Q1 2021 Earnings Call

Company Participants

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

Other Participants

- Bryan Keane, Analyst
- Craig Maurer
- Darrin Peller, Analyst
- David Togut
- Harshita Rawat, Analyst
- Jason Kupferberg, Analyst
- Lisa Ellis, Analyst
- Piper Sandler, Analyst
- Trevor Williams, Jefferies
- Tsien-Tsin Wong, Analyst

Presentation

Operator

Okay. Ladies and gentlemen, thank you for standing by and welcome to the Q1 2021 Mastercard, Inc Earnings Conference Call. (Operator Instructions). I would now like to turn the call over to Warren Kneeshaw, Head of Investor Relations. Thank you. Please go ahead.

Warren Kneeshaw {BIO 16549173 <GO>}

Thank you. And good morning everyone and thank you for joining us for our first quarter 2021 Earnings Call. We hope you all are safe and sound. 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. 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. With the release and the slide deck, both include reconciliations of non-GAAP measures to GAAP reported amounts. Finally as set forth in more detail in our earnings release, I would like to remind everyone that today's call will include forward-looking statements regarding Mastercard's future performance. Actual performance could differ materially from these forward-looking statements. Information about the factors that could affect future performance are summarized at the end of our earnings release and in our recent SEC filings. A replay of this call will be posted on our website for 30 days. With that I will now turn call over to our Chief Executive Officer Michael Miebach.

Michael Miebach {BIO 16087573 <GO>}

Thank you, Warren and good morning everyone. So here are the headlines. We started the year with good momentum delivering positive net revenue growth this quarter. We are encouraged by the return of domestic spending levels to pre-pandemic trends. We continue to execute against our strategic objectives as we signed notable new deals, advanced our multi-real strategy by closing our transaction with Nets. And extended our digital identity capabilities with the planned acquisition of Ekata.

So let's dive looking at the broader economy first. Domestic spending level showed continued improvement with very strong e-commerce sales. According to our quarter one SpendingPulse reports, which is based on all tender types US retail sales were up 11.8% versus a year ago ex auto, ex-gas. This reflects the impact of fiscal stimulus and the lapping of the start of the pandemic. Spending costs also indicated an overall European retail sales got close to flat in quarter one versus a year ago. The vaccine rollout has become scaled in the US, UK and several other countries and broadening this critical effort is underway, that will take time.

Let's turn to our business specifically and the 4 phases framework we established for managing through the COVID environment. At this time last year markets were going through the containment and stabilization phases. We now believe many markets are transitioning from the normalization phase to the growth phase domestically. Cross border travel spending continues to be in the stabilization phase where spending is restricted due to closed borders.

Looking at Mastercard spending trends, volumes continue to improve quarter over quarter with strength across products. We saw particular strength stimulus and share gains. In terms of how people are spending e-commerce continues to be strong and we are seeing improvement in card present spending. On the travel front, we've seen some recent improvements in domestic travel primarily personal travel, cross border travel remains limited as border restrictions remain in place for most markets. Cross border card-not-present spending excluding online travel spend continues to hold up well. As we have observed in many markets progress is not always linear. We believe there is significant pent-up demand for travel as you've just seen in domestic travel.

We expect domestic travel to improve progressively throughout the year in countries with strong vaccination programs. International travel should start to open on a selective basis in the second half of the year between countries strong vaccination programs and/or low case rates. In the meantime we remain focused on building on our already strong position in travel, engaging travelers early through our loyalty programs and expanding relationships with our partners in travel. As a result, we are well positioned to capitalize on this opportunity when it occurs. As we look forward and see positive momentum in the drivers that impact our top line growth, we will increase the investment we put toward our strategic priorities. One, by our share of core payments; two, deploying a broader set of services, three enabling digital solutions and four providing choice as multi-rail capabilities.

As always, we will do and bottom line growth over the long term along with expense discipline. Let me illustrate how we're executing against each of these strategic priorities. I will begin by sharing how we are driving growth in the core, how we supported our differentiated services capabilities. Here are a few key examples. Building on our strength in US retail co-brands, we're excited the Mastercard was chosen as the exclusive network for gatherings co-branded credit costs across the Old Navy, Gap and Banana Republic and Athleta brands. This partnership will include a reimagined rewards program to drive increased customer engagement with the migration of existing card members planned for 2022.

We had a long time services relationship with Gap, which led to additional opportunities to support both the co-brand programs and their broader business. We're also leveraging our differentiated services to expand relationships with key global partners like Santander. This quarter we signed a new deal with Santander Brazil and executed a long-term exclusive partnership with Superdigital Santander Fintech arm to provide digital prepaid accounts across 7,00,000 American markets. Also, we are happy to announce that the financial arm of one of the largest region is migrating its entire closed-loop consumer credit portfolio to Mastercard exclusively for 10 years. This strategic partnership includes our processing capabilities. It will contribute to growing Mastercard overall credit share in the region.

Talking about share I would also like to point out that the migration of Santander UK debit portfolio is progressing well and we're preparing for the other conversions to be previously announced. Finally, we secured several strategic renewals and expansions. As many of you know Huntington Bank announcements anticipated acquisition of TCF at the end of last year, which will make them a top 10 US regional bank,. I'm happy that they have decided to both renew their existing business with us and convert the TCF business to Mastercard. This brings significant new debit volume to our brands. We've also expanded our relationship with Synchrony Bank, the exclusive partner for their general purpose consumer credit portfolio.

