Q2 2021 Earnings Call

Company Participants

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

Other Participants

- Analyst
- Andrew Jeffrey
- Bob Napoli
- Bryan Keane
- Craig Maurer
- Dan Dolev
- Darrin Peller
- Harshita Rawat
- Jason Kupferberg
- Lisa Ellis
- Sanjay Sakhrani
- Tien-tsin Huang, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Mastercard Second Quarter 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Warren Kneeshaw, Head of Investor Relations. Thank you. You may begin.

Warren Kneeshaw {BIO 16549173 <GO>}

Thank you, Crystal, and good morning everyone and thank you for joining us for our second quarter '21 Earnings Call. We hope you're all 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 section. It is only then the queue will open for questions. You can access our earnings release, supplemental performance data, and the slide deck that accompany this call in the Investor Relations section of our website, mastercard.com. Additionally, the release was furnished with the SEC earlier this morning

Our comments today regarding our financial results will be on a non-GAAP currency neutral basis unless otherwise noted. With the release and the slide deck include reconciliations of non-GAAP measures to GAAP reported amounts. Finally, as set forth in more detail in our earnings release, I 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.

With that, I will now turn the 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 highlights of the quarter. The strong momentum we started the year with accelerated this quarter with net revenue up 31% and EPS up 37% versus a year ago, all that on a non-GAAP currency-neutral basis. On that same basis, quarter 2 net revenues are now 10% over 2019 levels even though international travel is in the early stages of recovery, which is showing the strength of our diversified revenue streams.

Domestic stage switched volumes are well above pre-pandemic levels with all regions growing at a healthy rate. We are seeing improvements in both domestic and cross-border travel with significant upside potential. Within this context. we're making progress against our strategic objectives and have expanded our relationships with key partners like Citi, JP Morgan Chase, Barclays, Stripe, and Verizon.

Let's dive in. Looking first at the broader economy, domestic spending levels continue to show improved in-store sales and strengthening e-commerce. According to our quarter 2 spending pulse report, which is based on all payment types, including cash and checks, US retail sales ex auto ex gas were up 14% versus a year ago and up 10% versus 2019, reflecting improved consumer mobility and some residual effects of fiscal stimulus. Spending pulse also indicated that overall European retail sales in quarter 2 were up 13% versus a year ago and 6% versus 2019. The vaccine rollout on the scale in the US, UK, and Germany in several other countries with over 35 countries now reporting that over 50% of their populations are at least partially vaccinated. (inaudible) is critical, it will of course take time.

Turning to our business specifically and the four-phased framework we established for managing through the COVID environment, we believe that most markets out of the growth phase domestically, our -border spend is now starting to normalize, the border restrictions are being relaxed. Looking at Mastercard's spending trends, switched volumes continued to improve quarter-over-quarter with strength across all products. Debit spend remains elevated and we are seeing further recovery in credit driven in part by the return of travel and increased discretionary spending. This recovery led by consumer credit, but it's important to note that commercial credit is also improving and has now reached prepandemic levels as well. In terms of how people are spending, they are definitely getting out more as we are seeing improvement in card present spending, particularly in the travel, retail, and restaurant categories while e-commerce continues to be strong. Turning to cross border, cross border card-not-present spending, excluding online travel spend, continues to be very strong. On the travel front itself,it is clear people want to travel and they do so where and when able to. We've seen domestically and across borders where there are limited restrictions. For example, we're seeing strength between the US and Latin America as well as an increase in travel within Europe. Per industry reports, there has been a recent increase in bookings for travel between the US and Europe and the quarantine requirements for entry into Canada are starting to be relaxed so that's a further opportunity.

Overall, we expect more borders to open in the second half of the year dependent on the course and infection rates, including the recent variants and progress on the vaccination front. Against this improving backdrop, we are focusing on our strategic priorities. One, rolling out core products supported by our services. Second, driving digital enablement both in-store and online. Third, ensuring the ecosystem is safe and secure. Fourth, providing choice through our multi-rail capabilities. As always, we will do this with an eye towards driving top and bottom line growth over the long-term by continuing to manage our expenses carefully. Let's look at them one by one.

First off, we're driving growth in our core products and the leveraging our comprehensive services to do so, working with new and existing customers to solve their pain points both in payments and beyond. We're in position to capitalize on the return of travel, remain focused on building on our strength in this area by expanding relationships with our travel partners. For example, we have renewed our exclusive co-brand with JetBlue Airlines in the US.

We also entered into a long-term global partnership with Cathay Pacific and Asia Miles, who will migrate their existing co-brand portfolio to Mastercard. In the Middle East, we have expanded our British Airways co-brand and, in Latin America, we are now the preferred brand for LATAM Airlines. It is important to note that our services played a critical role in making all these deal, including our data analytics, Test & Learn, loyalty, consulting, and cybersecurity solutions. Of course, we also continue to drive growth in the core outside of travel. Here are a few of them.

We are excited about our partnership with Citi to launch the new Citi Custom Cash Mastercard offering card members cashback in the top eligible spend category.

JP Morgan Chase, we've extended and deepened our agreement in the commercial space and we have renewed our Master brand relationship with Chase in the US. We also continue to partner closely with community banks throughout the US, including a flip of first southern national banks debit portfolio to become their exclusive network brand, On the digital front, we have learned position to drive the acceleration of the secular shift with our digital capabilities no matter how consumers want to shop in store, online, or both.

