Speaker 1
Start

Welcome to Visa's Fiscal Second Quarter twenty twenty five 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, Ms. Jennifer Como, Senior Vice President and Global Head of Investor Relations. Ms. Como, you may begin.

Speaker 2
22s

Thank you. Good afternoon, everyone, and welcome to Visa's fiscal second quarter twenty twenty five earnings call. Joining us today are Ryan McInerney, Visa's Chief Executive Officer and Chris Suh, Visa's Chief Financial Officer. This call is being webcast on the Investor Relations section of our website at investor.visa.com. A replay will be archived on our site for thirty 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 annual report on Form 10 ks and any subsequent reports on Forms 10 Q and eight ks, which you can find on the SEC's website and the Investor Relations section of our website. Our comments today regarding our financial results will reflect revenue on a GAAP basis and all of the results on a non GAAP nominal basis unless otherwise noted. The related GAAP measures and reconciliation are available in today's earnings release and related materials available on our IR website.

Speaker 2
1m 51s

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

Speaker 3
1m 55s

Thanks, Jennifer. Visa is one of the world's best businesses with strong growth and leading profitability powered by a world class brand, innovative technology and unparalleled network and global scale. This quarter, we saw the strength of our business model with $9,600,000,000 in net revenue, up 9% year over year and EPS up 10%. Our key business drivers were strong, even with the lapping of Leap Day from last year and consumer spending remained resilient in an uncertain and dynamic environment. In constant dollars, overall payments volume grew 8% year over year. U. S. Payments volume grew 6% and international payments volume grew 9%. Cross border volume, excluding intra Europe, rose 13% in constant dollars and process transactions grew 9% year over year. Our strategy across consumer payments, commercial and money movement solutions and value added services continues to resonate with our clients, and we remain focused on serving our clients through our innovation and product development. I will start with quarterly highlights and then make a few comments on the current environment. In Consumer Payments, we continue to execute the fundamentals, expanding credentials and acceptance and driving user engagement in order to grow both carded and non carded volumes.

Speaker 3
3m 29s

Total credentials grew seven percent with generally consistent growth across our regions. We added 1,000,000,000 tokens since last quarter to total 13,700,000,000.0 and now nearly 50% of our e commerce transactions globally are tokenized. We also crossed 1,000,000,000 tokens in Latin America and $500,000,000 in CEMEA. And we continue to make progress displacing cash in key markets. For example, India, Mexico and Brazil each added more than 1,000,000 merchant locations in the last year as we have driven greater acceptance including with smaller merchants. We recently signed an agreement with Effekti, one of the biggest cash networks in Colombia with over 30,000,000 users. Effekti will launch 4,500,000 consumer debit cards and build acceptance with their cash agents. We also convert closed loop to open loop opportunities. For example, I'll highlight two transit deals in Latin America. 1 in Argentina with Banco de la Nacion to launch an open loop survey Visa card for use on public transportation and two, in Chile with Metropago to also launch an open loop Visa card and add acceptance locations at transit stops. As we mentioned at Investor Day, what gives us confidence in our ability to grow consumer payments are our products and our solutions.

Speaker 3
5m 9s

They are enabling us to succeed in important high value consumer payments use cases, innovations such as tap to everything, tokens, multi currency cards, flex credentials, account to account solutions and our differentiated cardholder benefits platforms. I'll note some progress this quarter. Our efforts in tap to everything continued, cash digitization and habituation. Tap to phone added nearly 2,000,000 transacting device terminals since last quarter, with growth primarily driven by Latin America, The U. S. And Europe. Cap to Pay penetration is now at 76% globally with The U. S. Passing 60% for the first time. Penetration at U. S. Drugstores, retailers and quick service restaurants is now above 60% as well. Tap to add card continued to gain traction and with the majority of fraud being eliminated as compared to manual entry, it's not surprising that we now have nearly 150 issuers participating globally in more than 35 countries and territories. Tap to P2P is a Visa product that leverages tokenization for enhanced security, Visa's Tap Kernel and SDK technology for seamless contactless data transmission between devices and the convenience of Visa Direct real time money movement for funds transfers. We are soon launching our tap to P2P products in The U. S. With Samsung.

Speaker 3
6m 52s

Samsung Wallet will introduce this innovative P2P payments feature that will allow users to quickly send money to friends or family by just tapping a phone to a debit card or another phone. A strategy focused on enabling cross platform functionality across mobile wallets. Another development is in our stablecoin offerings. We believe two important capabilities are interoperability and programmability. We have continued to expand our interoperability, including with our first seven day a week stablecoin settlement, recently surpassing $200,000,000 in cumulative stablecoin settlement volume. On programmability, we also developed the Visa tokenized asset platform to help enable banks to issue and leverage stablecoins for new types of programmable finance. Our first pilot partner BBVA plans to launch a stablecoin later this year on the Ethereum blockchain. In our focus to attract and retain the affluent and cross border traveler, we continue to evolve our Infinite product and are excited about the launch of the Scotiabank Passport Visa Infinite Privilege Card, offering elite travel benefits for Canadians. The card provides travel rewards, insurance and exclusive perks. Moving to commercial and money movement solutions. As we drive further penetration of these opportunities, we have seen strong results in the second quarter with commercial volume up 6% in constant dollars, Visa Direct transactions up 28% and CMS revenue up 13% year over year in constant dollars.

