# Q2 2019 Earnings Call

## Company Participants

- Ajay Banga, President and Chief Executive Officer
- Sachin Mehra, Chief Financial Officer
- Timothy Murphy, General Counsel
- Warren Kneeshaw, Head of Investor Relations

## Other Participants

- Bryan Keane, Analyst
- Craig Maurer, Analyst
- Darrin Peller, Analyst
- David Togut, Analyst
- Donald Fandetti, Analyst
- Georgios Mihalos, Analyst
- James Schneider, Analyst
- Jason Kupferberg, Analyst
- Lisa Ellis, Analyst
- Moshe Orenbuch, Analyst
- Robert Napoli, Analyst
- Sanjay Sakhrani, Analyst
- Tien-Tsin Huang, Analyst

## Presentation

### Operator

Good morning. My name is Brandy and I will be your conference operator today. At this time, I would like to welcome everyone to the Mastercard Second Quarter 2019 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions)

I would now like to turn the call over to Warren Kneeshaw, Head of Investor Relations. Mr. Kneeshaw, you may begin.

### Warren Kneeshaw {BIO 16549173 <GO>}

Thank you, Brandy. Good morning, everyone and thank you for joining us for our second quarter 2019 earnings call. With me today are Ajay Banga, our President and Chief

Executive Officer; and Sachin Mehra, our Chief Financial Officer. Following comments from Ajay and Sachin, the operator will announce your opportunity to get into the queue for the Q&A session. It is only then that the queue will open for questions. You can access our earnings release, supplemental performance data and the slide deck that accompany this call in the Investor Relations section of our website, mastercard.com. Additionally, the release was furnished with the SEC earlier this morning.

Our comments today regarding our financial results will be on a non-GAAP currency-neutral basis unless otherwise noted. As a reminder, starting this quarter, we have updated our non-GAAP methodology to exclude the impact of gains or losses on our equity investments. We are excluding these items as we believe this will facilitate a better understanding of our operating performance and provide a meaningful comparison of our results between periods. For the three and six months just ended, net gains of $143 million and $148 million have been excluded. Prior year periods were not restated, as the impact of the change was de minimis. The non-GAAP measures also exclude the impact of special items, which represent litigation judgments and settlements and certain one-time items. In addition, we present growth rates adjusted for the impact of foreign currency. Both the release and the slide deck include reconciliations of non-GAAP measures to GAAP reported amounts.

Finally, as set forth in more detail in our earnings release, I 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'll now turn the call over to our President and Chief Executive Officer, Ajay Banga.



## Ajay Banga {BIO 4676567 <GO>}

Thanks, Warren, and good morning, everybody. So, our strong performance continued this quarter. Revenue is up 15%, EPS is up 17% versus the year ago on a non-GAAP currency-neutral basis as Warren just said. These results reflect the continued execution of our strategy as we invest for long-term growth. On the macroeconomic environment, consumer sentiment and spending remains relatively strong with some moderation versus 2018 as expected. We are continuing to monitor ongoing trade negotiations and other economic and geopolitical factors, which are showing signs of weighing on business sentiment in particular. In the US, we are seeing continued growth; low unemployment, healthy consumer confidence. Retail sales grew 3.2% versus a year ago ex auto, ex gas according to our SpendingPulse estimates and that reflects some moderation from Q1 and from last year.

In Europe, the outlook is mostly unchanged as we continue to see modest growth. UK retail spending remains healthy although it has slowed somewhat from Q1 according to our SpendingPulse estimates and of course the uncertainty around Brexit remains. In Asia Pacific, trade tensions continue to weigh on business sentiment, particularly in China. We are however seeing improved consumer confidence and more accommodative monetary policies in several markets there. And the outlook in Latin America continues to be mixed as growth in markets like Brazil, Colombia, and Chile are partially offset by weakness in Argentina and Mexico. Meanwhile, we continue to drive healthy double-digit volume and transaction growth for Mastercard across most of our markets by successfully executing against our strategy and I'm going to give you a few examples of how we are growing our core business, diversifying our customer base, and building new areas for our business.

So, starting with growing our core. We continue to make good progress driving growth across our credit, debit, prepaid, and commercial products and we are expanding acceptance across both physical and digital channels. We expanded a number of important issuer relationships in the credit space, including National Commercial Bank, the largest bank in Saudi Arabia, where we secured full exclusivity across their credit, debit, prepaid, and commercial business along with flipping their credit portfolio. We also signed a new consumer and small business co-brand partnership in the US with House, a rapidly growing online home remodeling marketplace; and we won a 10-year exclusive co-brand credit deal with Despegar, a leading online travel agency in Latin America in five new markets across the region. As with the many of our other co-brands, Despegar will integrate our loyalty program into their offering to deepen their customer engagement.

In Germany, we have renewed our credit relationship with DZ Bank, the second largest retail banking group in the country, and they represent hundreds of cooperative banks across the country and they will continue to issue Mastercard cards to their customers. Turning to debit. We signed an agreement in the UK with Nationwide, who selected us as their business debit card provider due to our experience in the small business space and our demonstrated expertise of working with FinTechs. Now Nationwide plans to launch a new business banking proposition to over 5 million small businesses in the UK early next year. In Colombia, we won an exclusive debit partnership with Scotiabank and secured long-term debit agreements with Bancolombia and Davivienda, the two largest debit issuers in the country. And in Germany, we extended our longstanding partnership with the German Savings Bank Group, Sparkassen.