As consumers return to in-person shopping, adoption of contactless continues to grow. In the second quarter, contactless penetration represented 45% of in-person purchase transactions globally according to switch transactions, that's up from 37% a year ago.

At the same time, e-commerce continues its strong growth and we are providing consumers choice on how they want to pay online, for example, click to pay, which improves the guest checkout experience, is now rolled out in over 10 markets and we continue to launch a significant new merchants, such as the Canadian Tire Group. On to the Buy Now Pay Later space in Australia, we are partnering with Citi and Commonwealth Bank of Australia to offer instalments to consumers wherever Mastercard is accepted and whether in store or online we are securing and streamlining the consumer experience through our tokenization services. Tokenized transactions across store, online, and in-app surpassed 1 billion per month throughout the second quarter.

We continue to partner with major digital players to expand the reach of our digital capabilities. For example, we just entered a strategic partnership with Stripe to give business a small control over how they spend their money by enabling Stripe users to create, manage, and distribute virtual and physical cards for small business, commercial and consumer across credit, debit, and prepaid. We also entered in partnership with Verizon to bring 5G innovation to the global payments industry. Leveraging our services and insights and pairing Mastercard solution with Verizon's 5G connectivity will allow us to create better experiences from the checkout lines being built, even to how businesses are run.

The increased capacity and reduced latency of 5G will enable us to take another step towards making every device a commerce device. Now, on to securing the ecosystem, as more merchants and consumer shift to digital, the importance of keeping the ecosystem safe and secure is paramount and is creating a strong demand for our cyber solutions. In addition to organic growth, the number of our acquisitions in the space continue to perform well. For example, Ethoca had strong deal momentum, including a fraud and dispute management agreement with e-banks, a payment solution provider operating across 15 countries in Latin America. RiskRecon which monitors and accesses customers third-party cybersecurity risk is now scanning millions of companies globally up from thousands when we acquired them at the end of 2019.

NuData is providing biometric fraud prevention tools to Major League Baseball and the neobank, Nickel. We're very happy to advance our digital identity capabilities with the acquisition of Ekata that is now closed and off to a strong start on the deal front. Last but certainly not least, let's turn to our initiatives focused on addressing a broader set of payment tools with our multi-rail capabilities. The key here is to provide choice. Essentially, the right tool for the job. There are multi-rail approach, including our expertise and capabilities in cards, real-time payments, and support for digital currencies, we are able to deploy the right combination of assets to meet our customers' needs.

And more than just having this range of capabilities, we're making these solutions work together seamlessly. Let me give you a few examples. In B2B, we're making progress with Mastercard Track, building out our global open-loop network by working with buyer agents and supplier agents, such as banks, software companies, and ERP vendors. On the bank side, we're very excited to have signed Barclaycard payments. So we'll use track to connect their global business customers on both the buyer and the supplier side ecosystem across multiple rails. You can also find FreshBooks, a premier accounting software platform with customers in over 100 countries. In the Bill Pay space, we continue to scale the Mastercard's Bill Pay Exchange, which leverages our real-time payment capabilities to provide a transformative mobile first experience to bill payments with Citi Treasury and Trade solutions now connecting into the platform. The Mastercard Send continued to penetrate a variety of new payment flows beyond traditional card payments, this enabled dozens of use cases and hundreds of programs across every region of the world.

For example, we are partnering with innovative digital messaging platforms to offer P2P services to consumers. Today use of WhatsApp in Brazil and transfer money directly in app leveraging Mastercard's Send. We're also partnering with MoneyGram and Checkout enable near real-time cross border P2P transfers across Europe. And on the B2C front, we continue to support the fast-growing Gig economy and then partnering with Payfare to enable instant earnings payouts, some of the largest Gig platform in the US.

Through open banking, Mastercard is empowering people and businesses across the globe to easily and securely gain access to their financial data to create new opportunities for themselves. In the US, our efforts with Finicity are running ahead of expectations as we continue to enhance direct API connectivity for banks and fintechs. For example, we're partnering with Jack Henry to enable consumers to bank at more than 400 community financial institutions to use its digital platform to access use and benefit from their own financial data. Navy Federal Credit Union recently signed direct data access agreements with Finicity. Finicity is also leveraging best-in-class data connections to launch new products and new verticals, such as its mortgage verification service.

And finally in terms of crypto currency. We're making it easier for cryptocurrency wallets to connect seamlessly to our network through pilot Paxos, Circle and Evolve Bank & Trust, which simplifies the conversion of crypto into fiat. Secondly, we're partnering with ConsenSys, the Ethereum software engineering firm to accelerate the development of crypto applications and services for all our customers.

Now, summing all of this up, we delivered strong revenue and earnings growth this quarter, benefiting from our revenue diversification efforts. We believe that most markets are on a growth phase domestically and there is upside potential in cross-border travel. We're winning significant new deals and we continue to focus on our strategic priorities to drive growth over the long term. Sachin, over to you.

Sachin Mehra {BIO 15311008 <GO>}

Thanks, Michael. Now turning to page 3, which shows our financial performance for the quarter on currency neutral to basis excluding special items and the impact of gains and losses on the company's equity investment. Net revenue was up 31%, reflecting the continued execution of our strategy, amidst the strong recovery in spending. Acquisitions contributed 3 ppt to this growth.

Operating expenses increased 28%, including an 8 ppt increase from acquisitions. Operating income was up 34% and net income was up 36%, both of which include a 2 ppt decrease related to acquisitions. EPS was up 37% year-over-year to $1.95, which includes $0.03 of dilution related to our recent acquisitions, offset by a $0.02 contribution on share repurchases. During the quarter, we repurchased $1.7 million worth of stock and an additional $398 million through July 26, 2021.

