Q2 2020 Earnings Call

Company Participants

- Alfred F. Kelly, Jr., Chairman and Chief Executive Officer
- Mike Milotich, Senior Vice President of Investor Relations
- Vasant Prabhu, Vice Chairman and Chief Financial Officer

Other Participants

- Ashwin Shirvaikar, Analyst
- Darrin Peller, Analyst
- Eric Wasserstrom, Analyst
- Harshita Rawat, Analyst
- Lisa Ellis, Analyst
- Moshe Orenbuch, Analyst
- Robert Napoli, Analyst
- Sanjay Sakhrani, Analyst
- Tien-Tsin Huang, Analyst

Presentation

Operator

Visa's Fiscal Second Quarter 2020 Earnings Conference Call. All participants are in a listen-only mode until the question-and-answer session. Today's conference is being recorded. If you have any objections you may disconnect at this time.

I would now like to turn the conference over to your host, Mr. Mike Milotich, Senior Vice President of Investor Relations. Mr. Milotich, you may now begin.

Mike Milotich {BIO 20581476 <GO>}

Thank you, Jordan. Good afternoon everyone and welcome to Visa's fiscal second quarter 2020 earnings call. Joining us today are Al Kelly, Visa's Chairman and Chief Executive Officer; and Vasant Prabhu, Visa's Vice Chairman and Chief Financial Officer. This call is being webcast on the Investor Relations section of our website at www.investor.visa.com. A replay will be archived on our site for 30 days. A slide deck containing financial and statistical highlights has been posted on the IR website.

Let me also remind you that this presentation includes forward-looking statements. These statements are not guarantees of future performance and our actual results could differ materially as a result of many factors. Additional information concerning those factors is available in our most recent reports on Forms 10-K, 10-Q and 8-K, which you can find on the SEC's website and the Investor Relations section of our website.

For historical non-GAAP financial information disclosed in this call, the related GAAP measures and the reconciliation are available in today's earnings release. And one last note before we get started, given the amount of content we have today, we want to allow time for Q&A. And so we're likely to run over by a few minutes.

And with that let me turn the call over to Al.

Alfred F. Kelly {BIO 2121459 <GO>}

Hey, Mike. Thank you very much and good afternoon everyone and thanks for joining us today. First and foremost, I hope you and your families are well and safe. A year that looks quite promising after a solid first quarter has been substantially disrupted by COVID-19, while the business has been negatively impacted in March and April. Our focus has been doing on doing the right things for our employees, our clients and our communities around the world whose lives have been affected in unimaginable ways. We continue to manage our business for the long term. Although we are pragmatic in understanding short term circumstances. To that end, we are certainly being quite careful about our spending and our expense base and we are pulling back on discretionary spending, especially related to personnel, travel, professional services and marketing. Throughout all of this, we remain committed to investing in the future, in product development, in technology, our brand and business development.

You may recall that at our Investor Day, we laid out a compelling case for Visa's growth as we look to be a single point of connection for money movement globally and there are three primary levers to that growth. Consumer payments, new flows and value-added services. I want to be absolutely clear that nothing has changed about these opportunities in terms of the medium and long term growth for the Company.

On our call today, I'm going to cover our results. Our response to COVID-19 and some updates on the underlying business and long-term prospects for growth. To start our second quarter results, net revenues in the fiscal second quarter were $5.9 billion, an increase of 7% or 8% in constant dollars. Although cross-border volumes were already weakening in February, driven by Asia, for the most part, the business drivers were not meaningfully impacted by COVID-19 until the latter part of March.

A quick snapshot on our quarterly results are as follows. Payments volume grew globally 5% or 7% excluding China with over 500 million transactions on Visa per day for each of the 91 days in the second quarter. Cross-border volume declined 2% on a constant dollar basis and we processed 34.9 billion transactions on our network, an increase of 7% over the prior year. Our non-GAAP EPS growth was 9% helped by prudent expense management. We recognize, given the environment that the investment community would appreciate as much information on our performance as possible and to that end, Vasant will dive into more detail than usual, when I am finished my remarks.

Since the COVID-19 outbreak, we've been in very close and regular contact with employees, clients, partners and governments globally to help them navigate these challenging times. Our foremost priority is the health and well being of our employees and their families. To that end, I pledge to our 20,000 employees that there would be no layoffs in calendar year 2020 related to COVID-19. We recognize the critical role Visa plays in maintaining the stability, security and resiliency of the global payments ecosystem.

And let me state that our network infrastructure and application performance has been unaffected, even as we transitioned the vast majority of our employees to a work from home status. Our business operations have comprehensive and coordinated plans in place to address business continuity and recovery needs around the world. We're working closely with our clients in a number of initiatives. Starting with tap to pay which has gained even more momentum in the United States with issuers and merchants as they seek to reduce the need for cardholders to make physical contact at the terminal.

Maybe Federal, recently started issuing tap to pay cards. So now, nine of the top 10 US issuers are participating. And we have surpassed 175 million tap to pay cards in United States that have been issued. That is more than any other country on the globe.