Speaker 3
8m 47s

In Visa Commercial Solutions this quarter, we made progress on our strategy as we deepened our relationships with a number of existing clients. To capture the accounts receivable and accounts payable opportunity, we are utilizing product innovations such as embedded finance solutions to meet payers where they manage their business to drive adoption of cards. We are pleased that Lloyd's has signed a deal with Talia to issue and embed Visa Virtual Cards in the SAP ERP and procure to pay workflows of their customers. Our vertical specific strategies serve the needs of small, middle market and large businesses. In that light, we are supporting Itau in their card as a service platform, which offers credit and debit card issuance, product lifecycle management and digital accounts to businesses across agribusiness, real estate, auto and retailers. In the B2B travel vertical, we continue to see strong demand for innovative payment solutions to transact in multiple currencies, while enhancing payment security, reconciliation and operational efficiency. We expanded our agreement with Lianlian Global to launch a B2B travel solution in Hong Kong. Lianlian Global will also be utilizing Visa Direct's multi currency capabilities to support end to end collections and payouts. Continuing with Visa Direct, this quarter, we signed an important deal with Jack Henry to offer Visa Direct through their digital applications to facilitate rapid transfers among bank accounts and enable their community and regional financial institution clients to offer Visa Direct to their consumer account holders and SMBs.

Speaker 3
10m 52s

In the cross border space, Checkout.com is the first acquirer in The UAE to launch Visa Direct's push to card solution, enhancing real time money transfer capabilities for both cross border and domestic transactions. And in The U. S, we expanded our agreement with Tabipay, a money movement platform serving more than 6,500 fintechs and enterprises. Visa Direct will now be enabling push to account and wallet in addition to push to card. These are all examples of our strategic focus to grow our domestic and cross border business and expand with our existing customers for Visa Direct, the largest money movement platform in the world by transactions, volumes and endpoints. In value added services, we continued to deepen our relationships with our existing customers and also focused on attracting new customers with some of our recently acquired assets. Value added services revenue grew 22% in constant dollars, powered by strong growth across all portfolios. I'll share a few areas of success in the execution of our strategy. In Issuing Solutions, PISMO brings a holistic offering with credit, debit, prepaid and commercial issuer processing and core bank processing. We have a strong pipeline and we are well on our way to enter five new countries across four regions this year.

Speaker 3
12m 34s

Some recent deals to note include, first, in Latin America with Necky in Colombia and Banco de la Nacion in Argentina and in Asia Pacific with T2P in Thailand and Zenith Forex in India. Also in Issuing Solutions, we continue to grow our card benefits business. In Europe, Rafeisen Bank International in Austria recently launched the TravelCentive travel platform leveraging our solutions as well as added Visa's Priority Pass benefits to customers. In Acceptance Solutions, we recently announced two new product offerings. The first is a completely new version of Authorize.net, launching in The US next quarter and additional countries next year. It features a streamlined user interface, AI capabilities with an AI agent, ANet, improved dashboards for day to day management and support for in person card readers and tap the phone. It will help businesses analyze data, summarize insights and adapt to rapidly changing customer trends. The second is the new unified checkout experience. Available in The U. S. And in pilot stage in additional markets in Q4. As new ways to pay continue to emerge, merchants want to integrate once to accept all payment types to decrease the likelihood of lost sales at the point of checkout.

Speaker 3
14m 15s

Unified Checkout can be launched in a few hours with a deploy ready payment acceptance code. It is designed to deliver strong e commerce conversion rates with an intuitive checkout experience orchestrating over 25 card alternative payment options. Because Unified Checkout is part of the Visa Acceptance Solutions platform, customers also have access to fraud management, three d secure authentication and tokenization management. We also continued to grow our client relationships in Acceptance Solutions this quarter. For example, we have now become the payment service provider of choice for sporting goods retailer Decathlon, who has more than 2,000 stores in nearly 80 countries. Decathlon will be using our gateway and decision manager capabilities for their e commerce business. In Risk and Identity Solutions, since the closing of our acquisition of FeatureSpace, we have been actively pursuing deals and have signed over 20 clients globally. We also now provide an enhanced holistic fraud protection solution from FeatureSpace called the Adaptive Real Time Individual Change Identification or ERIC Risk Hub. This solution utilizes machine learning and AI solutions to enable clients to build more accurate risk profiles and more confidently detect and block fraudulent transactions, ultimately helping to increase approvals and stop bad actors in real time.

Speaker 3
15m 56s

In advisory and other services, our open banking platform powered by Tink provides payment initiation and account information services to sellers and payment providers or PSPs across Europe and The United States. In Germany, Tink and Audion are working with Recharge and Vodafone to provide their customers the option to pay by bank when checking out. Tink has reached a milestone of over 10,000 merchants choosing Tink's pay by bank capability via our more than 10 European PSP partnerships. Across our VAS portfolio, our innovations are designed to address specific challenges in the payments ecosystem and to provide secure, efficient and scalable solutions for businesses of all sizes. At Investor Day, I spoke about the evolution of our Visa as a Service stack. The foundation of our stack is our global connectivity and the infrastructure that Visa is built on, our network, our network of networks, and access to our credentials and acceptance. Then we have our services architecture, which contains the specific capabilities that we think of as the building blocks for everything that we do, like risk, settlement and more. Using these services, we create client solutions. We are taking these componentized capabilities and investing in and enhancing them to create new features and capabilities to offer them to a much broader array of customers and partners.