Collectively these debit renewals will leverage a series of Mastercard services to help drive contactless adoption, advanced digital security, and accelerate the migration of Maestro debit Mastercard. In terms of the secure remote commerce initiative, we are making good progress. In June EMVCo launched the new SRC payment icon and technical specs. We are currently testing SRC in market with issuers and merchants. We are actively working on MasterPass upgrades to SRC with partners like tickets.com, Expedia Group, Saks Fifth Avenue, and Norwegian Cruise Line and we expect to launch in the United States in the next few months. And then we have developed the Mastercard Digital Wellness program, which will provide merchants with access to a host of technologies and resources, including a standard compliant click to pay check out; but most importantly added security through tokenization and AI technology along with cyber security resources to combat online attacks.

We are working with payment processors and platforms such as Worldpay, Square, Adyen, Stripe, and of course our own Mastercard Payment Gateway Services to make these unique features through the Mastercard Digital Wellness program available to merchants. So, let me turn now to the second pillar of our strategy where we are continuing to diversify our business by expanding across new geographies and customers. An example in India where as you know we are building partnerships with local retailers and issuers to help drive growth and further develop the payment ecosystem. We are pleased to have launched an exclusive credit co-brand program with Flipkart, the largest online retailer in India. In addition, Paytm Payments Bank has signed a new issuance agreement with Mastercard. We've also established a new acquiring relationship with them to drive open-loop acceptance with them in that market in India. Paytm will also be using our send capability to enable credit card bill payments.

We're leveraging our assets to design unique solutions for specific verticals such as the growing gig economy. We were selected as the network for the Lyft Direct Mastercard Debit Card, which provides Lyft drivers with instant access to their earnings. Collaborating with Evolve Bank and Trust branch, who will issue Mastercard prepaid cards and will utilize Mastercard Send to help their corporate customers provide interest fee pay advances to their hourly workers. And in Mexico, we partnered with Uber and BBVA to provide a new Mastercard debit card for Uber drivers. Working in the FinTech space, I believe we just continue to lead there. We've established a series of successful partnerships with FinTechs around the world who value the services we provide as well as our solution selling approach.

This quarter we signed a deal with Railsbank to bring new consumer and commercial Debit Card programs to market in the UK. And in Brazil, we are working with Digital Bank, BanQi, and Via Varejo to offer a new digital prepaid card targeting there approximately 60 million customers. So now onto the third pillar of our strategy focused on building new areas for our business. We have developed and acquired, as you know, a broad set of capabilities, which together with our existing card rails, allow us to differentiated offerings, address new payment flows, and most importantly operators are one-stop shop for our customers. And let me give you a few examples.

First, we recently announced a partnership with P27 Nordic Payments Platform owned by six of the largest banks in the Nordics, provide a leading edge real-time and batch multi-currency payment platform across the region. This new platform leverages our Vocalink assets will replace the existing payments infrastructure and provides instant and secure payments across the region. And I believe this partnership represents another milestone in our strategy to offer customer choice in the form of real-time, account to account payments infrastructure, applications and services and build there are series of wins across Latin America, Asia-Pacific and the Middle East that I've highlighted to you over the last few quarters.

Second, we continue to build additional debt and scale in our cross-border capabilities, which already allow us to dispose payments across bank accounts, mobile wallets and cards, all through a single API. For example, we just completed the acquisition of Transfast, which will not only enable us to service a greater number of markets and end points for our customers, but Transfast by the way allows us to reach over 90% of the world's population, but also provides a suite of leading compliance, FX, messaging and licensing capabilities to address many of the cross-border pain points that exist today.

We are executing on our cross-border strategy through a new partnership agreement with Interac in Canada, which leverages our Mastercard Send push payment capabilities to allow Canadians to send money internationally across Interac's e-Transfer platform. The National Bank of Canada will be the first issuer to launch this new international remittance solution. We're developing new capabilities to penetrate the bill payment space and completed the acquisition of Transactis to accelerate our go-to-market strategy for the Mastercard bill pay exchange. Transactis offer the unique combination of technical assets, distribution partnerships and customer relationships, which when combined with our current Bill Pay Exchange capabilities will allow consumers to view, manage and pay bills across multiple payment methods and channels, whether we are real-time account to account payments or card rails on your mobile banking app or through a business website.

And finally in B2B, we announced a partnership to integrate our Mastercard tracked with the OpenText supplier portal to help buyers and suppliers in the automotive industry, streamline and digitize financial supply chain processes to increase the speed, compliance and security associated with business information, payments and financing.

So with that, let me turn the call over to Sachin for an update on our financial results and operational metrics. Sachin?

## Sachin Mehra {BIO 15311008 <GO>}

Thanks, Ajay, and good morning, everyone. So turning to Page 3, you will see we continue to perform well. Here are a few highlights, on a currency-neutral basis, and excluding both special items related to certain legal matters, as well as the impact of gains and losses on the company's equity investments. Net Revenue grew 15%, driven by solid momentum in our core, and was slightly ahead of our expectations due to stronger services growth. Acquisitions contributed a minimal amount to net revenue in the quarter. Total operating expenses increased 17%, which includes a 2 ppt increase related to acquisitions and a 5 ppt increase related to the differential in hedging gains and losses versus year ago. The remaining 10% relates to our ongoing investment in strategic initiatives. Operating income and net income each grew by 15%, reflecting our strong operating performance, and each includes a 1 ppt reduction due to acquisitions. EPS was $1.89, including a $0.02 drag related to our recent acquisitions. EPS growth was 17% year-over-year, with share repurchases contributing $0.04 per share. During the quarter, we repurchased about $1.9 billion worth of stock and an additional $493 million through July 25th, 2019.

So let's turn to Page 4, where you can see the operational metrics for the second quarter. Worldwide gross dollar volume or GDV growth was 13% on a local currency basis, up 1 ppt from last quarter, in part due to the ramping of co-brand wins in the US, as well as fewer processing days in Q1. US GDV grew 10%, up approximately 2 ppt from last quarter with credit and debit growth of 12% and 8%, respectively. Outside of the US, volume growth was 14%, up 1 ppt from last quarter. Cross border volume grew at 16% on a local currency basis in line with expectations and driven by double-digit growth in all regions.