So, now let's turn to page 4 where you can see the operational metrics for the second quarter. Worldwide gross dollar volume or GDV increased by 33% year-over-year on a local currency basis. We are seeing continued strength in debit and credit. US GDV increased by 34% with debit growth of 23% and credit growth of 50%. Outside of the US, volume increased 32% with debit growth of 39% and credit growth of 25%. Gross dollar volume about 58% globally for the quarter with intra-Europe volumes up 48% and other Cross-border volumes up 71%, reflecting continued improvement and the lapping of the debts of the pandemic last year. In the second quarter, Cross-Border volume was 87% of 2019 levels with intra-Europe almost back to even at 97% and other Cross-Border volume at 79% of 2019 levels.

Turning to page 5, switched transactions grew 41% year-over-year in Q2 and we're at 127% of 2019 levels. Card-not-present growth rates remain strong and card present growth continued to improve aided in part by an increase in contactless penetration across every region. In addition, card growth was 8%. Globally, there are 2.9 billion Mastercard and Maestro branded cards issued.

Let's turn page 6 for highlights on the QR of the revenue line items again described on a currency neutral basis unless otherwise noted. The increase in net revenue of 31% was primarily driven by domestic and cross-border transaction and volume growth, as well as strong growth in services, partially offset by higher rebates and incentives. As previously mentioned,acquisitions contributed approximately 3 ppt to net revenue growth. Looking quickly at the individual revenue line items, domestic assessments were up 36%, while worldwide GDV growth was up 33%, the 3 ppt difference is mainly driven by pricing and mix.

Cross-border volume fees increased 60% while cross-border volumes increased 58%. The 2 ppt difference is primarily due to favorable mix as cross-border volumes ex intra-Europe grew faster than intra-Europe volumes this quarter, partially offset by the lapping of elevated levels of return activity a year ago. Transaction processing fees were up 33% while switched transactions were up 41%. The 8 ppt difference is primarily driven by the lapping of elevated return activity a year ago and adverse mix. Other revenues were up 32%, including a 9 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 49%, reflecting the strong growth in volumes and transactions and new and renewed deal activity.

Moving on to be page 7, you can see that on a currency neutral basis, total operating expenses increased 28%, including an eight ppt impact from acquisitions. The remaining growth in operating expenses was primarily due to higher personnel costs as we invest in our strategic initiatives, increased spending on advertising and marketing, and increased data processing costs

Turning now to page 8, let's discuss the specific metrics for the first 3 weeks of July. We are seeing significant improvements in the growth rates across our operating metrics versus 2020 in part due to the lapping effects related to the pandemic that began last year. To provide you better visibility into current spending levels, we thought it would be useful to once again 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 and the percentage of 2019 for switched volumes, the broad-based recovery continued through the second quarter and into July.

Specifically, in the first 3 weeks of July, switched volume spend levels are at 130% of 2019 levels, which is an 9 ppt improvement over Q1. We have seen further recovery in card-present spending with improvements in travel-related categories, including lodging and restaurants. Of note in the US, we are seeing consumer airline spent improve significantly since the early part of Q2 with the volumes now back to prepandemic levels. Present switched transactions remain steady and are generally tracking the trend we are seeing in switched volumes.

In terms of cross-border, spending levels as a percentage of 2019 show an improving travel trend. Cross border travel, which includes both card-present and travel related card-not-present volumes increased from 39% to 66% of 2019 levels from April to July, primarily driven by strength in Europe and between the US and Latin America. Asia Pacific has been slower to recover. Cross border card-not-present ex travel continues to grow at a healthy rate above pre-pandemic levels, this has moderated recently relative to 2019 levels in part due to a reduced contribution from the purchase of cryptocurrencies and the lapping of significant e-com promotional activity in 2019.

Turning now to page 9, I wanted to share our current thoughts looking forward. First off, we continue to make strong progress against our strategic objectives and are well positioned to grow with the new and renewed deals we continue to sign. Domestic spending levels are showing healthy growth and we are well positioned for return of travel with travel-oriented portfolios. Further, our service lines continue to grow at a healthy rate.

Turning to the 3rd quarter. If spending levels to continue to improve along the current trajectory, we would expect Q3 net revenues to grow at the high end of mid-20s growth rate year-over-year on a currency neutral basis, excluding acquisitions. As a reminder, Q2 2020 marked the low point of the pandemic from a spending standpoint with some recovery in the following quarter. So, we will be facing a more difficult bump of approximately 3 ppt in the 3rd quarter.

It is also important to point out and this is just one potential scenario as the level uncertainty remains related to new COVID variants and the progress of vaccinations. And, therefore, the pace of recovery may not be linear. In terms of operating expenses, we will continue our disciplined approach to expense management, while advancing our strategic objectives in key areas, such as digital, cybersecurity, data analytics, B2B, and our material solutions, including related brand and product marketing investments.

For Q3, we expect operating expenses to grow at the high end of mid-teens rate versus the year ago on a currency neutral basis, excluding acquisitions. As a reminder, we are lapping the spending actions we took last year as the pandemic developed. With respect to acquisitions, we are pleased to have closed on the transaction with Ekata earlier than expected and expect acquisitions will contribute about 2 to 3 ppt to revenue in Q3 and Q4.