On the merchant side a large grocery chain recently rolled out tap to pay to more than a 1,000 stores. So now, nine of the top 10 grocery stores are enabled for tap-to-pay. At the end of the second quarter, almost 60% of face to face transactions, excluding the United States were tap to pay and tap to pay transactions grew over 40% year-over-year. We've also launched a website where merchants can request free tap to pay signage for their terminals and large merchants like KFC and Pizza Hut have ordered them for all their stores in the United States. Globally, we actively engaged with merchants, acquirers, issuers and governments to increase tap to pay limits. In fact, over 50 markets in last few weeks have announced increases. To name a few, 26 European countries, including the UK, Poland and Ireland. 25 countries in the Middle East and Africa, including the Ukraine, Georgia and Egypt. Also, Canada, Australia and New Zealand have increased their limits and we expect other countries to follow recognizing the benefits of digital payments.

Visa is also working closely with governments around the world to respond to the crisis in a number of ways, for example, in the Dominican Republic, we developed a virtual prepaid solution to rapidly expand the government's emergency disbursement program from 800,000 to 1.5 million beneficiaries. Likewise, we will be deploying a Visa Direct solution to support Guatemala's emergency relief program to reach 2 million households over the next three months. In the United States, Visa supports over two dozen state governments program including unemployment insurance programs. And given the environment, we are seeing a 400% growth in account holders just in the last month.

Data is another area where Visa has been able to assist governments during the crisis. We're providing helpful insight into economic performance to nearly 20 government agencies around the world. Visa is also helping our communities. We recently announced the commitment by the Visa foundation of $210 million to support two programs $10 million towards charitable organizations on the front lines responding to the COVID-19 pandemic such as public health and food relief in each of the five geographic regions in which Visa operates and $200 million to support small and micro businesses around the world with a focus on fostering women's economic advancement.

Let me now shift to updates of the underlying business which will be really very good for us in the medium to long-term prospects for growth. Even with COVID-19 commerce and innovation continued and our core business had a number of positive developments with several key relationships renewed and new partnerships formed. This is all in support of the opportunity for meaningful growth that we see in consumer payments, new flows and value-added services. Let me just highlight a few of them. In the United States. Visa won two notable deals from issuers, who recently completed mergers and previously had contracts with both Visa and the competitive network. We are very pleased to announce the extension and meaningful expansion of our consumer credit, consumer debit, more business and commercial issuing as well as our DPS debit processing partnerships with Truist, the sixth largest US issuing bank. We look forward to working with this bank on a myriad of Truist brand building, innovation and consumer experience efforts in the years ahead.

Additionally, following the merger of TCF Bank and Chemical Bank to create the twenty seventh largest bank in United States. Visa won the existing business and new debit business. In Europe, we continue to make progress. In the UK, we extended our long standing partnership with Barclays which processes nearly half of the UK's debit and credit transactions, enabling us to jointly focus on innovation and support Barclays growth into new markets. Also in the UK, Visa signed an extended agreement with Cooperative Bank building on our 30-year relationship to support their 3.4 million retail and small business customers.

In France, Visa renewed a 10-year agreement with Groupe BPCE our largest client in Continental Europe, with more than 40 million customers. Visa and one of the largest German banks Comdirect Bank announced an agreement to issue, consumer debit cards and grow their consumer credit business and ING Diba extended its relationship with Visa for both debit and credit. A pan-European commercial bank selected Visa to grow their consumer credit and corporate card business across six European markets, Austria, the Czech Republic, Slovakia, Slovenia, Bulgaria, and Bosnia and Herzegovina.

In the rest of the world, we renewed and expanded partnerships with some of our largest clients. We renewed deals with two large debit issuers Al Rajhi Bank, the largest retail bank in Saudi Arabia and Chunghwa Post the post office in Taiwan.

In Australia, we signed a 10-year exclusive issuing partnership renewal with the Bank of Queensland. One of Australia's leading regional banks to serve their close to 1 million personal and business. In Latin America and the Caribbean, we extended partnerships with the largest issuers we have in Panama, Peru, Jamaica, and Costa Rica. In Brazil, we were chosen as the preferred brand by Caixa the largest bank in customers and debit card issuance and XP, a leading investment platform that is moving to issue digital credentials and cards.

We also obtained our license to operate as a [ph]clearinghouse for card payments in Mexico, which will allow Visa to provide domestic network processing services. This is a key step for Visa to bring innovative solutions as well as world class security and reliability to a very important market.

As you know Visa is the global co-brand leader and this quarter was no exception in terms of sizable wins. We announced the global part -- co-brand partnership with Accor hotels as the fourth largest global hotel chain with 39 brands such as Fairmont and Sofitel. This represents the most significant Denovo co-brand opportunity in the travel sector in recent history. Our partnership will expand the Accor live limitless loyalty program to its 64 million loyal member base and more than 250 million customers globally.

In February, United Airlines, Chase and Visa announced an extension of our long-term credit card partnership into 2029. Visa is proud we've extended our partnership with United and Chase and we're excited to bring the strength of our brand and network to continue building on the program's success to deliver even more value and card holder engagement.

As Visa seeks to grow our consumer business, wallets remain very important for both new issuance and acceptance and we've made noteworthy progress this quarter. Previously mentioned, partnership agreements with Paytm in India and Toss in South Korea are now issuing credentials. In addition, we had new wins with stc pay in Saudi Arabia, Paga in Nigeria, Payco in Korea and [ph]Cash in Japan. In China, we signed a five-year partnership with Tencent the parent of the WeChat platform with more than 1 billion monthly active users. This collaboration with Visa marks Tencent's first co-brand card with an international card scheme, and we look forward to partnering on innovative cross border solutions for Chinese credential holders.