Turning to Page 5, switched transactions continued to show strong growth at 18% globally, reflecting in part the continued adoption of contactless. We saw healthy double-digit growth in switched transactions across all regions. In addition, card growth was 6%. Globally, there are $2.6 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 15% net revenue increase was primarily driven by strong transaction and volume growth, as well as growth in our services offerings, partially offset by rebates and incentives. Looking quickly at the individual revenue line items, you'll see that domestic assessments grew 13%, in line with worldwide GDV growth of 13%. Cross-border volume fees grew 19%, while cross-border volume grew 16%. The 3 ppt difference is mainly driven by pricing, partially offset by mix. Transaction processing fees grew 15%, while switched transactions grew 18%. The difference is primarily due to mix. Finally, other revenues were particularly strong this quarter, up 24%, driven by growth in our Cyber and Intelligence and Data and Services solutions. Acquisitions contributed 2 ppt to this growth.

Moving to Page 7, you can see that on a currency-neutral basis, excluding special items, total operating expenses increased 17%. As I just said, this includes 7 ppt related to acquisitions and the differential in hedging gains and losses versus year ago. The remaining 10 ppt of growth relates to our continued investment in strategic initiatives, such as digital enablement, safety and security, and geographic expansion.

Turning to Slide 8, let's discuss what we've seen through the first three weeks of July, where each of our drivers are at or slightly ahead of what we saw in Q2. The numbers through July 21st are as follows. Starting with switched volume, we saw global growth of 16%. In the US, our switched volume grew 13%, up 1 ppt from the second quarter, due to the timing of certain social security payments this quarter. Switched volume outside the US grew 19%, also up 1 ppt, primarily driven by Europe. Globally switched transaction growth was 19%, a sequential increase of 1 ppt, primarily driven by the US and Europe. With respect to cross-border our volumes grew 16% globally, similar to the second quarter.

Looking ahead, our expectations for 2019 are consistent with our prior estimates. We had a solid first half and we continue to grow our business both in terms of new and renewal deals, as well as with our service offerings. We continue to see healthy consumer spending with some moderation versus year ago as expected. In terms of net revenue, on a currency-neutral basis and excluding acquisitions, we continue to expect to grow at a low teens rate for the year. On the same basis for the third quarter, we also expect to grow at a low teens rate because of a sequential increase in deal activity as well as some moderation of services growth versus a very strong Q2. We expect FX to be a 2 ppt headwind to revenue for the year and about 1 ppt to 2 ppt headwind for the quarter. In addition, acquisitions will add about 1 ppt to third quarter revenue growth.

For operating expenses, on a currency-neutral basis, excluding both special items and acquisitions, we continue to expect growth at the high-end of high-single-digits for the year. On the same basis, for the third quarter, we expect growth in the mid-teens versus year ago due to the timing of marketing spend, which is more heavily weighted to Q3 this year, as we promote contactless usage and invest in sponsorships. Year-over-year FX will be a tailwind to OpEx of about 1 ppt for both the year and Q3. In additions, acquisitions will add about 5 ppt to third quarter OpEx growth. As a reminder, we issued $2 billion in debt at the end of May, and this will impact our interest expense run rate going forward. In terms of the tax rate, we now expect it to be approximately 19% for the year.

With that, let me turn the call back to Warren to begin the Q&A session .

## Warren Kneeshaw {BIO 16549173 <GO>}

Thanks, Sachin. Brandy, we're now ready for the question-and-answer session.

# Questions And Answers

## Operator

(Operator Instructions) Your first question comes from the line of George Mihalos with Cowen.

## Q - Georgios Mihalos {BIO 20004433 <GO>}

Congrats on another strong quarter. Ajay, wanted to ask a question. You brought up contactless, obviously that's been a good driver. How long does it take when you introduce contactless or how long do you think it will take as you introduce it in sort of a new geography to really peak up and meaningfully drive I guess accelerated growth?

## A - Ajay Banga {BIO 4676567 <GO>}

So, contactless basically targets low value cash transactions as the first place that it kind of changes the paradigm. And the speed of adoption, we've got our 10, 12 markets around the world where contactless has grown very strongly; Australia, Canada, Turkey, Poland, Hungary, and the likes, UK. It depends a great deal on how many cards are in the market that are contactless enabled combined with contactless terminals combined with the use case for every day payments. So if a transport system gets contactless enabled, it tends to ramp faster. If it doesn't, it tends to ramp slower. So if we take Australia as an example where the banks, the acquirers, and the merchant community worked really hard together on promoting contactless; it went from non-existent to being like close to 80% of all transactions under AUD100 were contactless in four to five years after launch. It was not that case in other markets. But I say four, five years to get to a very large percentage of small dollar transactions with all the effort in the market is a pretty good number.

## A - Warren Kneeshaw {BIO 16549173 <GO>}

Next question, please?

## Operator

Your next question comes from Tien-Tsin Huang with JP Morgan.

FINAL

Bloomberg Transcript

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

Hi, thanks. Good growth here again. Just if you don't mind, a couple of quick ones. Just on the stronger services growth, maybe can you be more specific. You mentioned cyber and data, I'm curious if these are project related or more recurring type work, maybe just little bit more there. And then just on the payback on your M&A, I know you gave that third quarter outlook which is helpful. Is the payback on those types of deals outside of the traditional retail card space and bill pay and et cetera? Is it different than what we've seen in the past? Thank you.