Turning to the next strategic priority. We continue to enable digital solutions to drive the secular shift to electronic payments. A great example of this can be seen through the partnerships we have established with several leading mobile telecom providers across Africa and other regions. In Africa, there are more money accounts than bank accounts and consumers increasingly expect digital financial services to be provided through their mobile phones.

Now, we signed a multi-year partnership with the MTN Group to enable millions of the MTN Mobile Money Wallet customers with a Mastercard virtual payment solutions. We've also expanded our partnership with the Airtel Group to equip their Airtel Money customers with virtual cards and QR solutions and we've extended our partnership with the Airtel Payments Bank in India along with the recent investment in Airtel Mobile commerce.

While our digital capabilities are enabling us to penetrate new geographies, our multi-rail strategy is allowing us to provide greater choice and capture new payment flows. We're happy that we have now completed the acquisition of the majority of the corporate services division of Nets which reinforces our leadership position in providing real-time payments, infrastructure and applications. This transaction significantly enhances our application capabilities inclusive of our robust set of bill payment solutions, which are operating at scale across several markets.

Furthermore, this is an integral component of our regional strategy in Europe, enabling us to operate as a local partner. We see significant opportunity to expand these capabilities. Speaking of Bill Pay in the US, we continue to scale our Bill Pay Exchange solution through new billers and bank partners.

We're excited to announce that Verizon connected the most recent national bidder on the platform.

Turning to cross border applications, we have now fully integrated our acquisition of TransFast and can now provide unsurpassed reach via a single point of access that allows banks and digital partners to send and receive money through bank accounts, mobile wallets, cards and cash payouts to over 90% of the world's population in more than 100 countries. (technical difficulty) United Nations Federal Credit Union, Saudi British Bank to expand their reach to additional markets. And both Bancorp and IDT payment services now leverage our capabilities for cross border remittances.

And in addition, we have extended our partnership with Western Union, who will be using our capabilities to allow customers in 18 European countries to transfer funds directly to debit cards in near real-time. Our multi-rail capabilities are critically important to our efforts in open banking as well, enable us to provide our customers across banks and Fintechs with greater flexibility in how they manage both payment and data flows. We're off to a strong start with Finicity as we've integrated our sales teams and already signed several new connectivity partners and application users.

For example we are live with our state of the art API based data access to several large banks, including US Bank as well as with the leading payroll processor representing millions of employees. Finicity was also selected by companies like Upgrade, SWBC, MoCaFi, MoneyLion and Tomo credit to provide permission based access to financial data including mortgage, lending and of course payments.

We're expanding our open banking capabilities in Europe as well as we are now live with our open-banking connect solutions with Lloyds Bank in the UK for consumers to make payments to their credit cards. We continue to see a great deal of interest and activity in digital currencies and we're innovating in this space through New Crypto and CBDC partnerships and enabling digital currencies on our network and continuing our investments and underlying blockchain technology as part of our multi-rail strategy.

We have several new crypto partnerships approved for launch this quarter including a partnership with Gemini, a leading crypto platform here in the US to launch a first of its kind cryptocurrency rewards credit card that allows consumers purchases and over in Spain (technical difficulty) is launching a Mastercard crypto card.

On Central Bank digital currencies, we continue to engage with central banks around the world and our virtual testing time is helping them design features valued interoperability with existing payment systems and partnership with the Central Bank with Bahamas and Island Pay (inaudible) we launched the world's first CBDC linked payment cards enalbling people to pay for goods and services using fiat currency anywhere Mastercard is accepted.

Digitalization is critically important as the shift to digital economy continues. It is a foundational component of our multi-layered approach to security and it allows us to help consumers and businesses safely and easily prove their identity while enabling them to remain control over their information. Last week we announced the planned acquisition of Ekata which advances the digital identity efforts we have underway. Ekata has access to validated identity information on a global basis and leverages artificial intelligence to produce highly accurate identity scores. Ekata's insights support multiple payment and non-payment use cases including new account openings, instant issuance and transaction risk checks that are used by a broad range of customers including leading digital merchants, financial institutions, travel companies and digital currency platforms. This is an example of how we are entering into adjacent areas and innovating beyond the core payment transaction.

And now back to the bigger picture, we're leveraging our business to have a broader impact on society by executing our commitment to bring 1 billion people into the digital economy by 2025. Specifically on the environmental front, we have pledged to achieve net zero emissions by 2050 and issued a sustainability bond and our last quarter support these efforts.

Furthermore, our Mastercard carbon calculator developed in collaboration with Doconomy is enabled on our network to provide consumers the snapshot of carbon emissions generated by their purchases. We worked with customers to issue a 10 million cards using sustainable materials. If we tie all of this together we are now linking executive comp to Mastercard's sustainability priorities.

With all of that in mind, I continue to be excited about the opportunity ahead and I'm happy with the progress we're making against our objectives. With that Sachin, over to you.

Sachin Mehra {BIO 15311008 <GO>}

Thanks Michael and good morning everybody. So turning to Page 3, which shows our financial performance for the quarter on a currency-neutral basis and excluding special items and the impact of gains and losses on the company's equity investments.