In sub-Saharan Africa, we have announced a strategic partnership with Safaricom, the largest telecommunications firm in Kenya, and the provider of financial services through M-Pesa. With 24 million M-Pesa users and a 173 million -- 173,000 M-Pesa merchants wallet partnerships like these are paramount to expanding our issuance and acceptance globally. Collectively with WeChat and Safaricom, we now have relationships with wallet providers that give us the potential to embed Visa credentials in 2 billion wallets.

Shifting to new flows with a 185 trillion of opportunity, we're focused on moving money end to end for businesses, governments and consumers. In Europe we're working with Lydia the number one FinTech in France for the younger younger people that are below 30 in age and a P2P service with over 3 million users and growing at over 4,000 users per day. In the United States, we recently renewed our important relationship with Square for their Cash App program including Visa Direct capabilities and the cash card-issuing platform.

Visa Direct continues to be a powerful capability, especially in the COVID-19 environment as one specific example Visa Direct transactions for workers speaking earned wage access or on-demand pay across supermarket, quick-serve restaurants, healthcare and hospitality categories increased well over 100% year-over-year this quarter. We are also working on digitizing cross-border P2P. This quarter Remitly launched cross-border in seven countries, MoneyGram expanded to 11 additional countries and KB Kookmin Card, one of the leading issuers in South Korea also initiated a cross-border program all with Visa Direct.

Cross-border also plays a sizable role in the B2B space, and we entered into an agreement for B2B virtual cards with ICBC, the largest bank in China, representing our first B2B partnership with a bank in China. Visa and Australian cross-border FinTech Airwallex announced the new global partnership with the launch of a borderless B2B cross-border card and we continue to look for new ways to drive new flows with unique capabilities and solutions.

Value-added services are an extension of our core business and represent a significant opportunity for us to deepen relationship, help clients and grow our business. This quarter was no exception in terms of clients, looking for assistance. In DPS in addition to Truist, we renewed six issuer deals that represent nearly 20% of DPS's annual transaction volume. In terms of disputes, our recently acquired disputes platform Verifi signed an agreement with a large e-commerce provider to enable the delivery of key transaction details from their CRM systems to issuers in near real-time which helps prevent disputes and reduces chargebacks.

In terms of data, as you can imagine, our clients are very interested in benchmarking their performance throughout the quarter. Leveraging our Visa Analytics platform. Nearly 5,000 client users were enabled at the end of the quarter accessing 33% more reports than the first quarter for a total of 90,000 reports accessed. In consulting, clients sort consulting and analytics at an increased rate, we delivered approximately 50% more projects than in the second quarter of last year.

The CyberSource business continues to gain momentum globally and support acquirers and merchants around the world with innovative omni-commerce, gateway and fraud management services. For example in India, CyberSource is now the market leading payments gateway, in part due to the introduction of our Safe Click technology for e-commerce merchants which allows cardholders to enroll and store card information for quick and secure checkout. Merchants also saw a 15% increase in authorization rate when using Safe Click. These are just some examples of how during challenging times our clients look to us.

So in closing you can see that there is a lot of business momentum, yet, there is no doubt that our performance will continue to be impacted by COVID-19. We continue to focus our attention on supporting the shift to e-commerce, the acceleration of tap to pay and new digital payments as well as providing our clients with critical value-added services. Although the road ahead will certainly have its challenges for a number of quarters, our business model is resilient on our strategy to enable the movement of money globally is more relevant than ever.

With that let me turn it over to Vasant.

Vasant Prabhu {BIO 1958035 <GO>}

Thank you, Al and good afternoon everyone. This is an unprecedented time and we know you all have many questions about the COVID-19 impact on our business. We provide you with up to date data in this fast moving crisis, we will discuss trends occurring after the quarter ended more than we normally would. Also, while the absolute level of growth or decline is important the second derivative or the rate of change in trend lines is equally important. To help you with all this, we've added a slide to our earnings presentation with weekly data from March and for April through the 28th. This slide provides additional details on US payments volume growth, as well as processed transaction and cross-border volume growth.

Starting with US payments volume, after a strong growth in January and February payments volumes dropped precipitously in the second half of March as lock downs went into effect across the US. By the last week of March payments volumes were declining 28%. Credit spending was harder hit than debit and declines have been more than 25% every week in April. On the other hand, debit was down in the mid teens through the first two weeks of April and spiked into positive territory in both week three and week four as the first wave of economic impact payments were distributed. It is too early to tell if this uptrend in the second half of April is a start of a recovery, a new plateau although said in a couple of weeks.

Through April 28, US payments volumes are down 19%, debit is down 6% and credit is down 31%. As may be expected, there is a drastic difference in card present and card not present performance with card not present or e-commerce volume excluding travel up 18% in April and card present volume down 45%. There are also significant differences in how lock downs have been impacting spend categories.

One-fifth of US payments volume is food and drug stores along with Walmart, Costco and Target. This is the only category still growing, up approximately 20% in April and essentially all this growth is coming from online spending up over 100% in the last two weeks of April assisted by the adoption of curbside pickup and delivery. Another one-fifth of USPV is in categories that are less discretionary like telecom, utilities insurance and business supplies and equipment. These are holding up relatively well shrinking, less than 15% at the end of March and have recovered to flat with the prior year in April.