Speaker 3
17m 37s

And we strive to make it easier than ever for our partners and clients to access these solutions. I encourage all of you to tune in tomorrow to Visa's twenty twenty five product drop, where we will share how we continue to evolve the Visa as a Service stack to further our product development and lead in AI. You can watch live on our website at 10AM Pacific Time. Before I hand over to Chris, I'll share some thoughts on our business performance and the current environment. Throughout our history, we have evolved our network and strategy to deliver the best innovation, serve our clients and pioneer the future of payments. We saw the result of these efforts this quarter with our strong financial performance. Halfway through our fiscal year, consumer spending has been resilient and strong, but there's much uncertainty. Focusing on The U. S, in Q2 and through April 21, we have not seen any signs of overall consumer spending weakening. While spending growth differs among consumer spend bands with the most affluent growing the fastest, all spend bands remain resilient and consistent with past quarters. Within spend categories, there are some select areas such as in travel with airlines and lodging where growth has decelerated, but overall discretionary and non discretionary spend remains strong.

Speaker 3
19m 9s

Outside The U. S, we see similar stable trends. Within cross border, volume growth was in line with Q4 twenty twenty four levels. We have seen some impacts from currency weakness and travel to specific countries, but the overall growth was above the pre COVID trend. To wrap up, while we are certainly not immune to the macroeconomic impacts, our incredibly diverse business model has proven to be resilient in the face of a variety of environments, most recently in Q2. And we see this resilience playing out in our financial outlook, which Chris will cover in a moment. For the rest of the year and beyond, what I, our leadership team and our more than 31,600 employees are focused on is serving our clients and capturing the enormous opportunities ahead. We focus on what we can control and stand ready to make thoughtful adjustments when necessary. I am confident that our business model, strategy and employees will continue to keep Visa operating from a position of strength well into the future. And with that, I'll turn it over to Chris to review the financial results, discuss what we have seen so far in April and provide our expectations for the rest of the year.

Speaker 4
20m 35s

Thanks, Ryan, and good afternoon, everyone. Our second quarter results reflected strength in our business. In constant dollars, global payments volume was up 8% year over year and cross border volume excluding Intra Europe was up 13% year over year. Total process transactions grew 9%. Adjusting for the lapping of leap year, our trends were generally stable. Fiscal second quarter net revenue was up 9% year over year in nominal dollars and 11% in constant dollars, helped by resilient consumer spending, lower than expected incentives and better than expected value added services revenue. EPS was up 10% year over year and 11% in constant dollars, better than expected primarily due to stronger operating performance and a lower tax rate than expected. Let's go into the details. Total international payments volume was up 9% year over year in constant dollars in Q2, relatively consistent with Q1 when adjusted for leap year. U. S. Payments volume was up 6% with e commerce growing faster than face to face spend. Credit was up 5% and debit was up 7%. When we look on a monthly basis in The U. S, we had a strong January, a dip in February primarily due to the lapping of leap year and a relatively strong March, even with the fact that Easter was in March and in April, which resulted in Q2 year over year growth being below Q1, but better than Q3 and Q4 of twenty twenty four.

Speaker 4
22m 20s

When looking further at quarterly spend category data in The U. S, adjusted for leap year, we saw travel and entertainment growth decelerate, restaurant growth remained stable and retail and fuel growth improved with strong and stable total discretionary and nondiscretionary spend growth, reflecting resilience in consumer spending. Now to cross border volume, which I'll speak to in constant dollars and excluding intra Europe transactions. Before going into the detailed results, I wanted to spend a moment to discuss the makeup of our cross border business. From a geographic mix perspective, our total cross border volume is fairly well distributed, with no reported region comprising more than 25% of total cross border issued volume. Both e commerce and travel issued volume reflect a broad distribution as well. You may also recall that our total cross border issued volume mix is about 40% e commerce and 60% travel. So there is diversity by region and by spend type. Keep in mind that just as our cross border volumes are distributed, so are the associated revenues. Now on to the results. Total cross border volume was up 13%. E commerce was up 14% and travel was up 12%. There were several factors that contributed to the growth moderation from Q1 to Q2, including the lapping of leap year, the timing of Ramadan and Easter, weaker currencies in certain countries, and softer Canada to U. S. Travel.

Speaker 4
24m 5s

Some of these factors impacted our intra quarter trends, which varied slightly from US payment volume trends. While we saw a strong January and the February impacted by leap year, we did see a somewhat softer March. Even with these factors, as Ryan mentioned, the total cross border volume growth was in line with Q4 twenty twenty four levels and above the pre COVID trend. With that as a backdrop, I'll move to discuss our financial results, which were strong. Starting with the revenue components. Service revenue grew 9% year over year versus the 9% growth in Q1 constant dollar payments volume. Data processing revenue grew 10% versus 9% process transaction growth, primarily due to value added services and pricing. International transaction revenue was up 10%, below the 13% increase in constant dollar cross border volume excluding intra Europe, but in line with nominal volume growth reflecting the impact of FX. In addition, while we had higher volatility in Q2, this was offset by a number of factors including client mix and hedging. Other revenue grew 24%, primarily driven by growth in advisory and other value added services and to a lesser extent pricing. Client incentives grew 15% lower than expected primarily due to factors related to deal timing.

Speaker 4
25m 42s

Now to our three growth engines. Consumer payments revenue was driven by strong payments volume, cross border volume and process transaction growth. Commercial and money movement solutions revenue grew 13% year over year in constant dollars, driven by commercial payment volume growth of 6% year over year in constant dollars, consistent with last quarter and Visa Direct Transaction growth of 28% year over year to 3,000,000,000 transactions, below Q1 growth primarily due to the lapping of our initial ramp in Latin America for interoperability among P2P apps and the lapping of leap year. CMS revenue growth in Q2 moderated from the first quarter primarily due to lower cross border volume growth and the absence of the lapping benefit of one time items. Value added services revenue growth accelerated to 22% in constant dollars to $2,600,000,000 with strength across all portfolios led by issuing solutions and advisory and other and inclusive of feature space. Operating expenses grew 7%, primarily driven by increases in personnel, marketing and depreciation and amortization. This was lower than we expected, primarily due to a more favorable FX impact from balance sheet remeasurement and some marketing campaigns and advisory services related expenses being shifted to Q3. Our tax rate for the quarter was 16.9%, lower than expected due to several items, including a change in our geographic mix of earnings.