Net revenue was up 2% returning to positive growth for the first time since the peak of the pandemic in Q2 2020 and includes a one ppt benefit from acquisitions. Operating expenses increased 7%, which includes a full ppt increase from acquisitions. Operating income was down 1% and net income was down 6%, both of which include a 1 ppt decrease related to acquisitions EPS was down 5% (inaudible) which includes $0.02 of dilution related to our recent acquisitions, offset by $0.02 contribution from share repurchases.

During the quarter, we repurchased about 1.4 billion with an $18 million from April 26, 2021, 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 8% year over year on a local currency basis. We are seeing sequential improvement in both debit and credit as vaccination progress takes forward and mobility increases.

In addition, debit growth is being further strengthened by fiscal stimulus and share gains. US GDV increased by 14% with debit growth of 26%. and a decline in credit of 1%. Outside of the US, volume increased 5% with debit growth of 12% and the decline in credit of 2%. Cross border volume was down 17% globally for the quarter with intra-Europe volumes down 11% and other cross border volumes down 23%.

Turning to page 5, switched transactions grew 9% in the first quarter billing. Card-not-present growth rates have accelerated during the past year and continue at those elevated levels while card present transactions are now growing above 2019 levels for the first time since the peak of the pandemic. In addition, card growth was 6%. Globally, there are 2.8 billion Mastercard and Maestro branded cards issued.

Now let's turn to page 6 for highlights on a few of the revenue line items again described on a currency neutral basis unless otherwise noted. The increase in net revenue of 2% was primarily driven by domestic transaction and volume growth, as well as strong growth in services, partially offset by lower cross border volume fees and higher rebates and incentives. As previously mentioned, acquisitions contributed approximately 1 ppt to net revenue growth.

Looking at the individual revenue line items, domestic assessments were up 8% in line with worldwide GDV growth of 8%, cross border volume fees decreased 26% while cross border volumes decreased 17%. The 9 ppt difference is primarily due to an adverse cross border mix mainly driven by lower yielding intra-Europe cross border volumes being less impacted than higher yielding other cross border volumes. Transaction processing fees were up 4% while switched transactions were up 9%. The 5 ppt difference is primarily driven by adverse mix. Other revenue grew up 27%, including a 3 ppt contribution from acquisitions. The remaining growth was mostly driven by our Cyber and Intelligence and Data and Services solutions. Finally rebates and incentives were up 4%.

Moving on to page 7, you can see that on a currency neutral basis, total operating expenses increased 7%. This included a 4 ppt increase from acquisitions and a 3 ppt increase related to the lapping of a favorable hedging gain from a year ago. Excluding these items, expenses were flat, as we continue to invest in our strategic priorities while keeping an eye on top line growth. Turning now to page 8, let's discuss the specific metrics for the first 3 weeks of April,. We are seeing significant improvements in the growth rates across our operating metrics versus 2020 primarily due to the lapping effects related to the pandemic that began mostly in March of last year. Hence to provide you better visibility into current spending levels, we thought it would be useful to present the 2021 volumes and transactions as a percentage of the 2019 amounts when we were not experiencing the impact of the pandemic.

So, if you look at the spending levels as a percentage of 2019, for switch volume improvement continuing along the same trend line we saw in Q1. This is driven primarily by the US which has benefited from the recent fiscal stimulus. We have seen improvements in discretionary categories like clothing, furniture and sporting goods and we have also seen some recent trend in personal domestic travel in the US and the UK which are making strong progress in vaccinations. For instance, we have seen US airline spend essentially doubled over the last 4 weeks relative to where it was earlier in Q1. Trends in switched transactions remain steady and are generally tracking the trends we are seeing in switched volumes.

In terms of cross-border spending levels as a percentage of 2019 remain mostly unchanged through the start of April. We continue to see very strong growth in card-not-present cross border volumes excluding online travel related spend. However border restrictions remain widespread and so cross border travel which is card-present and travel related card-not-present volumes continues to be impacted. As you can see from the numbers, there is a significant opportunity for improvement in cross-border travel. In fact where borders are open such as Mexico, certain Latin American countries, and the UAE we have seen travel improve.

Turning to page 9, I want to share our current thoughts looking forward. First of all, we continue to make strong progress against our strategic objectives and feel we are very well positioned to grow with the newer deals we have signed over the last several quarters. We have positioned ourselves for the return of travel, the travel oriented portfolios and have built a strong sense of these capabilities, which continue to grow at a healthy rate and then help to grow our revenue base. In terms of the macro environment, domestic spending levels have continued to improve entering the growth phase this quarter supported in part by fiscal stimulus and the rollout of effective vaccines. The pace of vaccinations has been uneven, however, and as a result, we expect the pace of recovery to vary from country to country. As Michael said, we do believe there is significant pent-up demand for travel and already seen domestic travel improve.

In terms of cross-border, we believe that in the second half of the year we will see additional borders open particularly between those countries with low infection rate and/or advanced vaccination programs.

Turning to the second quarter, if spending levels conitnue on the current trajectory we would expect Q2 net revenues to grow around a low to mid range on a currency neutral basis, excluding acquisitions. It is important to point out that this is just one potential scenario, which could be impacted by factors such as more restrictive measures being put in place because of rising infections or the opening or closing of borders.

