off note, Russia has a relatively low average ticket size which results in a larger relative impact to this metric. If you exclude Russia related transactions from the current and prior periods, switched transactions grew by 25% year-over-year, up 1 ppt versus Q1. Overall, cross-border volumes through the first three weeks of April grew 60% year-over-year, up 7 ppt versus Q1. Excluding Russia from the current and prior periods, cross-border volumes through the same period grew 65% year-over-year, up 13 ppt versus Q1.

Since the end of January, cross-border travel has rebounded quickly as border restrictions continue to be lifted and we distance ourselves from Omicron. In the first three weeks of April, cross-border travel was up 179% year-over-year, up 28 ppt versus Q1. Cross-border card-not-present excluding travel was up 5% year-over-year in April, a decrease of 8 ppt compared to Q1, reflecting in part the lapping of a strong comparable period a year-ago.

One point to emphasize is, cross-border travel is now above pre-pandemic levels at 110% of 2019 levels.

Turning to Page 9, I want to share our thoughts on the remainder of 2022. Let me start by saying that our business fundamentals remain strong as we continue to grow our customer relationships and expand our product and service offerings. As Michael mentioned, consumer spending remains robust, particularly as economies open further and pandemic related restrictions are lifted. Having said this, we are monitoring a number of factors, including inflationary pressures, supply chain constraints, geopolitical uncertainties and COVID infection rates. At this stage, we have not seen any significant impact of these on consumer spending.

Cross-border travel is recovering rapidly as border restrictions ease. This is occurring faster than our earlier expectations. We are well positioned to capitalize on this growth with our travel oriented portfolios. Weighing against these positive trends are the impacts of the war in Ukraine and the suspension of our business operations in Russia.

So now taking all of this into account, we continue to expect net revenues for full year 2022 to grow at the high end of a high teens rate on a currency-neutral basis, excluding acquisitions and special items. So essentially, we are maintaining our growth expectations in the same range, as the strong cross-border travel recovery and strengthen consumer spending help mitigate was the loss of sizable revenues in Russia and Ukraine.

Acquisitions are forecasted to add about 1 ppt to this growth, while foreign exchange is expected to be a headwind of 3 to 4 ppt for the year, primarily due to the strengthening of the US dollar relative to the euro.

In terms of operating expenses, we are reducing our forecast for the year through FX cost savings related to Russia. For the year, we expect operating expenses to grow at a high-single digit rate, on a currency-neutral basis, excluding acquisitions and special items. Acquisitions are forecast to add about 4 to 5 ppt to this growth, while foreign exchange is expected to be a tailwind of approximately 2 to 3 ppt for the year.

With respect to the second quarter, year-over-year net revenue is expected to grow at the high end of a high-teens rate, again on a currency neutral basis, excluding acquisitions. This reflects, firstly, strong consumer spending, including continued improvement in cross-border travel spending relative to 2019. Secondly, the discontinuation of revenues from Russia and a sequential reduction in revenues related to Ukraine. And finally, the lapping of a strong year ago quarter, that was aided by fiscal stimulus and the easing of pandemic related restrictions as vaccination programs rolled out.

Acquisitions are forecast to add about 1 ppt to this growth, while foreign exchange is expected to be a headwind of approximately 5 ppt to 6 ppt for the quarter. From an operating expense standpoint, we expect Q2 operating expenses to grow at a high-single-digit rate versus a year ago on a currency-neutral basis, excluding acquisitions and special items. Acquisitions are forecast to add about 4 to 5 ppt to this growth, including the acquisition of dynamic yield which we are pleased to have just closed. Foreign exchange is expected to be a tailwind of approximately 3 to 4 ppt for the quarter.

Other items to keep in mind are the other income and expense line. We are at an expense run rate of approximately $115 million per quarter, given the prevailing interest rates and our recent debt issuance. This excludes gains and losses on our equity investments which are excluded from our non-GAAP metrics. And finally, we expect the tax-rate of approximately 18% to 19% for each of the remaining quarters of the fiscal year based on the current geographic mix of our business.