## A - Ajay Banga {BIO 4676567 <GO>}

Hi, Tien-Tsin. Let me take a first crack and then Sachin being far more comprehensive on numbers will probably correct me, but here we go. The first part is services revenue. A lot of the cyber revenue has recurring competence built into it because it involves the selling of AI and other products that are sold into banks and merchants and governments in a way that they tend to have re-utilization quarter-after-quarter. What would change is if the volumes going through them change, then our revenue profile from them will obviously change because it's not dissimilar to our card business in that if the volume goes through our cards, we earn more. That's kind of the first part.

What is improving our capability in cyber and intelligence aside from our own efforts of developing new tools and the acquisitions of Brighterion and NuData and all the work we're doing, what's improving it is we now see a much larger percentage of our transactions than we used to 10 years ago. We are now seeing 55%, 56% of our transactions. It used to be 40% something. Every time you see more transactions, the predictive power of your AI tools improves. So, that's kind of the -- that second part by the way impacts some of our data business as well. But on the C&I space, it tends to be more recurring.

The data and services space, some aspects of them are recruiting, some of them are one-off projects. Sachin referred to the fact that you should expect that the third quarter in services maybe a little slower in growth than the second quarter primarily caused by the fact that the 2Q had enormous growth rates, but part of that is lapping of our comparison to prior year, but part of that is some projects in part of our business like in D&I so I'd kind of the -- D&S, sorry. These acronyms confuse me, the data business. And so you've got a mix inside our business where the cyber business is more recurring, the data business is a fairly high proportion of recurring, but it does have some project-related work as well.

## A - Sachin Mehra {BIO 15311008 <GO>}

Yes. And Tien-Tsin, I'll just add to that. So like Ajay said, right, so in the second quarter. First, this number moves around quarter-to-quarter. As you've seen even last year, in the first quarter of last year we had very strong services growth take place and that's a little bit a function of what are the projects which are being delivered in a particular quarter, which calls for things to move between quarter and quarter and that's particularly on the advisor side. So I would tell you in the second quarter, our advisors growth came in slightly stronger, which would be what -- in line with what Ajay said on the consulting side of our business.

On the second part of your question on M&A, look, I mean, we've shared with you what we think the dilutive impact will be for the acquisitions, which have been completed. The couple of things which I'll remind you is the acquisitions that closed during the course of the second quarter. There's one acquisition, which is Transfast which closed early in the third quarter. So, all of that has been taken into consideration as we think about what our outlook for acquisitions is. We continue to expect that our acquisitions will be dilutive between $0.07 and $0.08 in 2019. And as it relates to the revenue profile, these acquisitions are across different lines of what we do. So for example, the acquisition of Ethoca, which is in the safety and security space will follow a little bit more from a revenue model standpoint along the lines of what Ajay just described. Then there are other businesses such as Transactis, which is in the bill payment space, where it's a function of what kind of engagement volume we get of bill presentments coming into the business and how we charge on the basis of that. So, that will be more in the nature of per bill presented, what kind of transaction fees we charge on those bills.

## A - Ajay Banga {BIO 4676567 <GO>}

Nothing's changed in our basic M&A philosophy, which is two philosophies remain. One being we try and make sure that the dilution stops by year two and therefore it becomes accretive in the third year. Secondly, remember that by the second year the business is embedded in the core of whatever business we are running and therefore we don't do an ex-acquisition after the second year, which means the discipline on buying something and making it work for you by the end of the second year is now fairly strongly embedded in every business line in the company.

## A - Warren Kneeshaw {BIO 16549173 <GO>}

Next question, please?

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

Great. Thank you.

## Operator

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

## Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thanks. Good morning. I have a question on Europe. The growth in the region continues to remain robust and has been for some time. Could you talk about how long you expect that to persist because I know you've had some fintech wins and Maestro conversions that have helped? And then maybe you could also speak to any visible impacts from Brexit? Thanks.

## A - Ajay Banga {BIO 4676567 <GO>}

Sanjay, I have been saying this since the day I became CEO that Europe is a growth market for our Company. It's now almost 10 years. I see no reason to change that prediction. Europe is a cash dominant market in large parts of the continent even now and therefore the opportunity to convert cash in personal payments remains strong and healthy. To give you an example, just in quarter one of 2019, that's the first quarter this year, we grew merchant acceptance locations in Europe by 10% over the prior-year first quarter. And so this is not a developed payments market in the sense -- having said that, the Nordics are developed so don't get me wrong. I'm talking about most of Continental Europe has got enormous opportunity for growth as yet. There's market share growth as well, which is share growth not just against our large global competitors, but also against local national schemes, all of whom are finding it hard to keep pace with technology, innovation and regulation trends and therefore they tend to come to us for helping the systems and that allows us to get a stronger foothold even in their businesses. And so and this is all have done with commercial and B2B, and there is yet another space in the SME and B2B space in Europe that we are growing. So fintechs yes, of course, regular banks, yes, of course, that's the share growth angle. But just think in terms of cash and acceptance and B2B payments, there's an enormous opportunity even now in Europe, and I remain very bullish on what Europe is capable of doing.

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

Thank you.

## A - Warren Kneeshaw {BIO 16549173 <GO>}

Next question, please.

## Operator

Your next question --

## A - Ajay Banga {BIO 4676567 <GO>}

Forgot to answer. I forgot to answer the Brexit impact for Sanjay. And nothing directly yet, I mean, it's interesting the UK still remains a market where people seem to be spending and growth and spending remains healthy. So I can't tell you that I'm seeing direct impact to there, but just what the currency is volatile, obviously you expect that as we get closer to October 31st, if there isn't clarity, you're going to get more volatility in the market. But consumer spending is still healthy, inbound and outbound cross-border flows are pretty interesting yet, still I think in fact, inbound is stronger than outbound, but you know the UK still remains an attractive market.

## A - Warren Kneeshaw {BIO 16549173 <GO>}

So, next question.