In terms of operating expenses, we conitnue our disciplined expense management approach while furthering our strategic imperatives and keeping in line on top line growth. As we progress through the growth phase of the pandemic domestically, we will look to increase our investments in key areas such as digital, cyber security data, data analytics, B2B and our multi-rail solutions as well as begin to increase our advertising and marketing related spend. For Q2, we expect operating expenses to grow at a rate in the low 20s versus a year ago on a currency neutral basis excluding acquisitions. As a reminder, we are now beginning to lap the spending actions we took last year as the pandemic hit.

With respect to acquisitions, we are pleased to have announced the planned acquisition of Ekata and have now closed on the transaction with Nets and expect acquisitions will contribute about 2 to 3 ppt to revenue in Q2 and for the year. Similarly, acquisitions will contribute approximately 9 to be '10s ppt to operating expense growth in the second quarter and 8 to 9 ppt for the year. As a reminder, we discreetly disclose the impact of acquisitions of the Europe, at which they close and the subsequent year, after which time we do not look them up. Other items to keep in mind, foreign exchange is expected to be a 2 to 3 ppt tailwind to net revenues and 3 to 4 ppt headwind to operating expenses in Q2. On the other income and expense line, we are at an expense run rate of approximately $115 million per quarter given the prevailing interest rate environment. This excludes gains and losses on our equity investments, which are excluded from our n non-GAAP metrics. And finally, we expect the tax rate of approximately 18% to 19% for the year based on the current geographic mix of our business. And with that I will turn the call back over to Warren.

Warren Kneeshaw {BIO 16549173 <GO>}

Thank you. Sachin. We're now ready for questions.

Questions And Answers

Operator

(Operator Instructions). Your first question comes from Harshita Rawat with Bernstein. Your line is open.

Q - Harshita Rawat {BIO 18652811 <GO>}

Hi, good morning. Thank you for taking my question, Michael can you elaborate on Ekata acquisition and your broader digital identity efforts, digital identity has so many problems today claiming for solutions and something you've been looking at for quite a while, so can there be a long-term adjacency for your business and how does it fit in what you're doing with open back in Finicity. Thank you.

A - Michael Miebach {BIO 16087573 <GO>}

Yes, Harshita. Thanks for the question. We are excited about Ekata and it is a continuation of what we have been doing in digital identity. So clearly it's a non-sustainable path forward in a more digital economy to have even more passwords. So that's pretty clear. So identify is one pillar in our overall security strategy, so we needed to strengthen up here. We started that activity with a pilot that we launched in Australia about a year ago and that is now going live in partnership with the Australian Telecom Optus where we are introducing a reusable digital identity. What Ekata does is, it accelerates our efforts and accelerate our efforts because Ekata has access to verifiable data points that allow to establish an identity. I mean, as I said earlier they can in near real-time produce very accurate identity scores and it comes along with a set of, established set of global customers, digital merchants, cryptocurrency chains, financial institutions and so forth. So we were on the track. Ekata is accelerating our efforts, it fits right into our existing set of cyber solutions business from start of the transaction, at the end of the transaction and in between we have our decision intelligence, various other transaction. So it's a full package. It sets us apart and as you can appreciate you link this back to open banking as you asked the question, we are going beyond the payment transaction and such and you need identity solutions with digital identity in these cases.

Q - Harshita Rawat {BIO 18652811 <GO>}

Great, thank you.

Operator

Your next question comes from Jason Kupferberg with Bank of America. Your line is open.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Two quick ones from me. First off, just anything you can tell us in terms of second quarter expectations on rebates, whether it's relative to last quarter or last year. I know you had given us a little bit of help on that for the first quarter. So, I'd love to hear your thoughts on Q2 and then just wondering if we can get a quick comment on OpEx. I know that on an organic constant currency basis, the second quarter OpEx is growing about in line with net revenues. Is that kind of a right general model to think about in the second half as well if the recovery progresses in line with your base case or does the second quarter have more catch up OpEx spend in it. Thank you.

A - Michael Miebach {BIO 16087573 <GO>}

Thank you. So, looking at your rebates and incentives question first, having rebates and incentives is really dependent on the timing of deals and how the volume and mix plays out. Having said that we expect rebates and incentives as a percentage of gross to be up sequentially as domestic spending recovers and new and renewed deals come online.

I think you're aware about the fact that our domestic volumes are more, our rebates and incentives are more indexed in domestic volumes, there are less indexed to cross border. So depending on how that volume mix plays out, things mght move around. But generally speaking we expect rebates and incentives as a percentage of growth to be up from current levels. Pretty much the remainder of the year as volumes recover.

On your second question around OpEx, as we look forward, we see positive momentum in the (technical difficulty) that impact our top line growth and we will increase the investment we put forward towards strategic priorities. And these are essentially the ones we have talked about, growing our share of forward payments, ensuring that digital experience for our customers, t. The broader set of services capabilities executing on want real strategy as well as our B2B strategy. As we do this, we will keep an eye on both the top line as well as the bottom line and we will basically be very focused on making sure that we are making investments to provide the long-term growth of our business and that' kind of the essential thing I'd like to leave you with, which is we will continue to stay disciplined from an expense management standpoint. We see domestic spending is transitioning towards a growth phase which gives us confidence and vaccines are effective and being deployed at a scale. So we will keep an eye on all of those metrics, we will keep an eye on the top line and we will look to invest in the business to drive that long-term growth objective which we are talking about.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Okay, thank you.