A third of our US payments volume is in categories that are declining between 15% to 50% such as retail automotive, healthcare, education and government. There are significant variations and performance within these categories with more essential purchases showing more resiliency, for example home improvement within retail or hospital and medical equipment within healthcare. Categories where spending can be delayed or is more discretionary are more heavily impacted for example apparel spending within retail or dentist and doctor visits within healthcare.

About one-fourth of our payments volume is in the hardest hit categories including travel, fuel, restaurants and entertainment all declining over 50% in April. The travel decline affects all sub-sectors and is the deepest at around 80%. Fuel declines were driven both by falling prices and fuel gallons purchased which typically offset one another to some degree, but not right now. Within restaurants quick service restaurants are holding up better in part due to being better equipped for this environment with apps, drive through and delivery infrastructures already in place.

Within entertainment, amusement parks and movie theaters are especially hard hit. While gaming, a small component of the category is up over 200%, Visa Direct activity has slowed a bit but growth remained robust at around 70% in second quarter and in April. Use cases such as P2P and food delivery disbursement even accelerated while ride sharing and merchant settlement disbursements were negatively impacted.

As economic impact payments have been distributed, we have seen significant increases in home improvement, automotive, healthcare and some retail goods and services categories. Travel, fuel, restaurant and entertainment categories have not benefited. International payments volume growth in constant dollars was 4% and over 7% excluding China in the second quarter. Growth remained strong in CEMEA and Latin America growing 19% and 14% respectively in part due to client wins in both regions. Asia-Pacific, excluding China grew 3% decelerating 4 percentage points from the last quarter as the COVID-19 impact was significant starting in early February for a large part of the region. Europe grew 6%, down 2 percentage points versus last quarter with the largest deceleration in Central and Southern Europe.

Looking across some key international markets, where we process the majority of transactions. Major markets in Europe as well as Canada have trends similar to the US both in terms of the trajectory and the depth of the decline. Australia appears to have weathered lock down better with a shallower decline much like the US debit in all these markets is outperforming credit and there has been a pickup in the second half of April.

Within Asia. There are variations Hong Kong dropped in early February, along with the rest of China and appears to be recovering in April. Singapore dipped early then stabilized and has dropped sharply again under more stringent restrictions Japan is on a downward trend as a lock own goes into effect. India with a very rigorous and sudden lock down has experienced one of the fastest and deepest declines. Elsewhere, Brazil is doing relatively better so far. Across markets performance by category is generally similar to the US. Differences across countries seem to be driven by the quality of the e-commerce infrastructure in place and consumer adoption of digital payments prior to the outbreak.

With the economic stimulus payments in the second half of April, categories benefiting the most are some sectors of retail like home Improvement, business supplies and equipment, healthcare, education and government. Travel, fuel, restaurants and entertainment generally remain depressed. In two key markets where we do not process transactions Korea and China, we have some limited data sets. This data indicates Korea may have been among the least impacted markets. In April, a recovery is well underway in both markets. Process transactions grew 7% for the quarter with sharp declines in March and are down 25% through April 28, slightly better than levels reached in the last week of March. Transactions typically several points faster than volume as we penetrate small ticket transactions in every day spend categories.

In the recent uptrend post stimulus payment that relationship has temporarily changed as consumers have prioritized higher ticket categories like home improvement, and automotive over lower ticket categories like restaurants and entertainment. Constant dollar cross-border volume declined 2% in the second quarter or 5% excluding volume within Europe. Volume growth was strong and steady in January and started to slow down in Asia by the second week of February. As the crisis spread around the world we saw significant week-on-week volume declines in March exiting the month declining 44% or 51% excluding intra EU volume and volume remains down 43% through April 28 or 52% excluding intra EU.

The majority of the cross-border spend decline is travel related both card present and card not present. All card present and travel related non card present spend represents roughly two-thirds of our cross-border volume excluding volume within Europe. This spend declined over 40% in the month of March and is down 80% in April in-line with the last week of March. The trajectory and depth of cross-border travel related declines is quite uniform across corridors and regions. Growth in cross-border e-commerce spend excluding travel decelerated in March but remained positive led by retail spending. In April cross-border e-commerce spending is recovering across categories and markets and has grown faster than pre-crisis levels.

A quick review of our second quarter financial results. Net revenues grew 7% in the quarter or 8% in constant dollars. As a reminder, our service revenue is driven by last quarter's payment volume. Based on current quarter volumes, total net revenue growth would have been around two points lower. Second quarter service revenues grew 9%, data processing revenues rose 11% supported by value-added services and acquisition related revenue. International transaction revenues grew 2% continuing to benefit from last year's pricing actions, other revenues rose 20% over the prior year, aided by value-added services.

Client incentives were 22.6% of gross revenues up slightly from last quarter, as we told you previously, we expected client incentives to step up due to high renewal activity which continued in the second quarter as Al noted. The majority of client incentives are tied to overall payments volume growth in the current quarter, but there are contracts with clauses specific to cross-border as well as annual or multi-year targets that are adjusted with changes in performance. GAAP operating expenses were up 4,%. Excluding the amortization of acquired intangible assets and non-recurring acquisition related costs, non-GAAP expense growth was 3% this is significantly lower than our original plan for the quarter as we moved fast to reduce expenses when we saw the virus spreading. More on expenses in a few minutes.