Before closing out, I want to briefly comment on our three-year performance objectives for 2022 to 2024. Clearly, the elimination of Russia related revenues and the reduction of those from Ukraine create a headwind to achieving these objectives. If this would have continued, it would result in a headwind of approximately 2 ppt to our net revenue CAGR.

Having said this, we are off to a strong start in 2022, with the recovery of cross-border travel ahead of expectations as I previously mentioned. We remain focused on building long-term sustainable growth for the company, and net-net, it is really too early to adjust our three-year performance objectives, as we work to offset some or all of these headwinds.

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

Warren Kneeshaw {BIO 16549173 <GO>}

Thank you, Sachin. Jamairia, we are now ready for the question-and-answer session.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) Your first question will come from the line of Sanjay Sakhrani with KBW. Please proceed with your question.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thanks. Good morning. I've got a question on inflation. I know the data suggests the consumer remains in good shape as we look across trends in the vertical as such. Are you seeing anything that sort of is seeing some kind of negative impact on consumer spending patterns as a result of inflation? I know we heard some comments on e-commerce. Maybe you could talk about that. Thank you.

A - Michael Miebach {BIO 16087573 <GO>}

Sanjay, thanks for your question. So on the inflation side, as Sachin mentioned earlier, we have not seen anything yet in terms of changing consumer spending behaviors. But what we are seeing is in terms of the impact on vertical mix and so forth, there has been a 1% increase in our switched volume that's related to gas price increases. We're seeing some shifts in the airline. That is again under an inflationary pressure there from ticket prices perspective. So we have to see where it goes going forward.

I mean fundamentally, where I stand on this is the push by consumers into the digital space. They learn these habits, they're online, all that will continue. And we'll see where the underlying prices go, in the end comes back to what we've been saying all along.

There's macro considerations in each country that has to be considered here, what is monetary fiscal policy. And then there is the micro aspects of the different verticals, which ones of those are carded, which ones we would see, which ones we wouldn't see. Could there be a crowding out effect of rents or gas prices, particularly in Europe? Yes, there might be, but that's not something we can tell yet.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thank you.

Operator

Your next question will come from the line of Harshita Rawat with Bernstein. Please proceed with your questions.

Q - Harshita Rawat {BIO 18652811 <GO>}

Hi. Good morning. Michael, Sachin, I want to ask about cross-border travel, very strong recovery here. Is there a scenario where even if, let's say, China and other parts of Asia don't come back meaningfully, you can still kind of get back to this like normalized 30% to 40% kind of levels above 2019, which is the kind of the run rate pre-pandemic because there's so much pent-up demand? Or does Asia and China need to come back for the next [ph]likelihood of cross-border recovery.

And Sachin, just a follow-up for you. Can you just talk about the sensitivity of your revenue guidance? Should macro consumer spend (inaudible) from here? Thanks.

A - Sachin Mehra {BIO 15311008 <GO>}

Thanks, Harshita. So first, on your question on cross-border, you're absolutely right. Cross-border travel has actually come back stronger than our expectations, and there continues to be pent-up demand. And we -- in terms of how we're thinking about our guidance, we've kind of built in that improving recovery in cross-border travel on a going-forward basis as well.

So I just want to kind of get that out there, but to give you a little bit more color, right, on cross-border. So cross-border volumes are above 2019 levels across all regions for the first time. I would tell you that the Top 20 destinations, which represented approximately 70% of our total cross-border travel pre-pandemic, and we're at 70% of 2019 levels when we discussed this at our Investor Community Meeting are now at 85% in Q1 of 2022.

Specifically, on your question around Asia Pacific, I think it's important to note that Asia Pacific has been slower to recover. The Asia Pacific opportunity, as I see this, is as follows: Asia Pacific represented approximately 14% of total inbound cross-border travel volumes pre-pandemic, and we're at 40% of our 2019 levels in Q1. So as you can see from this number, right, that there is a fair amount of recovery still remaining to come from Asia Pacific. Obviously, it does matter in terms of how restrictions are lifted in that market.