Speaker 4
27m 28s

EPS was $2.76 up 10% over last year with an approximately 1.5 point drag from exchange rates and an approximately 0.5 drag from acquisitions. In Q2, we bought back approximately $4,500,000,000 in stock and distributed $1,200,000,000 in dividends to our stockholders. At the March, we had 4,700,000,000 remaining in our buyback authorization. And in April, the Board of Directors authorized a new $30,000,000,000 multi year share repurchase program. Now let's move to what we've seen so far in Q3. Through April 21, driver trends have been strong with some benefit from Easter and Ramadan timing. U. S. Payment volume was up 8% with debit up 9% and credit up 7% year over year. Processed transactions grew 12% year over year. For constant dollar cross border volume, excluding transactions within Europe, total travel and e commerce cross border volume each grew 13% year over year. Now on to our expectations. Remember that adjusted basis is defined as non GAAP results in constant dollars and excluding acquisition impacts. You can review these disclosures in our earnings presentation for more detail. As we said many times, we are not economic forecasters. The potential impacts from tariffs have led to higher levels of economic uncertainty.

Speaker 4
29m 10s

That being said, what we've seen thus far in our results is relative resilience in consumer spending. So with that as a backdrop, let me cover some of our key assumptions that are incorporated. For cross border volume, our assumption is that Q3 and Q4 volumes are in line with the average of March and April, which normalizes for Easter and Ramadan timing as well as accounts for other factors I referenced when describing Q2 results. This puts Q3 and Q4 cross border volume growth slightly below Q4 twenty twenty four levels. For volatility, we have seen high FX volatility thus far in April, but assume this will moderate starting in May and remain level for the remainder of Q3 and Q4. This puts Q3 just above Q2 and Q4 more in line with Q2. For incentives, as a result of some client performance adjustments and deal timing, we are assuming that the year over year growth in incentives in the back half will be higher than the first half with sequential step ups in Q3 and Q4. Pulling it all together, we expect third quarter adjusted net revenue growth in the low double digits, essentially in line with Q2.

Speaker 4
30m 33s

Moving to operating expenses. As we had some timing impacts of expenses in the second quarter, we now expect those to occur in the third quarter with adjusted operating expense growth in the low double digits, relatively consistent with adjusted revenue growth. Non operating income in the third quarter to be approximately $150,000,000 which includes a benefit from the reversal of accrued interest expense due to the resolution of a tax matter. And our tax rate in the third quarter is expected to be between 1717.5%. As a result, we expect third quarter adjusted EPS growth to be in the high teens. For acquisition impacts, we expect a minimal benefit to net revenue growth and approximately one point contribution to operating expense growth and an approximately zero five point headwind to EPS growth in the third quarter. Moving now to the full year. Our full year guidance for adjusted revenue growth, adjusted operating expense growth, non operating income, tax rate and adjusted EPS growth remains unchanged. In summary, we delivered another strong quarter in Q2 and our business remains steady. As Ryan said, throughout our history, we've managed through different economic cycles and we're confident we'll manage through this period as well.

Speaker 4
32m 3s

Now Jennifer, it's time for some Q and A. Thanks Chris. And with that, we're ready to take questions.

Speaker 1
32m 28s

Our first question comes from Tien Tsin Huang from JPMorgan. Please go ahead.

Speaker 5
32m 34s

Hi. Thanks a lot. Good results here. It looks like the consumer is pretty resilient. So beyond volumes, I wanted to ask if you've seen any noticeable change tone on client decision making, pipelines, backlog. I'm definitely curious about international clients and maybe if they're changing the speed with which they're working with Visa.

Speaker 3
32m 58s

Hi, Tien Tsin. The bulk of the time we've been spending with clients over the last several months has been sharing our data, sharing our products and solutions, working with our advisory teams, really helping them to navigate this environment. That's been the bulk of what we've been doing. I mean, this is this is the time when we try to be at our best with our clients. We we I talk to our teams every week to make sure they're out in the offices of our clients leaning in to work with them. And that's been the bulk of how we've been spending time with our clients, helping them make sure they have all the data and information and tools and solutions they need to run their business most effectively, which, you know, many of them run very, very complicated businesses. You know, over time, there could be conversations about, you know, partnership arrangements and deals and those types of things, but that's not been the bulk of how we've been spending our time today. Next question.

Speaker 1
33m 55s

Next, we'll go to the line of James Faucette from Morgan Stanley. Please go ahead.

Speaker 6
34m 0s

Thank you so much. Wanted to ask about what you're seeing around bookings around international travel and travel generally. You highlighted there have been a little bit of slowing growth there maybe domestically, but overall still remain good and maybe impacted by FX, etcetera. But we've seen a lot of FX moves. So just wondering how you're feeling about the travel outlook on a go forward basis and anything you can glean from early bookings, etcetera. Thanks.