## Operator

Your next question comes from the line of Jim Schneider with Goldman Sachs.

## Q - James Schneider {BIO 15753052 <GO>}

Good morning. Thanks for taking my question. I was wondering, if you could maybe just comment on the -- what you did before relative to transactions process growth. It seems like the big drivers there have been, first of all, the move to contactless, but also the reduction in Maestro Cards. Can you maybe just kind of give us a sense about whether there is any reason to believe that level of growth in the high teens is not sustainable from here. Since it's pretty much at the highest level, it's been and I think the last five years or six years? Thank you.

## A - Sachin Mehra {BIO 15311008 <GO>}

Yeah. So Jim, I'll take that one. I think you should think about our switched transaction growth across the vectors, which you just spoke about, which is as we continue to drive contactless adoption that's going to be a helpful fact in terms of driving growth on switched transactions. The other piece is, obviously the migration which we're doing from Maestro to debit Mastercard, which should be helpful, but then these which we should also remain focused on is you will see over the years, the percentage of switched transactions for Mastercard as a company has increased and that continues to remain a focus area for us, which is how do we continue to engage to drive more switching over our network, vis-a-vis that of local scheme. So all of these factors are helpful facts in terms of driving switched transaction growth. Those are, I think is which -- I would keep a close eye on as it relates to what's the trajectory of growth would look like on a going forward basis.

## A - Warren Kneeshaw {BIO 16549173 <GO>}

Next question, please.

## Operator

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

## Q - Lisa Ellis {BIO 18884048 <GO>}

Hi, good morning guys. Ajay, I wanted to follow up on your call out that Mastercard designed an issuing agreement with Paytm in India. It seems like we're seeing an increasing number of examples of this where the digital wallets are issuing debit cards against the balances, which seems like a pretty significant competitive shift in the environment relative to a couple of years ago where many of these players would have been at least aspiring to compete with Mastercard. So can you just talk about this competitive dynamic has it in fact shifted like this, are you seeing this more broadly across the developing markets and how is working with these players a little bit different than your traditional banking customers? Thank you.

## A - Ajay Banga {BIO 4676567 <GO>}

So Lisa, lot of these guys, at the end of the day, some of them start out by trying to find a way to use bank account to account rails, as we have generating payments. The factors that in so many markets around the world, debit interchange -- our MDRs are regulated, and therefore the economic benefit of going account to account versus going on a debit card has changed quite dramatically over the last decade. And in order used to be in on[e or two market incident of regulation has spent quite far on debit. A lot of the Asian markets, India as an example has regulated debit card MDR. And therefore the benefits -- the economic benefits have moved around. As we have in the US, where debit interchange is regulated. And so as that economic benefit has changed, the tonality of the conversation has changed vis-a-vis card rails versus account to account rails.

Meanwhile, we ourselves as the company have adopted the view that offering choice to consumers and merchants and customers about both account to account and card is a good idea. And that's why the investments in Vocalink, that's why the investments in building out infrastructure with real-time payments in the Nordics, or in parts of Asia, or in parts of Latin America or in the Middle East, Africa region, and that's why all our efforts to build applications and services on top of real-time payment rails as well. I believe out over the next decade, you will see more and more of us being sort of rail agnostic, if that's what our customers and consumers and merchants prefer, because I believe that's the best way to cater to the changing payments landscape.

## A - Warren Kneeshaw {BIO 16549173 <GO>}

Next question, please.

## Operator

Your next question comes from the line of Moshe Orenbuch with Credit Suisse.

## Q - Moshe Orenbuch {BIO 1497419 <GO>}

You'd kind of talked a little bit about the acquisitions and there are a number of them. What might be different about this round of acquisitions. They're more platform I guess, then perhaps just getting a specific amount of revenues. And maybe could you just talk a little bit about how you think they factor in kind of over the course of the next several years?

## A - Ajay Banga {BIO 4676567 <GO>}

Well, first of all, I would say most of our acquisitions, even over the past few years have been platform oriented, or in a couple of cases oriented towards skill sets we didn't have. So years ago, we bought a company called C-SAM, which give us access to 450 mobile technology engineers, which would have been quite a challenge to hire organically. But the majority of our deals beat merchant loyalty programs a pinpoint from Australia or these last ones have often platform or some service-oriented of that time. So take Applied Predictive Technologies of the data and services space that gave us a testing in learning platform or take new leaders that gave us AI platform for cyber security. So I'd say most of our acquisitions tend to connect back who wanting to be the order of a platform. So we can add into what we have and then sell as a bundled service in our system. That's kind of what we're trying to do.

So I don't see these are being dramatically different on that logic. I think what's getting interesting is that we are seeing more deal flow than we ever did. We've always seen a lot of deals and expect one or two or three out of 20, 30. We see many more deals with last two years than we saw in the first five years. I think part of that is, we have seen away credible acquirer who tries to develop the company we acquired and stringent into the kind of businesses we have and then give people opportunities to grow and their career to grow. So we don't seen as an acquirer who comes into plant the Mastercard we are doing things. I would tell you the things like APT and new data and Brighterion has taught us a great deal that we didn't even know before we bought them. So I think they're benefiting enormously from our acquisitions both culturally for our mother company we're also in the cross flow of successes between the two of them. I don't see that very different for an Ethoca or a Transactis or a Transfast or a Wise. I can see all of these having similar patterns.

## Q - Moshe Orenbuch {BIO 1497419 <GO>}

Okay, thank you.

## A - Warren Kneeshaw {BIO 16549173 <GO>}

Next question, please.

## Operator

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

## Q - Robert Napoli {BIO 1526298 <GO>}

Hi, thank you and good morning. A question on B2B payments, Ajay, you'd mentioned that you haven't even scratched surface internationally. I was wondering, if you could maybe, Sachin, give an update on trends in that business in the US growth rates, any signs of acceleration, the AP automation piece. And is there -- is the international market far behind the US in the growth of B2B payments?