Operator

Your next question comes from Darrin Peller with Wolfe, your line is open.

Q - Darrin Peller {BIO 16385359 <GO>}

Thanks guys. When we look at the structural improvements that are impacting the business coming out of the pandemic, several hundred basis points of incremental earnings power term from all the variables, you guys talked about and what you're putting your investments do you also think, first of all I guess if you can comment on that in terms of what are the most of the areas you're most excited about in terms of incrementally having changed now, more spending in certain areas than maybe prepandemic, but would you also comment on whether you're expanding the investment levels you're at now, lot of percentage of revenue basis, what overall dollar amount is, if we get that uplift from better structural terms. Thanks.

A - Michael Miebach {BIO 16087573 <GO>}

All right. Darrin, let me start off with the structural change, I mean that's the key question what makes a trend. What we'll stick. We have over the last 14 months on a monthly basis helped consumers around the world, small businesses around the world. And the input that we're getting from this research remains unchanged and that is fundamentally starting, is going up. And then when you look at the way how people spend what we're hearing is when people are saying I'm going to continue to use more online commerce than I have before the pandemic. Almost 70% are saying it's same thing, almost the same number said more for contactless. And as you look at the other side of the coin that is about 60% of people are saying, I will actually use less cash, so we believe that these trends have elevated, anything elevated, maybe not at the same levels but they will be elevated.

At the same time, we're already seeing that in countries where strong vaccination programs are there and social distancing measures are reduced that the spend, you want to go and spend at the local restaurant, support the local shop in their local main street. So, the good thing is we're ready for both with our (technical difficulty) around consumer behavior, the change right now and then you look at what else is going on and what else are we seeing is with this push toward we are seeing there is more data around and the first for data analyst services team cannot be running fast enough to satisfy that first.

You look at more data, as you look at an increasing fiber footprint. So our cyber solutions that is going to be a continuing trend I mean, we talked a little bit about our multi-rail strategy and what we're doing there. And talked about Europe and being a local partners government. Payments government is interested in real time payments and crypto central bank digital currency. So this whole trend. I think it's important. So our focus on the government is going to help us there. And finally just came across the news of over the last couple of days that national supply chains is showing up, shows up in the context of vaccine distribution lately but it has been showing up across many different industries. So there is a real push to digitize supply chains, make them more flexible and of course that comes to payments as well and comes to associated data flows so B2B should also be seeing quite a push out of as we turn out the pandemic. So it's a shifting lot of things to feel positive about in terms of our strategy is on pointing the investment behind these and the second half of the question, I'll have Sachin

A - Sachin Mehra {BIO 15311008 <GO>}

So Darrin, it is just one thing I kind of point out in the slide that which we shared with you. You could see how, let's take something like cross border and cross-border present excluding travel right, that has index back to 2019 is showing pretty healthy growth rates. Now as we expect a large part of that to stick. On the flip side, when you look at what cross border travel related, much of 2021 foreign spend levels relative to 2019 running at about 40% so if you believe that travel comes back and we do believe, structurally the opportunity for upside growth coming from that as well.

Just kind of bringing a little picture together. Just to add to what Michael was saying and that kind of lends directly into your operating leverage question as well.

Q - Darrin Peller {BIO 16385359 <GO>}

Okay, all right, that's helpful. Thanks guys.

Operator

Lisa Ellis with Moffett Nathanson. Your line is open.

Q - Lisa Ellis {BIO 18884048 <GO>}

Hi, good morning and thanks for taking my question I had a question on specifically related to stating Michael, you called out in the prepared remarks that many of our (technical difficulty) platform for their CBDC experiments. Can you describe, just what you're seeing in terms of as governments are looking implementing stablecoins as CBDC is what type of public-private partnerships are they considering, meaning what type of role or roles could you envision Mastercard playing. Thankyou

A - Michael Miebach {BIO 16087573 <GO>}

Lisa it's a great question. Let's take a look at CBDC. Across the whole crypto space. I mean, where we want to play a role in CBDC we want to play a role in private stablecoints, we want to facilitate the buying and selling of crypto assets. So it's a broader space specifically in CBDCs I would describe it as relatively early days. So the engagement that we have and that's where we see our role to start with is to answer the question that you just asked in partnership with governments is what is the role of the private sector and in a way where we came out and fortunately of late has been a few thought leadership central banks around the world, including (technical difficulty) and so forth is ideally, there is a 2-tier system where the government takes the role of mining the currency, so to say, as they do in Fiat and the private sector takes the role of distributing it and the private sector just comes to your question about the specific role that players could have, including us is innovating around that, innovating the true power of blockchain what else could you do other than facilitating a payment.

So I think there is a direction that we like where this is going, so concepts of interoperability are also very important because the utility for our consumer business will only come when you can do something with the central bank digital currency. I think example out of Bahamas is actually a very striking one. So here's a Mastercard partner program that allowed you to spend on the CBDC unit that you have received. At any place Mastercard is accepted that solving the last mile issue. Imagine how we could be doing this in so many countries, so instead engagement on model and start engagement on policy and now as you try to do something like Bahamas did, you got to test it and try it and for now to be our second role. in actually facilitating a real-life test bed where you can see how does this work and that's not only for governments. Governments like that sandbox they engage, but it's also to pull in the commercial banks because it needs to go in conjunction that you have a 2-tier system.