Speaker 4
34m 30s

Hi hi, James. Yeah. I we covered a number of moving parts in our travel and cross border business as it impacted q two, and gave some assumptions about what we anticipated going into, you know, the back half of the year. I think I I'll make two points. One is, obviously, the situation is is quite fluid, and we're monitoring the data very closely. And and we're really relying on facts and facts and the and the results that we see them. But the second point maybe is is even more important is that, you know, when we look across our business, you know, we talk about the diversity of our business across in many dimensions. Regional is one of them. But certainly, when we look at our cross border business, whether that's issued or acquired, we also benefit from that diversity. And when it comes to inbound travel into The US, The US specifically actually is one of the smaller regions as measured by cross border inbound travel volume, even though it does have strong yields. And so, you know, we just keep that in mind. We'll have to watch how the data, comes in, but but we have great diversification in our cross border business, and we anticipate that we'll be able to navigate this period.

Speaker 4
35m 44s

Next question.

Speaker 1
35m 46s

Next, we'll go to the line of Sanjay Sakhrani from KBW. Please go ahead.

Speaker 7
35m 51s

Thank you. Chris, just to follow-up on your point just now on the corridors and The U. S. One specifically. Obviously, we're hearing a lot of travel information, how things are falling off coming into The U. S, especially from Canada. Maybe you could just talk about what kind of assumptions you've made for the remainder of this year because I know that has an impact on sort of the economic return from each of those corridors. So maybe you could just help us with that. And then just curious, inside of the volumes that you saw intra quarter and even early in April, did see any evidence of a pull forward of spending? Thanks.

Speaker 4
36m 26s

Got it. Hi, Sanjay. Two part question. Let me address actually the second one first because that's a quick one. There was some evidence of pull forward in certain categories. Electronics is is one of them, and and it was mostly in sort of the first part, of April, and and we shared with you the the data through the twenty first. And, actually, while I'm speaking about April, you know, I just saw the data through the twenty eighth, just this morning, and that's, you know, relatively unchanged as well. And so there's no meaningful differences even as we get further into April. And so, from a pull forward standpoint, you know, we may have seen a little bit in the April, but, all by and large, not a meaningful, impact to our, total growth. And then going back to cross border assumptions. So I shared a number of them. I and I and I went through, you know, in my prepared comments, the number of the items that impacted, the cross border numbers in the month of March and, as it as it pertained also to the month of April. Ramadan and Easter were two that that had timing differences that impacted March and April.

Speaker 4
37m 35s

But then I I spoke to two other factors. One, a broader category around currency weaknesses, and curse currency weaknesses have an impact on purchasing power, obviously, abroad. We had the US dollar weakening, but we also had currency weaknesses in LAC, in Mexico, in different countries throughout Asia. And so that's also, impacting the results that we saw in in March and April. And then the last one, of course, is Canada. And I referenced it, you know, on the call. I could give a little bit more color. I mean, we did see a meaningful slowdown, in the Canada to US border. But, again, keep in mind the diversification of our business. And so, you know, the fact that, you know, as I just mentioned in the last question, the fact that The US is one of the smaller regions as measured by cross border travel inbound volumes. And so when you add that up, it's it's really not a it's a very small percentage of our global travel volume, and the revenue impact shouldn't be meaningful. And so what we did in terms of assumptions is we took the average of March and April, which we think accounts for all of those items, And we extended that through the remainder of the, fiscal year, and that would put cross border at, just below what we finished, FY '20 '4 at in, in q four.

Speaker 8
38m 54s

Next question.

Speaker 1
38m 56s

Next we'll go to the line of Andrew Schmidt from Citi. Please go ahead.

Speaker 8
39m 1s

Hi, Ryan. Hey, Chris. Thanks for taking the questions this evening. Maybe to dig into value add services, good to see the robust growth there. Maybe you could just unpack that and just talk about your viewpoint and how that performs through the cycle. Obviously, there's a range of revenue models in their transaction based, project based and recurringsubscription. But if you don't pack that, that'd be great. And then any detail on how you're thinking about value add services growth in the back half would also be helpful. Thanks so much.

Speaker 4
39m 30s

Yeah. Why don't I just talk a little bit about the business?

Speaker 3
39m 32s

And then, Chris, I'll let you talk about some of the financial aspects of the question both in terms of what drove, the strong performance in the quarter and also, where things are headed. Yeah. We just we we feel really good about, the strategy, our execution, our products. You know, I highlighted some some really exciting new products in my prepared remarks. And, you know, I was just gonna go back to some of the things we shared with you at investor day about our execution approach. You know, we're know, we've got, you you asked a little bit about some of the the business drivers of what happens there. And we've said, you know, about 65% of our revenue is really about enhancing Visa payments. But we've been really making a lot of progress on the incremental opportunities to enable all different types of payments, not just Visa payments, and the services that then go beyond payments. If I, you know, kinda go back to an example in my prepared remarks, you know, I talked about, the the authorized.net platform that we've relaunched and we're relaunching. That's a great example of enabling all different types of payments. And that's gonna be, we think, a a really positive impact in the market specifically focused on growing our share in small business checkout.

Speaker 3
40m 49s

You know, you go back to what I mentioned in terms of our unified checkout experience that will impact all different sizes of sellers on our platforms. You know, those are two examples, obviously, in the acceptance business. But, you know, you go back to our issuing solutions business. We're having great progress with Pismo and a lot of our other solutions there as well. Our risk and security solutions business, really excited about the progress in market we've made since we acquired, FeatureSpace. And then, you know, in our advisory and other business, we've been having some really strong success as well. So, thanks for that question. Chris, you wanna hit a couple of the financial parts of it? Sure. I'll I'll just add on top of that. You know, I think, Andrew, I think the heart of your question is, you know, how, in addition obviously, Ryan covered all the the, you know, sort of the highlights of the business performance. I won't, reiterate those. But I think, you know, part of your question was what what could potentially happen to VAS in in different sorts of cycles. And the way that I would, you know, think about it, the way we think about it is obviously, you know, a lot could happen.