GAAP, non-operating expense was $95 million for the fiscal second quarter, including $2 million of net equity investment losses. Our GAAP Q2 tax rate was 19.4%.

Moving now to COVID-19 -- to how COVID-19 might affect the rest of this fiscal year. This pandemic is global in scope, very significant in its impact and early in its evolution. There is a high degree of uncertainty about what happens over the next few months. As is self-evident, our prior outlook for fiscal 2020 is no longer relevant and it is not possible to provide you with any reliable forecast for the second half. Our revenue trajectory over the near term will be driven by three critical variables. First, the depth of the decline. Second, the time we stay at trough levels. And third, the trajectory of the recovery.

It is impossible to reliably forecast whether the depth of the decline, time in trough and trajectory of recovery are going to be over the near term. Especially since these variables deferred across categories and countries. It will depend on many factors which we will be tracking including city, county, state and country decisions on when and how they reopen. The staging of the reopening by business type and category, how permanent the shift in consumer behavior is by category, consumer willingness to engage in activities that social distancing may be harder to execute like dine-in restaurants, mass entertainment, hotel stays and airline travel and when borders reopen consumer confidence in venturing beyond their geographic zone of comfort.

In the final analysis, this is a health crisis. As such consumer behavior and the pace of normalization will be significantly influenced by the availability of testing, advancements in therapeutics and ultimately a vaccine. We have no crystal ball that allows us to reliably forecast revenues in this environment. As it relates to our revenue, there is one point to note we report service revenues with a 1/4 lag. So when we have a recovery, it will take another quarter before it shows up in reported service revenues. In fiscal year 2020, our third quarter will be helped and the 4th quarter hurt by this lag.

While revenue outcomes are hard to predict, we can give you more clarity on expense outcomes since we have more control over them. In early February as we saw the impact of COVID-19 in Asia, we moved fast to rethink our expense plans. As a result we were able to reduce our second quarter expenses from our previous expectations of mid-teens growth to the 4% we reported. In fact, if you exclude the acquisitions we completed in the fourth quarter of fiscal 2019, which were not in our expense base in the second quarter last year, expenses were up only 1%.

We have plans in place to hold second half expenses flat compared to last year and excluding acquisitions, our expenses will be down in the low single-digit year-over-year. We're evaluating additional actions to reduce expenses even further. As you all know, ours is a business where expenses are largely fixed and we want to preserve to the extent possible critical investments that will drive long term growth in new flows and value-added services. Also as Al has indicated, we will not lay off employees related to this crisis in calendar 2020.

Operating within these parameters, we have reduced expenses in the second half by scaling back hiring plans to only the most critical roles, redeploying existing resources to high priority areas, reducing and redeploying marketing spend that was planned for the now-delayed Tokyo Olympics, prioritizing projects to reduce professional fees and the use of external resources and of course like most companies, we're saving on travel and meetings for the foreseeable future.

While we expect operating expenses to be flat or down in the second half, non-operating expenses will be higher. With the 4 billion in debt we issued in April interest -- interest expenses will be higher, while interest income has dropped sharply with rate declines. We now expect non-operating expense to be in the $250 million range in the second half excluding gains on losses versus $148 million in the first half.

Moving on to cash flow, liquidity, dividends and buybacks. Our free cash flow in the first half of fiscal year 20 has been tracking ahead of expectations. However, given the anticipated revenue decline in the second half our free cash flow this fiscal year will be below what we had planned last October. Despite the COVID-19 impact, given the cash characteristics of our business we still expect to generate a very healthy level of free cash flow this year under any scenario. We ended the quarter with $13 billion of cash, cash equivalents and investment securities on hand. Since the end of the quarter, we have added to our cash balance with our $4 billion debt issuance. We issued debt in three tranches, seven, 10 and 20 year maturities at a weighted average coupon rate of 2.16%. We have ample liquidity with cash on hand as well as access to the commercial paper market on favorable terms and a $5 billion revolver, which remains undrawn.

Our dividend policy remains unchanged. In the second quarter, we bought back 17.8 million shares for $3.2 billion at an average price of $180.10. Year to date, we have bought back 30.9 million shares for $5.6 billion at an average price of $179.94. Our plan to buyback over 9 billion in stock this fiscal year remains unchanged. Crisis bring with them both risks and opportunities and this one is no different. We've acted fast to mitigate the risks. We are actively working on identifying and capturing the opportunities. It is very likely that this crisis could accelerate trend that were already underway, like the shift to e-commerce and the shift to digital forms of payment it is speeding up tap to pay adoption driving growth of new flow use cases we highlighted at our Investor Day, increasing demand for our value-added services and offering opportunities to add to our capabilities through selective acquisitions. While our short-term performance will suffer a setback, we remain confident in the long-term growth potential of our business.

With that, I'll turn this back to Mike.

Mike Milotich {BIO 20581476 <GO>}

Thank you. Jordan, we're now ready to take questions.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Sanjay Sakhrani from KBW. Your line is open.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thanks, good morning and I hope you guys are all staying well and healthy. The question Al on the structural nature of travel. Could you just talk about how you feel about cross-border travel and the structural impacts that might occur as a result and when you expect it to rebound? Thanks.