So I see all of that and then I'll come to assume a scenario where this is in play and it exists in a given country. As you know we just talked about the Bahamas, there's this last mile issue, but there is also then the questions of what other applications can ride on this infrastructure and you've heard us talk about in the context of real-time payments, our go-to-market is always underlying infrastructure and application services and we intend to do the same thing here and that is what is an application that could ride on top of this is, could be a smart trade contract, so smart contract technology is what we're investing in when I made the reference earlier we are investing in further blockchain technology.

And then of course there are services everybody right now is asking us what should our blockchain strategy and our advisors team is all over that and there will be cyber questions, governments are raising the question when a blockchain comes along that a back door for hackers.

So our whole cyber solution space is also geared up to engage. So I think there is a role to play for the private sector and is a role to play very specific to government.

Q - Lisa Ellis {BIO 18884048 <GO>}

Terrfic. Thank you. Very exciting.

A - Michael Miebach {BIO 16087573 <GO>}

Thank you

Operator

Your next with Piper Sandler. Your line is open.

Q - Piper Sandler

Hi, good morning. Thanks for taking my question. Just trying to get a little more specific on the benefits and lower case loads for cross border travel as we think about the European Union taking steps to allow vaccinated US tourists in the Europe. When we think about that corridor of the US traveling to Europe, is that I imagine it's big enough to move the needle for cross border, but can you help us understand how how meaningful like some key corridors would be if they reopen in strong ways for you, or is it highly dispersed corridors that you've got around the world that will take a lot of them coming back online.

A - Sachin Mehra {BIO 15311008 <GO>}

Yes, Chris, I think can give you a bit of color on that. So when you think about the high level answer to your question is the corridors are pretty widely dispersed across the globe. You can see generally speaking intra Europe constituents a fairly significant portion of our cross border volumes and you can see that from the metrics, which we've been sharing with you and so lot will depend upon how travel opens up within the intra-Europe border, as kind of point one. Now will be recognized also that intra-Europe is lower yielding than the other cross border volumes. So again, as you think about it you should think, the US is an important outbound corridor. There is no question about that, but there are several corridors well beyond that. When I think about the Middle East and Africa, Asia Pacific, these are all important corridors, take US to Canada another important corridor, US to Latin America and Mexico. These are all important corridors. I think the operative thing here is at least what we are spending a lot of time thinking about is not only was the rollout of vaccines is, but what are governments doing to establish travel bubbles. So you heard about Australia, New Zealand, you're hearing about Hong Kong, Singapore, you're hearing about China establishing some sort of bubbles. So there's a lot in the world, which is currently underway in terms of seeing is there a level of comfort to open up borders and to make it less onerous for people to travel. So it's been a 3-pronged thing as far as I am concerned and vaccines is you know we will kind of establishing a border kind of protocol and then the 3rd is have you made it less onerous for people to travel. and you got to look at all those 3 as you think about our growth travel comes back now.

Now, the proof points we've got so far are iN corridors like US and Latin America, things that have worked out pretty nicely. It's not that onerous. People are traveling you've seen decent cross border spend. Similarly in the UAE, you've seen decent cross border spend a lot of this, and one more reminder, quick reminder of you is a lot of our cross-border travel volume is personal travel and we do expect personal travel will come back and the leading indicator for that as we've seen it come back in the domestic environment pretty robustly now that you've taken away these quarantine requirements in the context of US and several other countries. So that's the kind of --color I just wanted to share with you as you think about how this works

Q - Piper Sandler

Okay, thanks very much Sachin.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure.

Operator

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

Q - Bryan Keane {BIO 1889860 <GO>}

Hi guys, good morning. Just thinking about modeling going forward in new year, in particular stimulus. First, the economic recovery. Sachin, I don't know if you can give us some help on how you guys thought about, in particular I'm just curious on how much stimulus had had an impact do you think it's having an impact, noticed thte strength there, just curious if that strength is expected to continue as we move forward through this year. Thanks so much.

A - Michael Miebach {BIO 16087573 <GO>}

Modeling was the queue here. This is clearly for Sachin.

A - Sachin Mehra {BIO 15311008 <GO>}

So I guess what I'd tell you knowlege is based on what we've seen for this from the stimulus is this round of stimulus has actually come into the flow from a spending standpoint, a lot more rapidly than the last round of stimulus did come through. What we've also experienced is that the dollar spent are not paid on once and done so said differently, people are saving, and then there is the critical effect which comes through over a period of time. So, it's our expectation that the impact of this stimulus will continue to be felt, but a declining as you started to see a lot of that come through in the early part right now as I kind of I just mentioned, you can see that in the strength.

And then on your question on services, solid quarter on services. Again look services continues to do on capability. It also powers the core very effectively, you can see that in the way we're winning share, seeing a very strong pipeline in terms of what we're seeing from a services standpoint going forward. So I feel pretty good. And the way again I think about this is you have a set of existing capabilities. How do you deepen your penetration with your customer base existing and new customers. And then you keep building on your services capabilities. For example, the acquisitions we've recently done and how did we contribute to growth on a going forward basis.