Again, the point is at the end of the day, cross-border fundamentally is still very sound. This is something we've been talking about right through the pandemic where we felt like when restrictions are eased, volumes in cross-border will come back. We've seen that happen, and we continue to believe fundamentally that, that remains very much in place.

On AP, in particular, a couple of thoughts on China. One, China, both from an inbound and an outbound standpoint, were not a very significant portion of our cross-border volumes pre-pandemic. In fact, I would argue that the outbound China was slightly higher than the inbound China. So when you think about recovery, you've also got to think about what restrictions are there in terms of people going into countries versus people coming out of countries. And I would tell you outbound China has shown better improvement than inbound China for obvious reasons, as we all know that there have been lockdowns in China and things of that sort.

So net-net, as I sit back and I think about this, I think about the fundamentals of cross-border being strong. I think about the potential for pent-up demand continue to contribute to improvements in cross-border travel spend. And again, the whole Asia Pacific region still remains a fairly large opportunity on a going forward basis.

A - Michael Miebach {BIO 16087573 <GO>}

Yes. If I can just build on that, we love cross-border. But while we love the trends, it's a lot of hard work. And over the last two years, I mean, the travel industry was hard hit from the outset of the pandemic. We have leaned in. And as I recall over the last two years, JetBlue, Cathay Pacific, British Airways, LATAM, Aeroplan, Air Canada, you name it. It's a long list of where we have either expanded, renewed one additional volume. So we're participating in the trend in a very significant way. And we've always said it's going to happen this year, and we're ready for that.

Operator

Your next question will come from the line of Rayna Kumar with UBS. Please proceed with your question.

Q - Rayna Kumar {BIO 17409639 <GO>}

Good morning. Thanks for taking my question. It was really good to see the strong operating margin expansion in the quarter, 460 basis points. Can you discuss some of the underlying drivers outside of the return of cross-border, and how sustainable you believe in upward 50% operating margin is going forward?

A - Sachin Mehra {BIO 15311008 <GO>}

Yes. Rayna, happy to take that question. So look, I mean, at the end of the day, you know that the business as we have, it is a high operating leverage business, right? At the end of the day, incremental dollars of revenue typically flow to the bottom line, just given the nature of how we operate.

So certainly, cross-border recovery is playing into the recovery in operating margins, but it's not just about cross-border. It's about overall strong consumer spending and cross-border travel recovery, all of which is contributing to the delivery of improved operating margins.

Helping that even further is the good strength in our services and everything we're doing along those parts. So it's everything which we are doing in terms of driving the fundamentals of our business back to the strategic priorities Michael was talking about, which is growing our payments, keeping on leaning in on services, and then continue to invest in the new network space, which is really, really important. So, all of those factors are contributing factors to the expanding operating margins that you're seeing come through.

The message I'd like to leave you with on this is the following: We continue to run the business for long-term sustainable growth, which means effectively that we're going to continue to invest in a disciplined manner to ensure that we are creating the right opportunities for ourselves to deliver this long-term top-line growth. And while we do that, you should see the impact of that come through in terms of operating margins.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Next question, please.

Operator

Your next question will come from the line of Darrin Peller with Wolfe Research. Please proceed with your question.

Q - Darrin Peller {BIO 16385359 <GO>}

Hey. Thanks, guys. When we look at the types of opportunities on cross-border that you're seeing right now, you clearly are positioned, as you said before, to take advantage of this upswing in travel. And historically, it's been very high pass-through without rebates incentives, I think, as I have a correlation. So first of all, just to be clear, I mean, should we still expect that to be the case? Or is there anything around the new business -- the relationships that Michael, you mentioned earlier that would cause that growth yield? I guess, we can say our net yield to be a little bit different going forward on this type of big pickup in resumption and spending on travel.