A - Alfred F. Kelly {BIO 2121459 <GO>}

Thanks, Sanjay. Hope you're well as well. Look right now, I think I don't know what percentage but some huge percentage of countries are hunkered down and that's largely driven by government mandate. I do think that over time people will -- these -- obviously these lock downs will loosen up, but I think the first thing to come back, will be domestic travel as people look to stretch their legs and move around a bit, I think cross-border travel will take a little bit longer to come back, I think we need some advances and as Vasant made note of in his remarks, I think we're going to need some advances in terms of testing in therapeutics and ultimately a vaccine will start to make everybody feel a lot more -- a lot more comfortable.

So I think it's going to take some time and it's going to take -- but I think it will come back, I think it's possible that there could be some business travel that doesn't return at the same level, given the fact that we're in an environment where people have been working from home for seven, eight, nine, 10 weeks depending upon the market and realize that they can get done what they need to need to get done. So we'll have to see how that ultimately plays out.

Offsetting that Sanjay is the reality of that I think the cash displacement opportunity in the business as well as the explosion of e-commerce are going to be real structural opportunities that didn't really exist at the same level before COVID-19.

A - Mike Milotich {BIO 20581476 <GO>}

Next question.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thank you.

Operator

Our next question comes from Moshe Orenbuch from Credit Suisse. Your line is open.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Great. So following up, actually on that last question and answer. Could you talk a little bit Al, about the, that evolution, if you will, of e-commerce and cash conversion and relate it perhaps to the elements of the economics to your business. Those types of transactions and probably should have said the outset, glad you're all healthy. Thanks for the extra data and hope you can keep that up too.

A - Alfred F. Kelly {BIO 2121459 <GO>}

Thanks, Moshe. I appreciate it. I hope you and your family are well as well. The -- first of all, there is a tremendous amount of difference in terms of the economics to Visa whether it's credit or debit or card present or card not present. There just isn't that much of a difference. I think that's the main point I think beyond that, we're seeing people during these last couple of months start to buy things in e-commerce environment that they would typically buy in store, whether that's furniture, electronics, in some cases, apparel and I think to the degree that they've had good experiences. That's a really good thing. And remember when you think about e-commerce. The reality is that it's a very, very positive thing for us because cash is in a competitor in that space.

So the reality is that we get a lot higher share from those transactions that go to e-commerce then we -- than we get in the face to face world. And I think there are some permanent changes. Now whether gaming stays up at the level of that as people are finding things to do while they're sitting home. I suspect that will come back down a bit, but I think in general, e-commerce will explode coming out of this.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yes, a couple of points data points to add to that, I mean you might have noticed that e-commerce, cross-border e-commerce excluding travel is now trending at a faster growth rate than it was prior to the crisis and a lot of that is what you might call retail spending. More than half of it falls into categories that are people buying goods and services on a cross-border e-commerce format. The other thing that perhaps could be permanent changes there are categories now for example, food and drug where the propensity was more towards face to face transactions that have had massive shifts to obviously at this point for reasons where they have an alternative to online buying and some of these could be fairly permanent.

And then beyond that even face to face, there is certainly a growing tendency to not want to use cash. And also, of course, not even just a tap your card, the aversion to cash could be persistent, which means that even in face to face transactions the penetration of digital forms of payment could be growing in a permanent and structural way faster than it might have prior to the crisis.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Great, thanks very much.

Operator

Our next question comes from Tien-Tsin Huang from JPMorgan. Your line is open.

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

Hey, good afternoon. Thank you so much for all this data. Just on the client incentive side, forgive me if I missed it, but did you give us a little bit of an outlook there on how the second half might look on client incentives with all the wins that you listed. I heard the majority is tied to volume growth, but any other detail would be great.

And then just as a quick follow-up on Truist, can we assume the legacy non Visa SunTrust cards will be flipped or would those be reissued at expiration? Just wanted to clarify that. Thanks.

A - Alfred F. Kelly {BIO 2121459 <GO>}

Tien-Tsin, thank you hope you're well. I'll take the second half and let Vasant comment on client incentives. So we are obviously thrilled with where (inaudible) deal came out and over time there will certainly be some cards flipped, but we're going to, we're going to work very hard with Truist remember they are building a new brand here.

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

Right.

A - Alfred F. Kelly {BIO 2121459 <GO>}

So the BB&T and SunTrust brands, they're looking to [ph]sunset those and get the Truist brand out there as soon as possible. So I think given that these cards are a ongoing manifestation of the brand, that are shown every time they get they pulled out of the wallet. I think they're going to want to move fairly quickly, but we're still working through the details as the deal just recently got done. Vasant, you want to comment on the client incentives?

A - Vasant Prabhu {BIO 1958035 <GO>}

Yes, Al so so on client incentives. I think you asked two questions. Our expectations in terms of client incentives as a percent of gross revenues. We gave you a range at the beginning of the year. I believe it was 22.5% to 23.5% that range has not changed. So we still expect to be in that range. Even as we've had, as we told you a very, very high level of renewal activity as well as wins and so on, that Al went through. As far as how our incentives might respond to what's happening right now the incentives are always meant to be linked to performance and especially volume performance. So our incentives are pretty much linked to volume performance and should move with volumes and that will play out over the next few quarters. So hopefully that answers your two questions.