Similarly, acquisitions will contribute approximately 9 to 10 ppt to operating expense growth in both Q3 and Q4 as we integrate several acquisitions in promising new growth areas, such as open banking, digital identity, and real-time payments. As a reminder, we discretely disclosed the impact of acquisitions all the year in which they close and the subsequent year after which time we do not split them out.

Other items to keep in mind, foreign exchange is expected to be a 0 to 1 ppt tailwind to net revenues and a 1 to 2 ppt headwind to operating expenses in Q3. On the other income and expense line, we are at an expense run rate of approximately $115 million per quarter within the prevailing interest rates. This excludes gains and losses on our equity investments, which are excluded from our non-GAAP metrics. And finally, we expect the tax rate of approximately 17% to 18% for the year based on the current geographic mix of our business, an improvement over previous expectation due to some discrete tax benefits realized in Q2.

One last point, I wanted to let you know that we are planning an Investment Community Meeting for the fall in New York. We are planning a hybrid event on November 10th and we look forward to discussing our future plans with you at that time.

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

Warren Kneeshaw {BIO 16549173 <GO>}

Thanks, Sachin. Crystal, we're now ready for questions.

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Tien-tsin Huang with JP Morgan.

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

Hey, good morning everyone and thanks for all the details as usual. Just wanted to just going through Sachin some of the numbers you gave and just wanted to get your updated thinking here on an operating leverage in the second half of the year, including digestion of deals, looks like there is some, but I'm just curious how aggressive some of the spending will be on the integrations given that there's a lot going, lot of good things going on there with some of the acquisitions that you have done in the focus on services, that makes sense?

A - Sachin Mehra {BIO 15311008 <GO>}

Yes, Tien-tsin, it's like I said in my comments. I think what we have line of sight on is the acquisitions, which we have done, which we have announced and that's why I've given you some level of guidance on as it relates to what contribution they're going to have from a revenue standpoint and an expense standpoint, all of which I just went through in my prepared remarks. Look, the reality is we're running the business for the long term, we're trying to drive long term revenue growth and at the same time long-term bottom line growth and I will do this in a disciplined manner. We have demonstrated over the period of the pandemic that we have sufficient flexibility in our expense base to actually make sure that we continue to execute on our strategic objectives, and at the same time, keep an eye on how we are seeing the topline come around.

So, I guess, my point to you is the following which is we will continue to what's right for the business to drive long-term growth by investing in key strategic areas, both organic and inorganic and that's kind of where we are in terms of the specifics on the numbers. It's what I just shared with you. We expect that acquisitions will contribute between 2 and 3 points to revenue in the 3rd and the 4th quarter and between 9 and 10 points of expense growth in the 3rd and 4th quarter.

A - Michael Miebach {BIO 16087573 <GO>}

Yeah. Just something to add Sachin here is, if you look at the 3 big acquisitions that have come in over the last year or so. Nets, the largest one we have done, giving us a real advantage in real-time payments around the world. You have the Finicity, open banking, now that's a trend that's very hot. We feel really good about that one and then digital identity, Ekata is foundational to everything that we do online. So very critical acquisitions to Sachin's point. We have to do what is right, but one thing is not changing that is, that's very clearly that our discipline on execution we stick to our 24 months non-diluted measure on all of these. So, I just want to put that out there with you as well.

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

All fair point and those are all important areas. Thank you

Operator

Your next question comes from the line of Harshita Rawat with Bernstein.

Q - Harshita Rawat {BIO 18652811 <GO>}

Hi, good morning. Thank you for taking my question. Michael, last week you announced the card offerings to crypto companies, which simplifies crypto conversion to fiat and this builds on some of the other announcements made in crypto. take the step back. Can you talk about the value proposition Mastercard is bringing to the table for company central banks with CBDC, stablecoins providers and the different ways they are either engaging here.

A - Michael Miebach {BIO 16087573 <GO>}

Alright, thanks, Harshita. Great question, very important topic is obviously a vibrant space around digital currencies. Let me go back to what we discussed in the previous call is that has broadly 3 different categories that are in play here, which is central bank digital currencies and then there is private sector stablecoins and there is a floating cryptos. So, we told you that we want to be playing a role across all of them. We also said in the first quarter call that as far as stablecoins our concerned, we are getting ready to technologically enables our network to carry these stablecoins as settlement currency, provided they meet all 3 of our criteria, which is regulatory compliance, consumer protection, and stability. So, none of that has changed.

Let me just give you a view on what has happened since we had that conversation. So, on the Central Bank digital currency front, things are definitely continuing to move forward. We see a lot of central banks engaged on the topic. The ECB has just recently announced that they will actually moving forward with the digital euro after a period of industry consultation. Bank of England is in this period of industry engagement at this point right now, so there is clear progress. What is our value proposition to central banks and governments in this space is first of all we bring a unique perspective to the market to this players as multi-rail provider because all these countries have to make the trade-off what is my existing financial system delivering my existing financial infrastructure and what else is the central bank digital currency solving for, everybody has different motivations ranging from financial inclusion to cross-border payments and hence we're are sought after partly because we have experience in all of that.

I think particularly critical proposition here is our virtual testing platform because all of these design choices the governments have to make and that we consult them on. We then have to live in the wild so to say and got to work with the existing financial infrastructure and that's what our virtual test platform does for them. So that's the proposition at this stage for central banks. On the private sector stablecoins, nothing much different, other than up engaging with private sector players as well as regulators on what does good policy look like around private sector stable stablecoins because this question about regulatory compliance is still unresolved and regulators do need weigh-in and we're a part of that dialog. On falling cryptos here, the point of currency stability is not solved. So, we won't be enabling that as settlement currency on our network, but clearly people want to invest in that and want to sell their investments and we're going to make this as easy as possible, so we have all these partnerships out there.