And then, Michael, just more strategically, when we think about that, that industry in terms of cross-border payments, there's been so much change. And even you guys are trying to work through opportunities for more A2A and open banking opportunities across globally. And so does that change the ecosystem at all? Or is card-based really how you expect to see cross-border players stay really dominant for payments cross-border over time?

A - Sachin Mehra {BIO 15311008 <GO>}

Thanks, Darrin. I'll take the first part and then Michael will kind of address your second question. Yes, I guess the headline is the following, which is we're not seeing anything fundamentally changed in terms of the profile of our cross-border revenues. I mean net-net, things are going to move around depending on how much cross-border comes from intra-Europe versus volumes from outside of that intra-Europe corridor. Because as you know, intra-Europe is lower yielding and then other cross-border volumes are higher yielding. But fundamentally, I would tell you not much has changed.

I will make one point. You talked about rebates and incentives not being there with cross-border. I would say that there's a lower indexation of rebates and incentives to cross-border. There's always been some level of rebates incentives, which have been associated with cross-border, not nearly as high as what's there in the domestic volume environment. But we're not seeing fundamentally much change in that regard.

A - Michael Miebach {BIO 16087573 <GO>}

Right. And strategically, so Darrin, here's what I'd say is similar lens that we took at Investor Day where we looked at different universes and different use cases. You got the P2M world, where card is well established domestically but also certainly cross-border. The industry and we, very specifically with our services propositions, have found a way to ensure that the risks associated with these cross-border transactions for merchants and for consumers are addressed. So the conversion rates and the approval rates have continuously increased. And there's a lot of value brought. So there isn't much of a problem to be resolved to payment for -- payments for goods on a cross-border basis.

Now where we're actively looking in ours -- it tends to participate in all relevant payment flows. We're saying what other payment volumes happening cross-border that we can contribute to with our technology, through our franchise and so forth. And here, the whole space of imports, exports, cross-border accounts payable, that's a space where account-to-account solutions make sense for us to hold. We have specifically called out for you at the Investor Day, the focus on remittances. Again, that's a significant opportunity for us.

That's all additive and expensive from a target market perspective, from an opportunity perspective.

Attractive growing opportunities. We have the technology on the cross-border remittances side, our Transfast acquisition, our buyout on the HomeSend side, all of that is coming together. It's a 100 country reach. So I think what we're bringing here is the multilateral network idea into this space that has been historically inefficient.

So I look at it as a growth opportunity, while we're going to continue to power the cost side of the house.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Next question, please.

Operator

Your next question will come from the line of Lisa Ellis with MoffettNathanson. Please proceed with your question.

Q - Lisa Ellis {BIO 18884048 <GO>}

Terrific. Thank you. I was hoping to shine a spotlight on LatAm, specifically Brazil. Just taking a peak of the supplementals, Mastercard's volumes are up 40% to 50% in that region. But Brazil is also a market where you've got a local network like PIX gaining a lot of traction. Can you just use that as an example to talk a bit about how Mastercard coexist in a market like that with one of these domestic networks? And is the player like PIX actually a customer or a potential customer of some of your open banking or fraud or identity services? Thank you.

A - Michael Miebach {BIO 16087573 <GO>}

All right, Lisa. Let me take that. So first of all, Brazil has been a market in focus, strategically important market for us for years. We're very well established on with the large banks out there, Itau and others to mention. So I'm actually seeing the Brazilian country manager right after this call. So it's very much in focus. We're very happy with what's going on there. Overall, it's a market that drives a lot of innovation. Buy Now Pay Later has been a thing in Brazil forever. Open banking is on the rise, real-time payments is on the rise. So a lot of movement there.

And the P2P network that's been introduced by the Central Bank in the Brazil market is another push to further digitization in that market. So the whole digitization in Brazil is really seeing great momentum, and we're leaning right into that.