## A - Sachin Mehra {BIO 15311008 <GO>}

And so our B2B business, Bob, as you know, you should think about as things we've been doing for many, many years on the commercial side catering to the small business universe, the T&E side of the business, our fee card -- Fleet Card management side of the business, that business continues to grow well. There still remains a lot of opportunity from a secular shift standpoint, I would tell you, and that part of the business we continue to grow that nicely. We've got some very solid platforms, which you're familiar with, which support the growth of that commercial business. The more recent stuff which we've done as it relates to the B2B Hub, again, we're seeing good interest from our customers in that. So like we've said previously, those things take time. The adoption curve on those things is something which is a multi-year adoption curve process, but still showed a lot of promise, because it's solving for European points in the business.

Then I think about the new and different stuff. For example, we announced just in Ajay's comments earlier today, we talked about the partnership we've established for our Mastercard Track capabilities with OpenText. Again early days, but shows a lot of promise because it's solving for real gain points on the B2B side as it relates to compliance and on boarding of customers in this instance, in the automotive segment. But I think you should think about our B2B business across multiple spectrums, this business we've been in, which continues to grow healthily, which delivers revenue right now, the other businesses we have invested in over the last few years, which are starting to show good trajectory and traction. And then the other new things, which we're doing such as Mastercard Track, which are just getting going, which would pay-off over the longer term. And not much has changed in terms of our views on the opportunity there both in the US as well as from a global market standpoint.



## Q - Robert Napoli {BIO 1526298 <GO>}

Is the international market further behind the US market? I would imagine the opportunities are similar?

## A - Sachin Mehra {BIO 15311008 <GO>}

Yes. Bob, the answer to that question is, yes. The answer to that question is clearly yes. We announced last quarter, our partnership with MYOB for example in Australia, that would be an example of again taking the lead from what we did at the B2B Hub in the US, and taking it overseas for an opportunity which exists there as well. This quarter we talk about our agreement with nationwide, which is primarily catering towards the small business space in Europe, again a big opportunity there. So I think the answer really is, yes, things typically start-up in the US and there's opportunity globally on this as well.

## Q - Robert Napoli {BIO 1526298 <GO>}

Okay. Thank you. Appreciate it.

## A - Warren Kneeshaw {BIO 16549173 <GO>}

Next question, please?

## Operator

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

## Q - Jason Kupferberg {BIO 6867809 <GO>}

Hey, good morning guys. Just one for Sachin, and one for Ajay. I'm just starting on the domestic assessments, it looked like the revenue growth there decelerated about 300 points in constant-currency. So just wanted to get some color on the drivers there and maybe what moving parts we should be considering for the second half in that revenue line? And then maybe Ajay, if you can just go little further on SRC, now that we're getting closer to actually live implementations. What the plan in terms of educating consumers there, what we see actual targeted advertising kind of like what we had seen historically with MasterPass?

## A - Sachin Mehra {BIO 15311008 <GO>}

So Jason, I'll take the first one. Domestic assessments, right, they grew at 13% this quarter in line with our GDV growth rate of 13%, that's down sequentially from a 16% domestic assessments growth rate in Q1, that is primarily due to the lapping of certain pricing that was put in place last year. And from a trajectory standpoint you would continue to see the pricing effect of that marginally come down as the year progresses.

## A - Ajay Banga {BIO 4676567 <GO>}

And the part of on SRC, yeah, once we get the testing completed and we get the current MasterPass merchants uploaded into SRC, and we start rolling SRC out for the broader marketplace, you will probably see the whole industry making substantial effort banks, networks, acquirers, making substantial efforts on marketing and promotion to get consumers used to the idea of the fact that this one button has the simplicity of checkout that you would expect in today's digital world, you would see that coming. But I'm talking, it's still a few months away before that kind of stuff starts.

## A - Warren Kneeshaw {BIO 16549173 <GO>}

Next question, please?

## Operator

Your next question comes from the line of Don Fandetti with Wells Fargo.

## A - Warren Kneeshaw {BIO 16549173 <GO>}

Don?

## Operator

Mr. Fandetti. Your line is open.

## Q - Donald Fandetti {BIO 6095992 <GO>}

Yes. Ajay, on cross-border, can you parse out a little bit the different trends in e-commerce versus T&E, in terms of growth. And then just a follow-up on the commercial. I know there has been some talk in the industry that may be it's been a little bit or some concerns around growth in commercial. Can you just clarify how you're feeling on commercial spend overall?

## A - Ajay Banga {BIO 4676567 <GO>}

Getting good on commercial spend overall. So that part is exactly where Sachin just answered. The part of our cross-border, e-commerce cross-border growth is in the high-double-digits, high-teens kind of thing. And that's a good number for us. If you remember, it's stronger because you remember the whole crypto currency purchases stuff that we talked about. Well, that's left. So some part of the cross-border growth improvement quarter-over-quarter is the lapping of the crypto currency effect, that you saw back in 2018. And that's the real benefit we're getting out of that.

The travel kind of expense cross-border tourism, by and large transport and tourism is still alive and well. You'd find changes in where people are going so take China. In China, cross-border growth from Chinese cardholders is actually up this quarter over the prior quarter, but it's primarily due to increased travel, not just to when it begun to happen which is Japan and Australia, but this quarter you're seeing some travel to Europe to Germany to Canada to the United States as well. And I -- that goes in and out depending on which quarter and what's going on, but by and large travel, tourism is still intact to bring okay.

## A - Sachin Mehra {BIO 15311008 <GO>}

And I'll just add here, which is, we continue to see double-digit growth in cross-border volumes across all regions and for full-year 2019, we continue to expect cross-border growth rates to be in the mid teens.