Now, here's the thing with our announcement last week and that is coin digital currency wallets oftentimes prefer to stay in crypto as these transactions are made selling and buying of investments and here's where our partnerships, for example, Paxos come in. It is our partner that allows the digital wallet to stay in crypto as they settle with Paxos as they settle with Paxos and Paxos settles with us in fiat. That's an interim step for us as and when we reach to a point that we might be enabling stablecoins our network itself. So that's kind of where we are, playing a role across the board. This is relevant technology. As a multi-rail player, we going to be in this space, because people are looking for answers.

Q - Harshita Rawat {BIO 18652811 <GO>}

Perfect, thank you very much.

Operator

Your next question comes from the line of Lisa Ellis with MoffettNathanson.

Q - Lisa Ellis {BIO 18884048 <GO>}

Good morning, good stuff, thanks for taking my question. My question on B2B payments, Michael, in your prepared remarks, you called out progress on Mastercard Track and Bill Pay Exchange. Taking a step back, can you just give us a sense right now of where you are in terms of scale and trajectory holistically in the digitization of B2B, especially as it seems like some of that digitization has gotten a bit of a jump-start to the pandemic, anything you can dimensionalize around volumes growth rates, etc. Thank you.

A - Michael Miebach {BIO 16087573 <GO>}

All right. Thanks, Lisa. B2B is huge, huge space, obviously. TAM of 125 trillion, so how we're going about it, one bite at a time, I would say, so the first thing I should say, is our commercial business. It is there, it's coming back, commercial travel is coming back as I noted earlier in my comments. So, here the focus is on small business, virtual cards in the B2B space, specifically virtual card solutions, for example, on online travel agencies. So all that is continuing, but it's worth noting. We give you a number sometime back and then 2020, this was 11% of our GDV and that is what we're happy about that.

Now, when it comes to B2B, very specifically, has multifaceted approach, I talk you through earlier across Bill Pay, Track and the whole list that I talked about. Here, I see that if I take Bill Pay today if you look at the fact that we have a quarter of all bills being paid addressable and a third of the biller, so that gives us real scale. So, I think we have come to a point of scalability here with the right kinds of players. Last quarter, we added to Verizon as a biller to to the mix. So, that is encouraging. We haven't given specific numbers and we haven't done in this quarter yet, but I really see that is going the right direction and with Nets coming in. We have a significant footprint in Europe. They run a scale Bill Pay business over there. So when the time is right, we'll share some numbers around that.

Now, at B2B specifically Track, the excitement around a large bank like Barclays joining the Track ecosystem is great. We fine-tuned our go-to-market with ERP and software providers. So the rollout here is progressing well with both sides, buy-end supplier and buy-end supplier agents. Again, we haven't given numbers yet, but it would be what you would expect when you build it at 2-sided network. We're starting to have players on both sides we could start to connect the corridors. So, the value proposition of Track. At data switch, a payment optimization engine and the choice in multi-rail payments is really starting to get hold. We said you a couple of times, this is going to be a multi-rail journey. COVID, while there was a realization that B2B supply chains have been affected by COVID and there is a desire to digitize, it wasn't exactly top of mind through COVID. So, we're starting to see this interest coming back.

So that's kind of where we are. Sachin, you have anything to add.

A - Sachin Mehra {BIO 15311008 <GO>}

Yes, sure. I'll just make one more point which is, as we think about B2B, we also think about it from a segment growth, right. What is the micro kind of business environment, small business environment, mid-market, and then large corporate and when you actually dissect along those lines, you will see that there is a significant amount of spend which takes place across the micro and small business space. And if you further break that down, you will see that there is a significant amount of that spend which takes place in cash. So the only point I'm kind of trying to make is that the value prop of the card rail in B2B still stands and stands pretty strong to displace cash, much like it has in the consumer space and is a tremendous opportunity for digitalization to continue down that path there as well. So, I know, we talked a lot about unstable flow and I think that's super important, but we certainly internally are not losing sight of the fact that the significant amount of cash spend which still takes place where the value prop of stands good.

Q - Lisa Ellis {BIO 18884048 <GO>}

Terrific, lot of checks, awesome terrific color.

Operator

Your next question comes from the line of Craig Maurer with Autonomous Research.

Q - Craig Maurer {BIO 4162139 <GO>}

Yeah, hi, thanks for taking the questions. Two questions for you. One, any thoughts on the the reopening of the Durbin Amendment discussion. And second, are you planning to update your three year guide at the Investor Day later this year. And I know you just announced it, but figured I'd ask anyway. Thanks.

A - Sachin Mehra {BIO 15311008 <GO>}

Okay. So let me take the last one which comes like a bit of a cheeky response. I think you will just have to tune in Craig to find out if we going to get 3-year guidance or longer term guidance at the time. On interchange, so complex topic for sure and the new administration is looking at various regulatory and lawmaking initiatives as we all know we've just seen news yesterday. Now from the outset, we've leaned in with the new administration to build a really positive relationship. So that is very good and we're continuing obviously the same kind of interaction and engagement on the topic as important as interchange to our industry with lawmakers on the Hill House, Senate on both sides of the aisle.