Now the kind of flow that PIX is going after, you see a lot of P2P flows and some B2B flows. So that's not necessarily anything that we're particularly worried about, but it's also the kind of flows as part of our multi-rail strategy that we like to support ourselves, and we have a whole set of technologies for that.

WhatsApp Pay, just to point one out, which is -- went first live in Brazil itself, it's a set a market with innovation and a lot of momentum there. So here's our technology powering a social network as an alternative, which is an easy user experience, great adoption, 4.7 million users already on that platform.

So I look at it as a market that's a lot to learn from, a market that we invest in. And where WeChat pass for the new additional flows beyond card flows very -- with specific local solutions considering the size of the market.

A - Sachin Mehra {BIO 15311008 <GO>}

And I'll just add, Michael, a couple of thoughts on Brazil. One, you asked a question about the strong growth. Clearly the -- it's a combination of the macro environment, but it's also the fact that we've been leaning in pretty heavily with our traditional issuers as well as our fintech partners in that space, which has been part of the reason why we've been seeing some of that growth come through in a decent manner, Lisa.

The second point I'd make, tying back to Michael's comments around PIX. The market has to be bifurcated in the context of both debit and credit. And on the credit side, we continue to see tremendous growth. PIX, which Michael said, is primarily catering to P2P and B2B flows. Even if it were to actually proliferate a little bit into, call it, the smaller merchants from a P2M standpoint, we'd primarily be focused around the debit side of the equation. And so, credit still remains the mainstay for us in Brazil as it stands.

Operator

Your next question will come from the line of Tien-Tsin Huang with JPMorgan. Please proceed with your questions.

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

Thank you very much, and good morning. I wanted to check in on the, call it, balance of trade and this whole card volume coming in and out from wins and losses migrating. Given the update, I know you mentioned Wells, and of course Santander, NatWest and Deutsche Bank, are you gaining share when all is said and done? I'm just trying to get a better sense, especially in the short-term with all the migrations in and out, where you stand in the share gains. Thanks.

A - Sachin Mehra {BIO 15311008 <GO>}

Yes. Thanks, Tien-Tsin. So everything we kind of talked about and Michael talked about earlier on in this conversation was about our expanding relationships with these issuers. And so with these issuers, we are gaining share. That's kind of the reality of the situation. Again, there are puts and takes in the market, right? So as I think about the new relationship, well I shouldn't say new relationship, the expanded relationship we have with Wells, right, that's an increasing share position with Wells which is taking place, for example, there.

So the bottom line is the following, which is whether it's Wells, Capital One, what we're doing with Santander and NatWest, Deutsche, you name it, the GAAP portfolio, all of these incrementally are helping us drive our volumes. From a holistic market standpoint, again like I said, there are puts and takes, right? But we're very, very optimistic about how we are seeing business translate for us.

And as we mentioned at the Investor Community Day, we are growing market share across all regions and the market share growth, which we've seen in 16 of our top 20 markets, which is something we shared with you at the Investor Community Day is really the data points we put out so far.

A - Michael Miebach {BIO 16087573 <GO>}

And Tien-Tsin, I should add, I'm very happy you asked the question. I thought these news was just going to pass by with none of you asking about it, so it's much appreciated.

Operator

Your next question will come from the line of David Togut with Evercore ISI. Please proceed with your questions.

Q - David Togut {BIO 1496355 <GO>}

Thank you very much. Cross-border card-not-present ex travel growth was solid in Q1, but did slow throughout the quarter and into April against known very difficult comparisons. Can you unpack cross-border card-not-present ex travel growth by geography, especially in Europe and U.S.? And how you see this playing out throughout this year, especially with the return of the consumer, the physical point of sale as vaccination rates go up? In other words, do you see a reacceleration of e-com later this year? Or do you think the consumer is going to be more active at kind of physical bricks-and-mortar locations?

A - Sachin Mehra {BIO 15311008 <GO>}

Sure, David. So I think you're touching upon a couple of things which are there on that card-not-present ex travel. The reality is, as cross-border travel comes back, you do see some give back in terms of cross-border card not travel -- card-not-present ex travel. That's a mouthful.