So I think when you add all of that up. I feel pretty good about us and so this is growth trajectory going forward.

A - Michael Miebach {BIO 16087573 <GO>}

I just want to add one point here, so there is the deepening part into our existing customer set as Sachin just said you extend your capability in new segments. So as we are throughout the number of acquisitions like SessionM or APT, we are finding adjacent segments that are needing these kinds of services and as we go into these new segments that's also an opportunity for us to also then so to say (technical difficulty) works in different ways and then the last thing to obviously when it comes from multi-rail strategy there is a growth dimension of extending our services across all new flows.

Q - Bryan Keane {BIO 1889860 <GO>}

Got it, thanks for the help.

Operator

Your next question comes from Tsien-Tsin Wong with J.P. Morgan. Your line is open.

Q - Tsien-Tsin Wong

Thank you. Good morning. I wanted to ask about net, now that you've had it for a couple of months. So it was I guess different than what you originally agreed to buy. So given that what are the priorities here Michael, both short term and long term. Sounds like Europe is clearly part of it, but can you catch us up on your, on your to do items right now?

A - Michael Miebach {BIO 16087573 <GO>}

Yes, yes so the first thing I would say it's not entirely different from what we intended to buy. It's certainly different in terms of the expected timeline, so should have been identified, tut that aside, we were excited in August 2019. And we're excited in March, one to welcome to team in Copenhagen. And I'll tell you why we're excited, so with our existing set of multi-rail capabilities, particularly in the account to account space we're well positioned with VocaLink. VocaLink's has strong infrastructure capabilities applications and helped us to build a services busines. What Nets does is Nets gives us additional infrastructure and capabilities, because here is a significantly customizable high-end solution that VocaLink brings, which works for large established markets that have had some journey and real-time payments and then there is Nets, which is a more nimble platform that allows us to deal with the smaller markets and take on more in a shorter period of time. So there is complementary assets here and that if you look across that it makes us the one-stop shop partner when it comes to real-time payments, and that is, that is unsurpassed there is nothing else out there at this point in time. On the application side, I'm even more excited because here what are having is we're not just getting technological capability purchase and we can bold on to what we've already done in VocaLink but we're getting scale businesses that are live in market, there are strong bill payment propositions and volumes with large customer reach in, particularly in the Nordics regions, but other parts of Europe as well, so we've identified Bill Pay as growth opportunities sometime back here in the US and now we're bolting that on and then we have the choice of taking some of our US capabilities into other parts of the world or do the same with Nets so that is accelerating our growth in the application space, which I'm particularly focused on. I think last but not least they have activities in in few services around real-time payments. So that just rounds off the picture and I come back to Legal Day One, we're getting a fantastic team of engineers and experts in this space that being of our capability side. Now the aspects you've made that reference and all I want to remind us there was an remedy that we had put out the table in negotiations with the EU Commission throughout the approval process and that basically means we will license structure technology to licensee and licensee was identified as part of the approval process that allowed not much of an issue because we have as you other assets to compete and we can use it ourself. The package of having infrastructure applications and service altogether I think makes such a differentiated proposition that we were quite happy to give that remedy, it made the EU commission happy and it comes back is particularly important in Europe because in Europe being seen as a true European partner global on this transaction and that worked well for us.

Q - Tsien-Tsin Wong

Very complete and clear answer. Thank you.

Operator

David Togut with Evercore ISI. Your line is open.

Q - David Togut {BIO 1496355 <GO>}

Thank you. Good morning bridging to Tien-Tsin's question how has the pandemic affected the roll out of account to account payments in Europe under PSD2 account to account certainly seems much more akin to debit than credit accelerated. So any thoughts would be appreciated.

A - Michael Miebach {BIO 16087573 <GO>}

Yeah, Dave, that's a great question. Throughout the last quarter calls we made references to engagements on the government front and oftentimes that involve Our progress and our engagement with governments on account to account and we had to dial down throughout the pandemic, because it seems there was no appetite in the market but account to account wasn't one of them. We never missed a single step there, and neither did government this is really driven by a lot of money into their citizens hands and they couldn't do it fast enough and it couldn't do it in an efficient enough way. So the focus and the light shed on real-time payments infrastructure was, certainly helped. So I would see there is an increasing engagement around to account to account throughout the pandemic, if you look at what else was going on. You saw the two factor authentication thing in Europe, you move for Strong Customer Authentication. I think the actual technical term there, does that means throughout into the financial sector player that is broadly and then you (technical difficulty) I mentioned it earlier that's again a regulator driven aspect of payments and the broader financial services here at Tesco we talked about that last quarter I think and now, Lloyds so there is momentum. I think it's actually literally a shot in the arm rather than anything else.

A - Sachin Mehra {BIO 15311008 <GO>}

Yeah it does, as you speak just one more additonal point in the domestic flows and then there's cross border and I think we've got kind of candidly, we have seen some very decent traction take place even in that cross border space on account standpoint. Michael mentioned that's in where he talked about the traction we're having with the integration of Transfast being complete and it's not only exclusive to Europe by the way, it's pretty much across the globe, so we think about it holistically, including the cross-border categories.