We're monitoring this very closely. There is chatter here and there on interchange, it is a topic that's always been focused by different parties. What I would say is we've had the benefit of now having many years of playing seeing these interchange regulation on debit play out as an enough data us for us out there to say that really what it was intended to do, we can't really see it. Cost for consumers have gone up and benefits have been reduced. We keep providing that data to lawmakers and other interested parties and say, here's what I want the facts are stating.

Now, when it comes to interchange regulation by the credit, you would expect the same in terms of cost impact and in terms of benefits impact, but there is another aspect here and that is the access to credit. You should assume that the access to credit for middle-class Americans is going to be impacted and not in permanent way if this interchange regulation comes in and so it is all something that needs to be thought through very carefully. What are the puts and takes. Why does this makes sense and that's the dialog we're leaning in, it's a good thing as we things play out in many other markets around the world and have some experience with that and cannot bring to the table as well. So that's kind of where we are closely monitoring

Q - Craig Maurer {BIO 4162139 <GO>}

Thank you.

Operator

Your next question comes from the line of Sanjay Sakhrani with KBW.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thanks, good morning. Obviously a lot of eyes on cross-border travel spending and there were some constructive data points this quarter. Maybe two interrelated questions understanding the Delta variant adds complexity to our view, but do you think that we continued to see progress on travel spending going forward. And I think Sachin, you mentioned in your 3rd quarter view, you expect continued spending trends. Is there a view on cross-border as well?

A - Sachin Mehra {BIO 15311008 <GO>}

Yeah. Hey Sanjay. I am sure why don't I go ahead and take that question. So really I will purposefully think the following, which is again the uncertainty in the environment prevails given all these variants, which have been showing up, but the reality is the following, which is, it has been clearly demonstrated that people want to travel and they do so when they're able to travel and that's been showing in the domestic environment and that's been now shown in the cross-border environment.

So, one of the things, which is something which we very closely track is how is it that booking levels are taking place, what's kind of trajectory of spend looking like or trajectory of kind of data looking like and then which are the corridors which are opening up based on, for example, earlier this week, there was a dialog around on the UK being opened up the vaccinated people coming from the US and from other countries.

So, the reality is the following, which is the data has been seen, it is what we shared with you through the first 3 weeks in July. We are positive in terms of our sentiment as we progress through the second half of the year that as people get more vaccinated. More corridors will open up and as more borders open up, people will exercise their ability to travel because they have the intent to travel and this is really really important because as I look at what's going on across the globe, you can see that the US, Latin America, which has the ability to travel with the borders being open, people are exercising that and they are showing that come through. Similarly, now we're hearing about Canada opening up, which will be again something, which is encouraging from our perspective in terms of how we will play that out. If, on the other hand, is still I would say pretty kind of subdued level just because of the reality of the situation in Asia being what it is with the variance now actually getting to higher levels in certain country in Asia. so hard to predict, but longer term, I guess, what I kind of look through all of this, but we feel encouraged about is that the vibrancy of travel is something, which will come back and most importantly, we are very well positioned to capitalize on that as and when it does come back.

A - Warren Kneeshaw {BIO 16549173 <GO>}

I just want to add one point as I listen to Sachin what I find very noteworthy here is back to the comment about like 35 countries have now over 50% of vaccinations level. So, this kind of sequence of you are vaccinated and you are willing to travel, which we have both seen as proof points and then governments finding ways now to enable these corridors as what we've seen in Canada and the UK. There is a full stock of people who are vaccinated and want to travel and until you come to the point of who else is not vaccinated. There is a long runway for us for this to play out, but as Sachin said very difficult to predict at this point, but those are facts that are on the table that we are looking at and we've seen it over the last 3 weeks

Q - Analyst

Thank you

Operator

Your next question comes from the line of Darrin Peller with Wolfe Research.

Q - Darrin Peller {BIO 16385359 <GO>}

Hey, thanks guys. We're now a year-and-quarter basically into the pandemic, Michael, when we think about the structural and sustainable elements of what we're seeing in volume and even some of the other aspects of your revenue, like some of the value added service that you've really been growing well probably better than I think we would have expected pre-pandemic. Can you give us a sense now if you revisited that what you see as now sustainably elevated, structurally better that could persist over the next few years beyond just stimulus and pent-up demand?

A - Michael Miebach {BIO 16087573 <GO>}

Yeah. So Darrin. The pent-up demand at some point in time going to level out. I think you're right, Once you've caught up time and met everybody again and what we're going to come to the back of that, but there's still some more pent-up demand to go, particularly on commercial traffic. We'll see how that would play out. You know it's interesting when you look over the last 2 quarters, we see continued elevated levels of digital e-commerce spend, but we see in store coming back. So there is not a net zero game going on. I think this is actually really generally secular trend against cash that is going to continue to run for a very long time.

So it's good to have these 2 legs to stand on from our business model. I think that will remain, you will see some of the e-commerce going to reduce over time, but I don't think we will go back to the levels that we had before the pandemic because people who would have learned better experiences and they would like to continue with that. I think every bit of consumer research that we do tells us that and, by the way, this is not just for online shopping, it is for digital banking and for contactless. it's for everything across the board and generally between 60% and 70% of people that we ask and so we ask them every month say exactly that.

With this push towards a more digital world, more data that needs to be kept safe, so I could I see that the path for our cyber security solutions is a very clear and a very good one and we will not see of eversion to something there before because you have the elevated driver of more digital just out there driving that business. And frankly, that's the same for data and analytics. Data analytics, again, more data people want to understand it back to what is Sachin talking about small business. Here's a bunch of players that have traditionally maybe not used tools like that. Understanding and managing their business through data and analytics, but now they can, so there is a whole new segment that is opening up that we will, would like to serve through our partners in terms of real insights and how you run the business online from whatever you might have been doing in the brick and mortar space before.