Speaker 4
41m 51s

We're we're monitoring, the, you know, sort of the macro situation. We're we're not economic forecasters. But the thing I'll say about our business, you know, I I made the point about diversity previously. You know, what does that mean, you know, with a little bit more color? You know, we have for example, our business today, you know, if I compare it to previous economic cycles, we have more, exposure to everyday spending. We have a bigger debit business. We have more ecommerce spend. We're more diverse geographically. And so, you know, you gotta think about sort of how the business might get impacted today, and it might be different from previous cycles. And we do have, you know, greater diversification broadly. And then as it comes to that, specifically, as Ryan said, there's a a a you know, 65% of the business has a close correlation to Visa transactions. And so that part, you know, depending on how the business would respond, could have a closer relationship. But there's a a great diversification there as well, as we have a a good portion of the vast business that is, independent of Visa transactions. And so, you know, when I think about that in total, I think there's a good resilience and diversification there as well.

Speaker 3
43m 3s

Next question.

Speaker 1
43m 5s

Next, we'll go to the line of Will Nance from Goldman Sachs. Please go ahead.

Speaker 10
43m 10s

Hey, guys. Appreciate taking the question. Chris, was wondering if you could double click again on some of the comments you shared around the incentives outlook. I think you've been talking about a pretty front loaded renewal schedule. I thought I heard, but correct me if I'm wrong, the outlook is for modest increases in the growth rate over the next two quarters, but I may have misheard that. But if that was the case, can you just talk through cadence and some of the drivers, kind of help square that with the front loaded renewals? Appreciate it. Thank you.

Speaker 4
43m 37s

Sure, Will. Thanks for question. You did hear correctly, and let me try to add a little bit of color and clarify. Q two incentives, grew 15%, came in, lower than we had anticipated, primarily due to factors related to deal timing. I covered that on the call. In terms of what we expect for the full year and into the second half of the year, we've updated the expectation, that in the back half of the year, our growth would be, slightly higher than originally expected due to two factors that we called out. One is client, related performance adjustments, and the second is deal timing, which means, specifically anticipated, early renewals. And so when we, reforecast the second half of the year, we do expect the second half to grow, higher than the first half of the year, and we do expect that sequentially to be q three a little higher than q two and q four to be a little higher than q three. And, and then maybe the final thing I'll say is, you know, when we look at the volume of payment volume that was impacted by renewals, we we still believe, that we have, the same expectation that we started the year, which is, 20%, of the of the payment volumes being impacted.

Speaker 2
44m 51s

Next question.

Speaker 1
44m 53s

Next, we'll go to the line of Timothy Chiodo from UBS. Please go ahead.

Speaker 11
44m 58s

Great. Thank you. Chris, I want to dig in a little bit more on the delta between nominal cross border volumes and nominal international revenue. I think you did a great job going through the items. But to recap, there's the FX volatility, there's the quarter and client mix, there's a pricing aspect, and then, of course, there's the hedging, which impacts the revenue but not the volumes. I think you touched on the FX volatility, meaning not assuming in the guide that the high levels will persist, which is a good conservative approach. You talked around quarter mix and the yields being higher for U. S. Inbound. The one I was hoping you could drill in a little bit more is pricing because I know previously the guidance talked a little bit about pricing being a second half of the fiscal year event. So whether it be specific to cross border or for the whole business, maybe you could just touch a little bit on that pricing topic.

Speaker 4
45m 46s

Sure. Hi, Tim. Yeah. Let me parse those apart a little bit. You you covered, you know, my point on international transaction revenue. As you pointed out, we grew 10%, which was in line with the nominal volume growth, but below the 13% constant currency. That's the impact of FX. And and I covered a number of items, that, that impacted that in addition to FX, higher volatility, and some offsets there that you mentioned. Happy to give you more color on those, but let me hit to your second point, which is the our expectations on the full year on pricing. Just to remind everyone, at the start of the year, we said we would anticipate that the pricing contribution to growth in the full year would be similar to the previous year, but the timing would be a little bit different where we'd have more back end loaded pricing. That's still our expectation. We don't have a different view. We do believe that pricing will benefit in the second half more than it did in the first half this year.

Speaker 2
46m 43s

Next question?

Speaker 1
46m 44s

Next we'll go to the line of Darrin Peller from Wolfe Research. Please go ahead.

Speaker 9
46m 49s

Hey guys, thanks. If you don't mind just going a little deeper into the FX vol offset by what you just said, customer mix and hedging. Guess it's just if you can explain a little more. I know that corridor and mix on corridor could be a factor. As you said, U. S. Volume inbound could have higher yield. But we haven't necessarily heard you call out hedging much before in the business and would assume that FX vol benefits would have been more of an offset. So maybe just explain a little more of the hedging or the mix dynamic and what exactly happened. And then just a quick add on would be de minimis and whether or not from an ecom standpoint, crossborderecom, it's something that you you're factoring in or thinking about having any any way to think about how to factor that into the model going forward.

Speaker 6
47m 30s

Thanks, guys.