So the point is, at the end of the day, right, there are a few factors you got to take into consideration when you're thinking about future growth rates for cross-border card-not-present ex travel. Number one, what's the pace of recovery on cross-border travel is going to be. Number two, what the prior year comps were on cross-border card-not-present ex travel? Because remember, these growth rates are all influenced by prior comps as well. And what was happening in the COVID environment last year, which might have caused elevated levels of cross-border card-not-present ex travel. And number three, you do see fluctuations come in that number through as a result of crypto and crypto volumes, right? And so, these three factors are kind of things you've got to take into consideration.

The point at an up level is the following, which is the consumer continues to spend in an omnichannel manner. When they can get out and spend in a physical environment, they do that. When they can't spend in a card-not-present environment, they do that. We are ready to support them in both manners, whether it's through our omnichannel capability that we're offering our merchants, and the strength which we're seeing in card-not-present ex travel from a cross-border standpoint, is something we expect that strength to actually stay going forward as well. There might be puts and takes for all the reasons I just mentioned. But largely, I think consumer behavior has changed in a manner where they've gone more digital, and you're going to see some strength come through out there.

Q - David Togut {BIO 1496355 <GO>}

Thanks.

Operator

Your next question will come from the line of Bryan Keane with Deutsche Bank. Please proceed with your questions.

Q - Bryan Keane {BIO 1889860 <GO>}

Hi. Good morning. Just a couple of quick clarifications. On the Russia, Ukraine, I heard the 2 points to net revenue targets to the performance objectives, '22 to '24. Could you help us clarify the revenue and expense impact for the going forward quarters like the second quarter, third and fourth this year? Just trying to quantify that. And then the second question is just what level of cross-border recovery are you assuming in the guidance for '22? Thanks so much.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure, Bryan. So first, I'll take your question on Russia and what we're assuming. So we have suspended operations in Russia, as a result of which we're not earning any revenues related to Russian issue cards. So as it relates to revenue for the rest of the year, we had mentioned we put out an 8-K about how Russia represented roughly 4% of our revenues in 2021. And so we've assumed that, that 4% doesn't exist in any of the quarters going forward from a net revenue standpoint, right?

Point number two. And again, like I said in my prepared remarks, there's some level of headwind which we're assuming in Ukraine as well. But the reality is that's a little bit of an uncertainty, just because we're not entirely sure as to how the war in Ukraine evolves and what the implications of that are. So we built in some assumptions and that's what we've kind of given you in our overall thoughts.

From an expense standpoint, the Russia-related expenses represented roughly 2% of our operating expenses. And again, from an OpEx growth standpoint, that's the way we think about it. As I mentioned, we have taken down -- when we've shared with you our thoughts for full year 2022, we have taken down our OpEx growth rate on the next acquisition currency-neutral basis to reflect that very impact from a Russia standpoint.

Operator

Your next question will come from the line of Ramsey El-Assal with Barclays. Please proceed with your question.

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

Hi. Thank you for taking my questions. Good morning. I was wondering if you could give us your latest view on what the kind of longer-term post-pandemic payment is (inaudible). I mean, it's related to prior question about how consumers might have changed their behaviors during the pandemic. Do you see a different longer-term mix of debit versus credit or any associated impacts to P&Ls or yields or anything that we consider as we model out in the long term?

A - Michael Miebach {BIO 16087573 <GO>}

Right. Ramsey, let me start off on that. So the structural changes that we are seeing that we've been observing with our regular consumer engagement surveys over the last two years and that have transpired with our customers as well, is less cash and checks, number one. Anything digital more of, number two. The whole -- this whole notion though has changed in the consumers' mind. A couple of things going on.