So I think those are structural changes that are here to last. Cross border I don't think there's going to be something dramatically structural changing. That's really the cross border e-commerce. I think that is, that's, again, some people would have figured out that this does actually work. It couldn't go anywhere they were using cross border e-commerce platforms and tools and I think that will continue. One more thing that comes to mind structurally is the heightened and elevated interest of governments in electronic payments and digital payments that has started last year, again that was driven by the prices initially, how do I get my stimulus payment out to now a conversation why this is an interesting space and I founded my infrastructure is stated, I need to partner with people, so that is something that I see fundamentally as an opportunity, but it's important to engage with governments as you know as a fair partner and see that local footprints and things like that do matter that is we are well positioned with our multi-rail infrastructure to do exactly that.

So the few things that come to mind, in fact, lead us earlier question on B2B. I think is continued interest in digitizing B2B supply chain and therefore B2B payments that will also play out and grow over time over the next 2, 3 years.

Q - Darrin Peller {BIO 16385359 <GO>}

That's really helpful. Thanks, Michael.

Operator

Your next question comes from the line of Dan Dolev with Mizuho

Q - Dan Dolev {BIO 16010277 <GO>}

Okay. Hey, guys. Thank you so much. I was very interested in the Stripe partnership and in some of the other partnerships. Can you maybe shed some more light on what we doing with Stripe. It sounds very differentiated. Thank you.

A - Michael Miebach {BIO 16087573 <GO>}

Yeah. Dan. The Stripe partnership. As you heard me say, this is really across the board, a true strategic partnership. So, this is enabling their customer set with basically every payment tool that is available and providing choice, that's in the end what this is about. Verizon entirely different strategic partnerships. but here's a here's another network, but a 5G network. We said what could we do. In fact, we talked about SME in this call in a couple of occasions now. Think about an SME that today has a card terminal and how they're going to compete with the marketplace.

If you imagine for a moment you have a full Internet connectivity with not much infrastructure that you need to bring in and then you can provide a true omnichannel experience even the smallest business can do that. That is what, 5G can deliver at any endpoint anywhere in any situation and that is the vision that the Verizon and his team and our folks that we have developed. This is very specific. We've been on it for a while and we're expecting to make a real difference there. So 2 different types of strategic partnerships. I think they both matter. Come back to the point that it's for us providing choice and payments to anyone out there that is transacting in payments.

Q - Dan Dolev {BIO 16010277 <GO>}

Yeah. That is done.

Operator

Your next question comes from the line of Bryan Keane with Deutsche Bank.

Q - Bryan Keane {BIO 1889860 <GO>}

Hi guys, good morning. I know we talked about cross-border travel just thinking about cross-border card-not-present ex travel. I know that drop of touch in June and then the month-to-date July. Just wondering what the outlook might be, should we see further lower growth numbers there as we had into further through the year as we think about maybe more in-store activity, tougher comps, less e-com promotional activity. Just trying to get a pulse on that number as we go forward. Thanks.

A - Sachin Mehra {BIO 15311008 <GO>}

Hey, Brian. So, couple of things going to point out on that line item really at the end of the day that are things which are I can call episodic which took place in the months of April and June and there is volatility in the price of crypto. There is more purchases which took place there as the price came down, then you had the inverse effect of that taking place.

So, the reality is that to us is kind of one of those things which will remain volatile and I say that only because I don't know when the price is going to go and how people are going to exercise their choice to purchase crypto on a going forward basis. What I will tell you is we've seen a decent level of deceleration takes place and how people utilizing Mastercard products to purchase these digital currencies like crypto over the last 3 weeks, as reflected in the numbers. So that's kind of one of the factors, which includes that.

The second being just a tougher comp where the timing of the e-com promotional activity took place in 2019 happened to be in the first three weeks of July. So the comp is a tougher comp here. So that angle will give us something which is on a going forward basis going to be impacting what the super index growth rate is for this line item 2021 versus 2019.

Suffice it to say the following, which is the trend towards digital continues. It's true and domestic, it's true and cross border and the fact that that is a positive tailwind back to what Michael just talked about in terms of structural changes, something we are well positioned to actually keep participating in as you know as economies evolve and things start looking up in different parts of the globe. So that's what I'd like to share with you on that one.

Q - Bryan Keane {BIO 1889860 <GO>}

Got it. Thanks for the call.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure.

Operator

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

Q - Jason Kupferberg {BIO 6867809 <GO>}

Thanks guys. Good morning. I am just ask a follow-up on cross-border. In the second quarter, the cross border volume growth ex intra-Europe was a really good proxy for your overall cross-border revenue growth. So, I mean just hypothetically if July month-to-date trends hold for these volumes for the rest of Q3, it would seem like cross-border revenue growth could approach 60% this quarter. So I just wanted to see if that's a fair characterization or if there's any other moving parts we should be aware of. And then if you can just give us some quick comments on Q3, Q4 rebates. That would be great. Thank you.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure. So on cross-border, Jason, I mentioned to you that that you're aware about the fact that intra-Europe cross border is low yielding than all other cross border. I think that's one thing to keep in mind because growth rates across those populations will spend will determine what revenue growth rate ultimately looks like.