Speaker 4
47m 31s

Got it. I got the both those questions, Darren. So let me give a little bit more color. Again, just to just to give dimensionalize again, the 10% growth in transaction revenue, which is in line with the nominal, growth. And so, you know, that three point delta, you could think the big portion of that is FX. And then to your point, higher volatility, which we said in April was was, would higher in q two and and, you know, throughout April. The two items, which I could give a little bit more color on, I called out client mix and hedging. So client mix, we obviously have different clients, throughout the portfolio there, and different clients have different pricing and different yield dynamics. And so it really depends on specific client performance and which clients are growing and where, and that could have an impact on our revenue yield. And in this case, it was a bit of a drag against the, against, you know, relative to the 13%, constant currency volume growth. And then on hedging, we hedge a portion of our cash flow exposures. This quarter, we did have a gain in q two. We had a year over year gain, related to that hedging, but it was lower than the gain that we recognized a year ago in q two.

Speaker 4
48m 43s

And so that became even though there was a gain, it was a it was a drag again. It was a reconciling item between the two, the 13 and the 10%. So those are the two items that primarily offset the higher volatility that we recognize in international transaction revenue. And then your second question, Darren, on de minimis. You know, if we look at if we look at, you know, sort of the whole situation with China, so far, we're not seeing a material impact from tariffs related to China and specifically, spend associated with the de minimis exemption. It's just not a material portion of our volumes, and we wouldn't expect any material impact.

Speaker 2
49m 18s

Next question.

Speaker 1
49m 21s

Next we'll go to the line of Jason Kupferberg from Bank of America. Please go ahead.

Speaker 12
49m 26s

Thank you guys. I wanted to ask about U. S. Volume growth. I know we went from 6% in the March to 8% month to date. So I'm just curious if you normalize for effects of Easter. And I know Chris you mentioned a little bit of pull forward to spend ahead of the tariffs. Should we be just assuming some moderation off the April levels of of 8% given given those factors? Just wanna make sure we've got the, you know, the modeling square there so we don't over extrapolate from a few weeks of data. Thanks.

Speaker 4
49m 59s

Yeah. Good question, Jason. I you know, it's the overall environment. I'll go back to some of the comments Ryan made. The overall comment, the overall environment remains stable, healthy, and steady. You know, whenever we give the month to date date data, I always disclaim it by saying, you know, two or three weeks or three weeks in this case, don't make a trend. We'll have to see how the rest of the quarter plays out. The 8% in the month to date does reflect some benefits from the timing of Easter. I called that out earlier in the comments. We'll have to see how the quarter comes together, but I I think the overall message that I would, convey is that, you know, it's stable and and consumer remains resilient, and I wouldn't read too much into the the six versus eight at this point.

Speaker 2
50m 43s

Next question.

Speaker 1
50m 45s

Next, we'll go to the line of Brian Keane from Deutsche Bank. Please go ahead.

Speaker 9
50m 50s

Hi, guys. Thanks for taking the question. Just want to ask about the entertainment weakness, where you saw that exactly and do you expect that to continue going forward? I was just thinking about the the different affluent group maybe growing faster versus other bands, and just the outlook there. Thanks.

Speaker 4
51m 9s

Yeah. A couple things I'd point to. One is, you know, trans sort of triangulating around the data. You know, the most important thing, I think, to keep in mind is that when we see when we talked about discretionary versus nondiscretionary, they're both quite strong and healthy relative to the previous quarter. And so within that, we did have some puts and takes. You know, I mentioned some travel and entertainment, but also offset by retail goods as an example. And so, you know, there are puts and takes. There are some moving parts within that, but overall healthy stable volumes, whether it's discretionary or nondiscretionary. And as Ryan pointed out, even as we look across spend bands, the the consistency of the performance in previous quarters, while, obviously, higher spend bands are growing faster than they have been for several quarters, the the quarter on quarter, performance remains stable and consistent. Next question.

Speaker 1
52m 7s

Next, we'll go to the line of Dan Perlin from RBC Capital Markets. Please go ahead.

Speaker 13
52m 12s

Thanks. Just given the geopolitical backdrop, I'm just wondering, Ryan, if it changes in any way your views of how you're placing like your investment bets. I mean, not the long term one, but maybe more near term. So like risk on your payback periods, specific geos that maybe you were thinking were kind of more short duration in nature, but now you want to throttle back or even M and A opportunities that you might see that potentially could be created in this in this backdrop? Thank you.

Speaker 3
52m 38s

Yeah. Dan, maybe I'll back up one step and just kinda talk about the macro environment a little bit And and then and then kinda zone in what you're saying. I mean, you know, there's obviously more uncertainty today among consumers and businesses than there was several months ago. You see that in the consumer confidence metrics. It's not surprising. But I think what you've heard from us in our prepared remarks today and from the many questions that Chris has answered, if you look at the facts, you know, in in what we can add to the conversation in terms of spending, it it remains strong and resilient. You add to that, you know, just looking in The US, employment remains strong, wage growth remains steady, inflation's moderated, consumer balance sheets remain relatively healthy. So, you know, we're we're kinda balancing the uncertainty that, you know, we all have with the facts. And the facts show a a lot of resiliency in what we're seeing. And so when we look at all of that, we remain very committed to our product road map, our investment road map. We are as confident today as we've ever been in the opportunities that we're going after across all three of our growth levers, consumer payments, value added services, and commercial and money movement solutions.

Speaker 3
54m 5s

But as I mentioned on the call, we're constantly looking at scenarios. We are, very, kind of dialed in to what could happen. And if and when we see facts that lead to changes, we'll be ready to make, you know, changes in our investment profile and and our product pipeline. And then, you know, you mentioned m and a. I think if anything from the position of strength that we operate, I'm optimistic that the current situation as I described it could create more opportunities for us around the world than might otherwise have happened. But we'll obviously have to just wait and see how that all plays out. Next question.

Speaker 1
54m 49s

Next, we'll go to the line of Adam Frisch from Evercore ISI. Please go ahead.