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

No, it does. I appreciate it guys. Stay healthy.

Operator

Our next question comes from Bob Napoli from William Blair. Your line is now open.

Q - Robert Napoli {BIO 1526298 <GO>}

Hi. Thank you and good afternoon, everybody. Just a follow-up I guess on just the growth of value-added services and what you're seeing in the growth rate of value-added services over the last several weeks. And then I guess in line with adding the value-added services, the acquisition of Plaid. Is that still on track and how is Plaid performing?

A - Alfred F. Kelly {BIO 2121459 <GO>}

Hey, Bob. Thank you. Nice to hear your voice. First, in terms of value-added services. These tend to be excellent revenue streams and quite resilient and some of them are certainly transaction depended and the volume could go down, but honestly in times like this the value goes up to our clients. So, those would include things like CyberSource. So our risk products, our debit issuing processing product and then obviously we have value-added services that really are not ever really tied to volume, and they are also extraordinarily valuable in times like this. I referenced two of them in my remarks both the criticality of data to our clients because everybody has seen the numbers go down. And I want to make sure that they're not way out of whack where everybody else is and then obviously our consulting services.

It's also an exciting time for us to be able to introduce other new clients to some of our value-added services. So the crisis gives us an opportunity to have dialog and make sure that our clients are using all the tools that they can from Visa. So we're going to continue to make sure that we stay in close contact with our clients throughout this and where appropriate introduce them to value-added services, offerings that they may not be using.

As it relates to Plaid, we're on track. As you know, we have to go through regulatory review and we expect to have, have that done by the end of the year and we remain as excited about Plaid as we did when we talked about it at Investor Day. In terms of how it's doing, we don't own them, so I can't really comment on that at this time.

Q - Robert Napoli {BIO 1526298 <GO>}

Thanks, Al. Thanks. Appreciate it.

A - Alfred F. Kelly {BIO 2121459 <GO>}

Thanks Bob.

Operator

Our next question comes from Lisa Ellis from MoffettNathanson. Your line is open.

Q - Lisa Ellis {BIO 18884048 <GO>}

Hi, good evening and good to hear your voices. The government involvement in the digitization of payments has been something that you manage very carefully because it has its pluses and minuses, as you're going through this crisis. How do you anticipate Al, the government's might act differently. With respect to digital payments coming coming out of the crisis, meaning any new regulations, you could foresee new government funded initiative positives or negatives for your business? Thanks.

A - Alfred F. Kelly {BIO 2121459 <GO>}

Well, I think we see -- you first of all, you're right on and I think the governments are just as interested in digitization as any other business at this point and it helps with transparency and helps them understand where their funds are going with more accuracy than they might get otherwise.

Certainly, I think it's also possible that governments could on the other hand look at pricing in the marketplace. I continue to believe that pricing should be set by markets and not by governments. I think markets do a far better job of doing it than governments do and I would say that's specifically as it relates to interchange this a tremendous amount of value delivered by our bank partners in terms of the credit they extend to and able buying to the services they provide to the servicing they provide to the fraud they provide to the risk services they provide and rewards that they provide. So there is a tremendous amount of benefit that the economies of countries see and the individual citizens in those countries see. So, and I would also say that any actions that would disrupt any type of recovery during a pandemic like this would be foolish and potentially very damaging.

Q - Lisa Ellis {BIO 18884048 <GO>}

Thank you. Thanks guys.

Operator

Our next question comes from Ashwin Shirvaikar from Citibank. Your line is open.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Thank you. Hi Al. Hi Vasant. Hope you're all healthy and I appreciate the incremental details. I wanted to ask about just pricing in the current environment, but the ability to exercise price improvements to reflect value and other factors and the willingness to use it when merchants are not in great shape. So that, and then a quick follow-up just on the clarification on one of the charts, when I look at US payments volume growth versus processed transaction growth in the operational performance metrics mid-April, they both look down 30% but now one is down 10% and the other is down 20%. So there is a different pace of recovery. And I was wondering if you could explain that?

A - Vasant Prabhu {BIO 1958035 <GO>}

I can take that question on transactions versus payments volume and Al, I'm sure will take the other one. I had it in my comments. So I'd encourage you to go back and look at them, but just to repeat that it is, we think a temporary shift. Typically, as you know, transaction growth does better than volume growth, because we are penetrating more deeply into smaller and smaller transactions. The reason it's different in the last two weeks of April is what we have seen is that as some of the stimulus payments have come through people are prioritizing pent-up demand in areas like automotive like home improvement, and they're not spending it on lower ticket categories like entertainment and restaurants.

So what you're seeing is a mix shift in how people are spending money to higher ticket items. As a result, PV has improved more than transactions have. So that's what you're seeing and that's probably not what the long-term trend is going to be, but it's what we're seeing right now.

A - Alfred F. Kelly {BIO 2121459 <GO>}

Actually, just let me first add to Vasant's comments. Think about a normal day when people actually go to work and they're not working from home you go and you get some coffee at the gas station or at a mass transportation stop. You pay for your transit, you pay for your breakfast, you pay for your lunch kind of everyday low-ticket transactions are not happening in this environment. So in addition to what Vasant was saying you could just, that's a huge driver of the change here and why we're seeing higher average ticket cost, but lower level of transactions.