First is consumers are really ready to move on with the pandemic. They want to go out there, they knock off their bucket list, they want a pent-up demand. So there's a lot of increased spending back into services. So it's not a structural feature of the years to come that it's all in goods. It's going to go back to services, and it's going to balance out. It's also not going to be only online as Sachin just said, it's going to balance out across multichannel. Buy in-store, pickup, have delivered, do it the other way around whatever works. I think consumers will go for more choices and that comes right down through our multi-rail strategy to enable basically all relevant choices that are out there.

I think that's the right positioning. That's what we're going to see going forward. In terms of debit and credit, if you kind of get a little more granular over here. There was a period in the early parts of the crisis, people will not want to spend on credit if they can avoid it, more control around their finances. That was a big tailwind for debit. We see travel coming back, that's more credit-oriented, particularly because of the rewards around it. You start to see -- in the crypto space, there's a whole new set of credit propositions. We just talked about the Gemini rewards and crypto rewards on that, the Nexo Card. So there's a whole thing going on. I think in the end, it's going to be multiplicity around these different tools.

Operator

Your next question will come from the line of Dan Dolev for Mizuho. Please proceed with your questions.

Q - Dan Dolev {BIO 16010277 <GO>}

Hi. Thank you for taking. My question is more specific. If I look at U.S. trends, debit versus your competitor, I mean, over the last few quarters, I'm seeing downward trend in your share of the mix in debit and -- this picture in credit, is there anything to call out there? Is there an opportunity to improve in debit or am I just missing some very fundamental here? Again, just U.S. versus your large competitors.

A - Sachin Mehra {BIO 15311008 <GO>}

Yes. So Dan, there's nothing fundamentally which is really changing as it relates to our debit business. I'll put that out there in the first place. Growth rates obviously are impacted by comps. I think you get that piece. I think you've got to take into consideration that there is a one portfolio, which is a debit portfolio, which is rolling off in the U.S., which was previously announced, which is probably impacting that comparative analysis that you're seeing, because obviously we're seeing the detriment of that comes through in our debit metrics and that primarily started in the recent past and will go on through the course of this year. And the competitor is likely actually getting the benefit of that. So that's probably the reason you're seeing some level of divergence.

Operator

Your next question will come from the line of Andrew Jeffrey with Truist Securities. Please proceed with your questions.

Q - Andrew Jeffrey {BIO 1493346 <GO>}

Hi. Good morning. Appreciate you taking the questions. Michael, I actually have a question on other revenues, value-added services, in particular. Ex acquisition seems that it's deselling a little bit. I would have perhaps expect to see that growing faster and certainly approaching the growth in the card business. Can you just comment on kind of puts and takes there and what the long-term trajectory is for value-added services?

A - Michael Miebach {BIO 16087573 <GO>}

Andrew, excellent questions. As you know, we love our services business. It drives growth for us. It's a differentiator. It's a margin increase here. It's all of that. And the key focus is on cyber solutions on one hand and data livings and insight solutions. This comes back to the structural trend by the way. More data, more digital world, more digital world to be kept safe. More insights for all these new people that are having businesses online on the data analytics side. So fundamentally, there are sound trends here.

If you just pick up this quarter and you do the kind of unpacking the numbers that you have just laid out, that is simply timing. We are expecting our -- there's nothing to be said that there's anything changing on the growth rates of our business. So that will continue. Our teams are fully engaged. And as we looked ahead in the guidance that Sachin gave, we assume a strong services growth.

A - Sachin Mehra {BIO 15311008 <GO>}

Andrew, I'll just add some -- a little bit more color on that, just because I think it's important for you as you're thinking about your models going forward to actually factor this in.

When we talk about Russia revenues, there are a few things from a Russia revenue standpoint, which you might want to take into consideration, one of which relates to the fact that services was well penetrated in the Russia and Ukraine markets and had strong growth. And so as you think about the model and the impacts across the different line items, you're going to see impact related to lost services revenue come through in other revenues in the ensuing quarters. That's kind of point number one.