Q - David Togut {BIO 1496355 <GO>}

Thanks very much appreciate your insights

A - Michael Miebach {BIO 16087573 <GO>}

Thank you.

Operator

Your next question comes from Trevor Williams of Jefferies, your line is open.

Q - Trevor Williams {BIO 20976822 <GO>}

Hey, good morning and thanks for taking the question. I wanted to ask on yields within domestic assessments where they held in pretty well for most of 2020 but just over the last couple of quarters have been down about 5% or so and I guess, there are lot of moving pieces with mix shifting around from quarter-to-quarter with the pace of recovery varying by region, but just any color you could give us on maybe where some of the recent weakness might be coming from and really what needs to happen, whether that's a recovery in certain geography about on to get yields in that segment moving back up. Thanks.

A - Michael Miebach {BIO 16087573 <GO>}

Yeah, so I mean your question specifically around domestic assessment yields correct. Okay look, I mean, we've seen a little bit of recovery in domestic assessment yields in the first quarter relative to what we saw in the fourth quarter that number kind of moves around, right and moves around and then there's a whole bunch of stuff in the denominator when you're doing yield calculations. We (technical difficulty) talk about GDV only domestic volumes is a composition of domestic and cross border volumes, whereas the numerator which is domestic assessments is only the revenue we earn on our domestic volume so depending on how that mix moves around, you're going to see that you will move around as well.

And then there are other moving parts in domestic assessments, the card fee and those kind of things, which actually feature in there as well. But by and large, I would tell you between the fourth quarter of 2019 going into the first held pretty steady if I take those two endpoints, they bounce around a little bit quarter to quarter, but they are pretty stable.

Q - Trevor Williams {BIO 20976822 <GO>}

Okay.

Operator

Your next question comes from Craig Maurer with Autonomous Research. Your line is open.

Q - Craig Maurer {BIO 4162139 <GO>}

I wanted to ask about the material debit wins that you've had US with TCF, you're going to obviously be onboarding a significant amount of debit volume over the next two years which begs the long-term in terms of debit versus credit and we've seen significant out performance of debit during the pandemic, so do you view the spread between the two versus historical levels Thanks.

A - Michael Miebach {BIO 16087573 <GO>}

Hi, Craig. Let me take this and then see if Sachin has anything to add. So throughout the pandemic, as you rightly said that was clearly a relative transactions. The way I look at this is, this is a time of economic uncertainty, frankly certainty in general and in those times people, generally prefer to have more control over that, There is what we've seen in previous crises so no surprises there, that is crisis induced. We seem to benefit from stimulus attached to a bank account. So we saw that and then you look at how the mix of spending has changed, in terms of overway to everyday spend versus discretionary and that is just,there is a lot of things and that is then you use debit for more everyday spend that is what we're seeing in many markets around the world and that has played out here as well so now back to what we said earlier, in terms of trends and in end, that's hard to predict. I do think what we've going to see is that the crisis induced spends, the trigger there is going to go away because this nightmare will be over at some point hopefully, soon. And you will also see that the the discretionary spend categories are coming back. We're already seeing this in the last 3 weeks. And I look at the first 3 weeks of April here. So you start to see travel, a strong travel programs and it's very I think reasonable to expect that a lot of that is going to drive credit growth back up. Now, for us, I think the strategy has to be we have to have the best solutions across debit and credit, and frankly beyond cards as well because we just talked about earlier how the overall payment landscape is changing. And that's where the focus is. That's why we lean in on the travel side, but that's also why we lean in on debit and you're right Netquest, Deutsche, Santander, it in conversion right now, as I said earlier, and that's going to be good for us and we try to bring our best solutions forward with consumers. So Sachin, I don't know...

A - Sachin Mehra {BIO 15311008 <GO>}

Yes, I think Michael, you pretty much covered in detail. The point I wil make Craig, in addition is obviously there is increased secular shift, which is taking place. I think you were alluding to the fact that the first point replacement of cash happens to be debit (Technical Issue) that come through. But like Michael said there will be some level of our reversion to the mean. The one product more from lifecycle standpoint is people tend to start, when you think about financial inclusion and you think about how people come into spending in electronic. Then they start getting that into credit. And that's just the natural evolution, which will take place. We want to have a balanced portfolio. We want to win across the board. We want it be pretty much nicely address the spend as they come across (inaudible) quarter.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Great, thanks. I see that we've got to the top of the hour. And so maybe I'll just turn it over to Michael, see if you have any final comments as we wrap up.

A - Michael Miebach {BIO 16087573 <GO>}

All right, thanks Warren. First of all, thanks for your questions, I'd love to go on for a while, but the mindful of time just the key takeaways bring it all together. So we're back in the growth phase domestically that's fantastic. We're ready for the return of travel. When it comes it's going to be selective, we keep strong focus on our strategic priorities, don't have to repeat them again. And we are excited and hopeful that we will close Ekata as soon as possible. So all that is good. None of this would happen without our people and I do just want to recognize that it's and our folks are running in hard and that's a big shout out and I will send out note to the whole team this morning with our results and told them that that momentum that we were just sharing with you is really entirely they're doing. Leaving into it and look forward to speak to you in a quarter from now. Thank you very much and thanks for all your support.

Operator

This concludes today's conference.