The reality in the second quarter we had a couple come from an elevated level of returns that we had seen and last year, which had the impact of subduing our cross-border volume key growth rate, some in this second quarter. And again, it's not like those returns are elevated (inaudible) returns only took place in the second quarter of last year as the pandemic hit people started making cancellations in terms of their airline bookings, their hotel bookings and that's kind of while it tapered, It's still a going into the 3rd quarter as well.

So it's something to keep in mind as to what the puts and takes are when you're thinking about growth rates. On rebates and incentives, here's what I'd tell you, I think you're very well aware about the focus of the Company on making sure we are setting ourselves up to continue to win market and winning market share. It comes through creating fantastic value proposition and then delivering them at great value to our customers, which is whether rebates and incentives come into play. So, we continue to do that and we will continue to do a new deals which will have an impact on rebates and incentives. The one to one piece of information I'll share with you is that as it relates to Q3, we expect rebates and incentives as a percentage of growth to be January generally in line with what we saw in Q2. That's the extent of what I'm going to share with you in terms of where I kind of see (inaudible) and incentives playing out. Obviously, the mix of volume (inaudible) well.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Thank you. Very helpful.

Operator

Your next question comes from the line of Andrew Jeffrey with Truist Securities.

Q - Andrew Jeffrey {BIO 1493346 <GO>}

Hi, good morning. Appreciate taking the question. Michael, lots of progress on risk fraud ID etc. It sounds like value-added services generally are a pretty important growth driver. I wonder if you could compare and contrast what Mastercard is doing versus some of the sort of purpose-built risk and fraud products in the market, different channels, different capabilities, kind of how you coexist and compete with, with some of those independent providers looking up like a risk applied

A - Michael Miebach {BIO 16087573 <GO>}

Right. Thanks Andrew. Great, great question. So, if you look at our services portfolio to start with we try to seek an entry point as the sweet spot leveraging our footprint in payments and our data and then have the technological capabilities and the talent and all of that coming together to a differentiated proposition. So, you're ready see us compete with other services player on a pure play and that has nothing to do with our position and payments.

So that's, that's the starting point of our strategy and we are looking for adjacencies that just leverage our core competencies. Now, when it comes to the cyber solutions If I think about a product like decision intelligence, which basically helps our customers to make decide what's a good decision and what is not a good decision, It is exactly at the sweet spot of everything that I said. I had the transaction data, the availability to having them in real-time in our system available and then using state-of-the-art AI to make the decisions for our customers. So here I think we have from a competitive landscape perspective, a real leg up versus pure plays. Similar in loyalty, we are one of the largest loyalty players in the world, They are few plays, but the fact that we see all the transaction flow and we can look at aggregated anonymized data of look-alikes and what they are interested in and how their preferences go in terms of rewards, offers, mileage programs and so forth, again, puts us in a differentiated proposition.

You see us building out our proposition in Cyber and coming back to that. Looking at the whole value chain, decision intelligence about the transaction before the transaction. what we're now doing with Ekata and saying it's the foundational element. So here we go in. Ekata, in itself, has a set of data that allows us in real-time to help a customer one of our customers decide if this account opening requests is a good one or bad one, that is very high confidence store. That customer is obviously interested in working with us on the downstream through the whole value chain of the transaction and other Cyber Security solutions automated fulfillment where you again say is that address actually a real address or is somebody that is just ordering something in somebody else's name.

So that's how we're thinking about it holistically and leveraging our footprint in payments.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Crystal. I think we have time for one final question.

Operator

Your next question comes from the line of Bob Napoli with William Blair.

Q - Bob Napoli {BIO 1526298 <GO>}

Thank you and good morning, Andrew kind of stole my lead question there, but also question on open banking. I think it has been suggested that is performing, the Finicity is performing better than expected. So hoping to maybe get a little bit more color on what's working better than expected and the longer-term open banking strategy for Mastercard?

A - Michael Miebach {BIO 16087573 <GO>}

Bob, great point. Open banking, it's important trend. What we really like is this whole concept of putting power into the hand of the individual using their own data to get a better choice and services, the financial services, they're not (inaudible) eventually, so we like that. We've been active in Europe for 3 years now, 2 years now. We went live in summer 2019 over there, good momentum. You heard us talk about Tesco and Lloyds in the UK, set of use cases that are now live so happy about that. Good for print over there and then here at Finicity that was a real kick for us closing that transaction in November last year.

And the Finicity team, first of all your team in permission API there, they are the inventors of the FDX standard so they live and breathe open banking and that is really critical for us as a player here in the US. Great incumbent in the market. Now, what is going better than than expectations, I see a lot of momentum and engaging with banks they have best-in-class data connections and they had a best footprint in banks because now that and everybody else is looking at that and said let's disconnect with Finicity but we also see progress on the Fintech side because this is an ecosystem that works on both sides. So we are excited about that. They had an interesting set of solutions today that account verification, credit decisioning system and now with the mortgage verification service, we're starting to build out at the same time of a driving on the deal front. And we're also expanding the product set by bringing our data together with their data and our tech talent with tech talent, so on every dimension really on, around Finicity, we are quite happy.

Q - Bob Napoli {BIO 1526298 <GO>}

Great, thank you. Appreciate it.

A - Warren Kneeshaw {BIO 16549173 <GO>}

All right, good. I think that brings us to the end of our time. I gave you a summary of the quarter just earlier on, so I am not going to repeat that again. Just wanted to thank you for all your support all throughout and looking forward to speaking to you in a quarter from now. Thank you very much, and goodbye.

A - Michael Miebach {BIO 16087573 <GO>}

Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.