## A - Warren Kneeshaw {BIO 16549173 <GO>}

Next question, please?

## Operator

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

## Q - Bryan Keane {BIO 1889860 <GO>}

Hi, guys. Just wanted to ask about Ajay, your comment about now seeing 55 or so percent of transactions that you guys are switching. Can you just talk a little bit about where that percentage can go over time. Obviously, there is an economic lift there for you as well, maybe you can talk about that throughout the model maybe higher yields and then it sounds like it pushes services revenues, higher. So just thinking about the different implications there? Thanks.

## A - Ajay Banga {BIO 4676567 <GO>}

Well, what I can tell you is that, I expect 55% to keep growing, but I'm not sort to be able to tell you what number I expect this year, next year, the year after. The reason for its continuing growth, there are multiple reasons. One reason is that local payments schemes as I was mentioning, struggled to keep pace with innovation technology with cyber security, with regulations and that gives opportunities for companies like us to come in part or happened to show that our transactions are better predicted or better service to have more analytics behind them and that allows us to grow. That's happening all across Europe as an example. It also happens when regulatory environments change like some years ago, they changed in Brazil, and they are beginning to change in Colombia, they are changing in Argentina. And as they change there, you tend to begin to see more of your transactions because the locally formulated scheme either no longer has control, ubiquitous control and where the transaction is routed and the control choice now goes to merchant or issuers are going to changes the dynamic in the market. That's behind some of this growth in what you're seeing. And then obviously certain kinds of technologies allow you to see more transactions. Contactless in many markets allows you to see more transactions than the old bank strength or chip cards could do. And so there's a number of things behind the 45% becoming 55% or 40% something, I forget the exact number, 10 years ago, I think it was 42%, 43% coming up to 55% odd percent now. I expect to see that continuing to grow. And yes, the implication of that is that it does help us with predictive power of our data both in cyber and in our data and services businesses. And that does allow us to bundle our solutions better for merchants and banks. That is correct.

## A - Warren Kneeshaw {BIO 16549173 <GO>}

Next question, please?

## Operator

Your next question comes from the line of David Togut with Evercore.

## Q - David Togut {BIO 1496355 <GO>}

Thanks, good morning. Good to see your P27 partnership in the Nordics leveraging Vocalink. Can you talk more broadly about Vocalink's positioning on the European continent ahead of the launch of SCA on September 14th and when we go live on September 14th with secure customer authentication, what do you expect to happen in terms of transaction authorization and approvals in continental Europe?

## A - Ajay Banga {BIO 4676567 <GO>}

I expect a lot of fun. So let me walk you, first on September 14th is an important date, but also been some announcements that there will be some flexibility in the enforcement of SCA at a national level from the European Banking Authority. I think a month or two back they gave out some clarification on that. That will be interesting because you will get some degree of friction caused by the fact that there'll be different enforcements in different countries. And I think that could lead to some consumer confusion, some merchant confusion, some issuer confusion. So we're going to have to work our way through this over the next few months as this happens.

We are trying to do focus on our customers, help them better understand their requirements, provide them with solutions to help assist with their compliance on SCA. I continue to believe that, that will be very well-advantaged during this process, if we stand by them as they try and meet the needs of what the regulation of PSD2 requires. Remember, the disconnected stuff around Open Banking there, which is everything from connecting to protecting to resolving for disputes. We are working that through with a number of countries, we've launched in the UK, launched in Poland, we're in the process of doing that kind of work in different parts of Europe. The Vocalink is not the only entity that is helping us to that, it's card rails, account to account rails, it's actually more to do with the cyber intelligence and data services businesses that there were lot of opportunity in PSD2 in Europe. Vocalink as a whole in Europe, and in Continental Europe, only the Nordics will give us the first physical presence once it's fully implemented across Continental Europe, because otherwise we were in the UK, in the case of Europe and no one knows where the UK will be under number one. So this gives us a foothold on Continental Europe as well by the time we get this implemented over the next few years.

## Q - David Togut {BIO 1496355 <GO>}

As my follow up --

## A - Ajay Banga {BIO 4676567 <GO>}

In the UK, all our contracts have been extended out by a substantial number of years on what Vocalink provides both the bank contract, the link contract and the faster payment contract. And of course some years later there will be RFPs and all of those, but we're busy making sure we are well-positioned for those.

## Q - David Togut {BIO 1496355 <GO>}

Understood. And then as my follow-up, what is your expectation for the adoption of a Pay by Bank in Continental Europe or consumer ACH payments, once we go live September 14th?

## A - Ajay Banga {BIO 4676567 <GO>}

Yeah, I don't know yet, like I said, remember September 14th is into rails switch on date. It's got some switch on angles and it's got a bunch of dimmers attached to it. So the light may or may not come on fully on September 14th. Do I think of Pay by Bank is a great opportunity? Yeah, just remember this, that comment I was making to Lisa earlier, the incentive to switch to paying by a bank account direct debit, the economic incentive for a merchant to help advance that or for a merchant to therefore give better benefits to their consumers to choose that as the way to pay as compared to paying by some of the method has reduced as the economic difference between the MDR and debit cards and the cost of a fully loaded account to account payment are taken into account. And so this is less of an economic argument as compared to a preference argument. I consider lots of Europeans who would think of paying with debit as a natural way of paying as compared to paying with credit. They think of debit as safer. I suspect a number of them will adopt Pay by Bank or pay by a bank account as something they understand and appeals to their way of planning for their financials. I think that's the way this will grow as compared to some very strong economic or pecuniary opportunity benefit to consumers or merchants, which means it will be a slower build.

## Q - David Togut {BIO 1496355 <GO>}

Thank you.

## A - Warren Kneeshaw {BIO 16549173 <GO>}

Next question, please?