Speaker 14
54m 53s

Hey, thanks for squeezing me in. My extrapolation of your guidance is that there's a little bit of weakness kind of just more related to cyclicality as opposed to anything more crazy. You guys can absorb that. Correct me if I'm wrong on that assumption. But if macro conditions shift materially and much more quickly than expected, can you remind us where your key levers are in terms of revenue, like pricing or cost management in terms of marketing and stuff would allow you to keep pace with the rate of change if it were to be faster and protect your margins? Thanks.

Speaker 4
55m 26s

Yeah. Hi, Adam. You know, I I I touched on some of these points a little bit ago, but let me just expand on them because I think, you know, it it's sort of an interesting way to think about it. You know, obviously, every recession is different. But over, you know, the course of time and over history, Visa has proven to be quite resilient even during these economic downturns. We don't know what's gonna happen. You know, we're not economic forecasters, but the management team here is is ready to move decisively should the need arise. Now, you know, our business is resilient. I talked about the diversification of the business, more exposure to everyday spend, more exposure to debit. Even our, cross border, volume is more ecommerce today than travel, than it was if I think about, you know, pre COVID levels. And so that diversification helps us. And so, you know, if there was a downturn, I think our performance during this potential economic slowdown, we would be resilient, and it could impact our business. If you think about it, you know, between volumes and revenue, volumes historically grown faster than PC. Even if PC slows, we're confident that we can continue to grow faster than that for all the reasons I spoke about.

Speaker 4
56m 42s

And then the one other thing I'd add is on the revenue front, remember that incentives are largely variable. And so to the extent that volume growth does get impacted, there could be an offset on incentive. On the expense side, you know, I think we've also historically shown we could flex our expenses. We could make we obviously wanna balance between short and near term and long term priorities. We don't wanna overreact to anything. We wanna be thoughtful about making sure that we're investing in the right areas to ensure the Visa is successful over the long term, but we do have levers. And, this is a management team that stands ready to ready to act.

Speaker 1
57m 20s

Next question. Next, we'll go to the line of Ramzi Alasal from Barclays. Please go ahead.

Speaker 9
57m 27s

Hi. Thanks for taking my question. Stablecoins seem to be having their moment, maybe helped along by clear regulations. I know you called out your strategy there, including this reaching $200,000,000 of settlement flows. What are your latest thoughts on the demand for those stable settlements or other stablecoin payments? Are you seeing or expecting an inflection? What are your what are your clients saying? Thanks.

Speaker 3
57m 52s

It's still early, but we do see real potential, which is why, you know, we've been investing in the crypto space broadly and the stable coin space specifically for many years now. We've built up a team of real experts that I think are very well respected among the ecosystem. But it's early. You know, on the one hand, $200,000,000 is a is a is a great kind of milestone. On the other hand, it's still a relatively a very small portion of our overall settlement volume. I guess I'd say a couple of things. One is, you know, we are optimistic about the, you know, kind of the US government passing more clear and pragmatic regulations. I think not just in The US, but hopefully other countries as well. We are continuing to push forward with the settlement work that you mentioned, but we're also exploring an an you know, kind of a broader set of product up product opportunities and partnerships in the stable coin space. I might use that as a little bit of a pitch to join, our product drop tomorrow, which I mentioned in my prepared remarks, but, you know, our team will talk about some of those things, as well.

Speaker 3
59m 5s

So as you said, there's there's a lot of a lot of activity and discussion about stablecoin space right now. I think the tipping point, will be more clear and pragmatic regulations. But I do think in the big scheme of things, certainly as it relates to our broader business, it's still very early in the development.

Speaker 2
59m 23s

Last question, please.

Speaker 1
59m 26s

And for our last question, we'll go to the line of Harshita Rawat from Bernstein. Please go ahead. Good afternoon. Ryan, Visa has managed government nationalism risk for decades as a company. How do you think about navigating that risk in the current environment being a US based company operating globally during trade disputes? Thank you.

Speaker 3
59m 49s

Thanks. If I heard your question right around how are we navigating all of this, You know, we we regularly engage with governments and regulators in every country where we operate. We have a, like, a world class government engagement team, in all of our regions and all of our major countries, but it's also our country managers day in and day out. They are deeply engaged with the governments and countries in which we operate because we are an extraordinarily important partner and company in every country we operate around the world. And our engagement now is it's important. It's as important as it's ever been given, you know, the challenging and uncertain environment that you mentioned. What I would say is nationalism is nothing new. You know, as long as we are permitted to operate in a country or territory, even if it's been more difficult for us to operate there than it has historically, we have a proven track record of being successful. You know, we're used to operating in highly regulated markets and environments around the world. We've got tailored strategies which we've tested in other markets with similar conditions and, you know, we tailor those to the unique needs of our clients and our partners in every one of these markets.

Speaker 3
1h 1m

And we're working with, you know, our clients and partners to regularly educate the government and the regulators and the elected officials in those countries about not just what matters most kinda domestically in their market, but the complexities of the global payments market and, you know, what we need to be doing together to help them in in their market. So it is as complicated as I remember it, but we have the experience, the people, the products, and services to put to work in these countries around the world, and we feel good about our ability to navigate it.

Speaker 2
1h 1m

And with that, we'd like to thank you for joining us today. If you have additional questions, please feel free to call or email our Investor Relations team. Thanks again, and have a great day.

Speaker 1
1h 1m

Thank you all for participating in Visa's fiscal second quarter twenty twenty five earnings conference call. That concludes today's conference. You may disconnect at this time and please enjoy the rest of your day.