Few other salient pieces on Russia-related revenues as you think about the different line items. Yes, we will lose the volumes and transactions. Russia was a fast-growing market. It has low average ticket size, which I kind of mentioned earlier. There's a high degree of contactless penetration. Again, I think these are important things where you ought to kind of keep in mind as you think about comps on a going-forward basis. And the cross-border issuing out of Russia was mostly higher yielding into regional cross-border issuing. It's also a strong remittances and disbursements market.

Why am I sharing all of this with you? Because as you think about the various metrics we've shared across all of these aspects, those will get impacted as Russia stops coming into play in future quarters.

Operator

Your next question will come from the line of George Mihalos with Cowen. Please proceed with your question.

Q - Georgios Mihalos {BIO 20004433 <GO>}

Great. Good morning, and thanks for taking my question guys. Sachin, I wanted to ask, you called out currency volatility is obviously being a benefit to your first quarter results. Can you isolate what that benefit was in 1Q? Just -- I know it's still a volatile time, which is sort of three weeks into the next quarter. But how are you thinking about that looking into 2Q?

A - Sachin Mehra {BIO 15311008 <GO>}

Yes. Look George, I called it out because Q1 had unusually high foreign exchange volatility. I mean the reality is we don't typically talk about this, because these numbers kind of go back and forth from a volatility standpoint, but there was unusually high FX volatility in Q1.

The outcome from a going forward standpoint is really hard to say. I mean this is one of those things where, I guess, as Michael jokes with me, "Sachin, you wouldn't be doing this job, if you knew where volatility was going on a forward basis for foreign exchange." So the point is, at the end of the day, we've taken our best assumptions on a holistic basis for our business to share with you what our thoughts are from a full year and a Q2 basis on net revenue.

Very hard to predict what the outlook going forward is going to be. Unusually high volatility does help us. The other thing to keep in mind is since it's related to cross-border volumes, as cross-border volumes come back, that combined with unusually high volatility has that much more of an impact.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Jemiria, I think we have time for one more question.

Operator

Okay. Our final question will come from the line of Jason Kupferberg with Bank of America. Please proceed with your questions.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Thanks, guys. Just a quick one. So just in terms of your expectation for cross-border travel relative to 2019 levels, last quarter, you were expecting to be at 100% by the end of this year. You're already at 110% in April. So what's your updated assumption on that?

A - Sachin Mehra {BIO 15311008 <GO>}

Jason, as I mentioned, we're assuming improving trends vis-a-vis compared to 2019 as we go forward. We're not sharing a specific number for what that looks like in the second quarter or the end of the year. We've built in our expectations in terms of the revenue guidance I've shared with you, our thoughts around how that trend takes place. The combination of that was consumer spending and what the improving trajectory in consumer spending is, it's all factored into the numbers.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Can we get a directional rebates and incentives just for the rest of the year?

A - Sachin Mehra {BIO 15311008 <GO>}

So I think I mentioned to you on rebates and incentives is the following, which is we have a rich pipeline of deals. We continue to execute on that, as you heard from Michael, in terms of some of the wins which we had recently. Obviously, you get the benefit of improving cross-border trends to play through in terms of lower amounts of rebates and incentives impacting that. And the last point I'll make on rebates and incentives is, in Q1, we had this one-time benefit relating to the non-renewal of our Russian customer agreement, which you should not expect the benefit of that to come through on a going-forward basis.

So net-net, I would tell you that a lot of this is going to be dependent on what the timing of deals are, how we put those new deals into play, and what the recovery of cross-border is going to be.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Thank you.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Thanks, Sachin. Michael?

A - Michael Miebach {BIO 16087573 <GO>}

All right. So thanks for your questions, insightful questions as always. Thank you for support for the company. Just a thought for me. Here we're thinking that we're going to get out of Omicron and then a few days later, we have an invasion in Europe. So for our teams, it's around the world, it continues to be a never-ending marathon and I just want to extend the thanks to everybody in the Mastercard team. And with that, we'll see you next quarter. Thank you so much. Bye-bye.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.