## Operator

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

## Q - Darrin Peller {BIO 16385359 <GO>}

Hey, guys. Thanks. Ajay, more broadly, I mean, your volume trends continue to remain really strong even to the July period, and you still maintain a pretty good spread versus competition across a lot of volume growth metrics. Can you just comment, I mean, is this just solid macro trends, or how much of this is actually market share in your mind, or other than technology innovation driving growth. Just maybe you can try to parse out, and if you think there's anything of this -- in the economy you're seeing that would change that trend on volume anytime in the next half. And then just quickly, Sachin also cross-border revenue, it was up a little more card-to-card through the underlying cross-border volume growth rate. Is there an element of pricing there? Should we expect that to continue? Thanks guys.



## A - Ajay Banga {BIO 4676567 <GO>}

Do you want to answer the cross-border one, first?

## A - Sachin Mehra {BIO 15311008 <GO>}

Sure. So, you're right. The cross-border assessments were up 19% in the second quarter, which is about 3 ppt more than what you saw on the driver at 16% growth and that was due to pricing, which was partially offset by mix. And you would -- you'd see that pricing continue for a few quarters going forward. So nothing more really on that, Darrin.

## A - Ajay Banga {BIO 4676567 <GO>}

So on transaction growth and GDV growth and the like, first there's two broad pictures; one, of course macro spending environment by consumers in the B2B business is still good. Is it moderated towards of compared to the prior year, yes, but it's still relatively healthy. There are pockets of concern on macro spending, I think China is something that everybody has now begun to talk about, which is a challenge, and it's stressed. Mexico is slower. But there are other markets that are doing better. So Brazil is doing better. The US is holding strong. And the UK is holding up. Parts of Northern Europe are doing fine. India is doing, okay. And Japan and Australia are doing okay. So there are markets doing okay, that's the macro trends.

Are we growing share? Absolutely. And we've been growing share consistently for a while across product categories. But growing share -- this business doesn't change share growth from you don't grow share by 300 basis points in the quarter, you grow share by incrementalism mostly. Even if you win big deals in one country, the combination of that country contributing to the total world spend is still a smaller number. And so share growth and share gives you a consistent tailwind, but it's first the macro and secular and second share growth. And third, remember we are smaller than some of the other competitors in some of these overall numbers because of our position in different markets and that tends to make the percentage number look better. It's a combination of all three. I believe it's a little bit of all three going on. So you should take that into account.



## A - Warren Kneeshaw {BIO 16549173 <GO>}

Brandy, I think we have time for one last question.

## Operator

And your last question comes from the line of Craig Maurer with Autonomous Research.

## Q - Craig Maurer {BIO 4162139 <GO>}

Hi, good morning. Thanks. Considering my peers have circled the wagons on all the enormous positives, I thought I'd ask some of the -- some of the few controversial items. First, can you discuss the Australian proposal to completely eliminate error change by year-end? And if you can comment on the fact that the UK Supreme Court has agreed to hear the class-action case against Mastercard? Thanks.

## A - Ajay Banga {BIO 4676567 <GO>}

So first of all, Craig, Tim Murphy is delighted to get a chance to speak on the UK, so I'll let him go ahead with that.

## A - Timothy Murphy {BIO 15846989 <GO>}

Sure. Great, thank you. So we feel very good about the decision of the Supreme Court to look at -- to improve our appeal. We'll take that forward in the next couple of months. Just a context on that issue, this is one of the first major cases in the UK, looking at their new collective action or class-action law. We think the appellate court set a too low a standard and that would produce an outcome in the UK that is -- was not intended under the law. So we think this is great opportunity for the Supreme Court to come to a more balanced decision and then we'll proceed on that basis, but we're very pleased with that approval.

## A - Ajay Banga {BIO 4676567 <GO>}

And then the Australian proposal, it's not just Australia, where ever you come to 0 interchange or MDR in a country, I continue to believe that no economic incentive for increasing either acceptance or digitization of payments doesn't make sense to me. At the end of the day, if there is a value being derived by an entity, be it a consumer, be it a merchant, be it a bank from doing something and somebody else providing the capability for that value to be derived. In this case, specifically, if merchants are driving some value from digitized payments, be it ticket sizes, be it lower theft, be it, better cash management, be it, lower expenses and collecting, there's a series of studies around the world that demonstrate what digitization does for the merchant community in terms of benefits for them. And I believe that in some way, incenting the providers who enable that digitization, acquirers, processors, issuers, who take on risk, expense, and the capital allocation that is required to enable this is a sensible business model.

So going to 0, just says I'm not going to do it and you need to find a way to do it anyway. And I suspect that's not the smartest way to go about it, but you know what, at the end of the day countries will make decisions. Our job is to help illustrate to them through research, through logic and through experience in other markets what we believe to be conducive regulatory systems. And then when they make that decision, our job is to work with them the best we can. That's been our approach for years. That's the approach we'll take in Australia, as well. I consider Australia to be a very important market for our company. We are market leaders there in a number of categories. With the Westpac trip recently, we are definitely market leaders in more categories. And I consider our presence in Australia to be that of a responsible payments partner for the Australian government and ecosystem. And I will keep trying my best to work with them.

## Q - Darrin Peller {BIO 16385359 <GO>}

Thank you very much.



## A - Sachin Mehra {BIO 15311008 <GO>}

Sure. A few closing parts. We continue to execute well against our strategy. We just had another strong quarter of revenue and earnings growth. We are really pleased to further extend the reach of our real-time payments capabilities with the P27 being in the Nordics. And we look forward to working with all our new colleagues from our recent acquisitions. And with that, thank you for your continued support of the company. Thank you for joining us today.

## Operator

This concludes today's conference call. You may now disconnect.

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