The other question you asked there was about about pricing. Look, we're in an unprecedented period. It's certainly not something I've witnessed in my life, where the impact of this pandemic is truly global. Our focus right now is to make sure that we're bringing as much stability through the payments ecosystem as possible, which is why we didn't do our major co-release this month of April where we normally do it, but I don't know that we've ever not done it before, but this is the times where it was called for.

And I think we're going to certainly be very cognizant of the uniqueness of this time in terms of pricing and us alike, I think most companies and most industries will be reevaluating their plans on all kinds of fronts, including the pricing lever and how much they pull it given this new reality.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Got it. Thank you very much.

Operator

Our next question comes from Darrin Peller from Wolfe Research. Your line is open.

Q - Darrin Peller {BIO 16385359 <GO>}

Hey, thanks guys. Glad everybody is doing okay there. Look, I wanted to start off, just if we are, if we had a sort of put all the pieces together a longer term and assume that some travel maybe wouldn't come back per say we're not sure yet, but there are enough positive implications of what's happening around contactless incremental flows, more digital and maybe some of your services that you think can actually offset that is this I mean have you done the work to think about whether those can add up to maybe offset?

And then just one quick follow-up would be on capital allocation. I guess, I may, maybe I missed it, but I didn't hear anything about changing plans around buybacks or anything along those lines. Could you just give us some update on that? Thanks guys.

A - Alfred F. Kelly {BIO 2121459 <GO>}

I'll tackle the first question and let Vasant tackle the question on capital allocation and buybacks. So Darrin, again, I think that there are -- and we're still talking about there might be others, but I think the big, big opportunity here are e-commerce and cash displacement cash $18 trillion spent on cash and I think people are realizing that currency is a germ carrying mechanism and people don't want to be subject to it moving from one person to another person and potentially catch the germs that way. So I do think cash displacement is going to really, really take off. And we've seen that in terms of the interest of governments to raise contactless limits, the interest of merchants to move to contactless with the interest of issuers, who were lagging behind to issue contactless enabled cards and I hope we see it as we start to talk too long tail sellers or merchants who might appear to full out resisted jumping into card acceptance, and they'll realize now that they really need to on a going-forward basis if people shun cash.

And that, so I think that's a big opportunity and likewise I think e-commerce is a big opportunity and I think Ryan McInerney and his presentation talked about the fact that somewhere around $0.15 or $0.16 on every dollar around the world is spent on Visa cards in the face to face world. But when you move into the world of e-commerce its like $0.44, $0.45 cents.

Q - Darrin Peller {BIO 16385359 <GO>}

Yeah.

A - Alfred F. Kelly {BIO 2121459 <GO>}

And so, that's a big opportunity for us. And then as you said, and I mentioned earlier, I think there'll be some negative on travel certainly in the short term. And I think that people are going to be quite reticent to leave their country in the short term, until there is some advances because they don't want to be stuck somewhere. They don't want to be for long period of time. So I think the degree the travel comes back is not clear, but I think this country -- this world is still a world of globe -- full of global citizens who ultimately are going to feel the urge and the desire to get back on airplanes and explore the vastness of the earth. We have not done the work Darrin to say how these things offset one another.

I think at this point, we're more interested in studying the things that Vasant referred to in his remarks, to get a better sense of kind of just the recovery before we get into how this might create some permanent change obviously these are things we're talking about, but not things we've dimensioned as of yet, but I do think there are some exciting opportunities that will offset or largely offset or fully offset the changes in the consumer behavior as it relates to grab.

Let me ask Vasant to answer your question on capital allocation, Darrin.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah, so I (inaudible) to capital allocation first in line of course is we want to invest as much as we need to in our business, because we still think the long-term growth opportunity remains extraordinary. And to that end, even as we scale back expenses we have preserved the investment in critical growth areas like new payment flows including Visa Direct, B2B in our value-added services. So that's part one.

Part two is M&A, we remain very focused on adding to our capabilities, where it makes sense through acquisitions and there may be some opportunities here over the next months and years and certainly Plaid is something we're looking forward to closing on as Al said, the M&A would be next in line. In terms of dividends, there has been no change in our dividend policy. In fact, last week, our Board approved our regular quarterly dividend. So those of you who are owners of our shares will get that soon. And finally in terms of buybacks. We have had no changes in plans. As I mentioned in my comments, we have bought back 3.2 billion in stock, in the second fiscal quarter. So through the first half, we've bought back $5.6 billion. So we're a little ahead of our pace as we -- since we view this particular crisis as structurally one that does not diminish our business in the long run and most likely enhances it, and we don't see any long-term secular trend lines changing, we felt that in periods in the month of March, our stock was trading below our views of intrinsic value and therefore we were buyers.

So there has been no change in our buyback program. We do have plenty of liquidity, we are watching that very closely. As I told you, we have $13 billion in cash and cash-like instruments on hand and then we issued $4 billion in debt. So as we speak. We are close to $17 billion in cash on hand. So we are very focused on ensuring adequate liquidity and that is cash on hand, not counting our revolver or even our access to commercial paper market, so hopefully that addresses all your questions.

Q - Darrin Peller {BIO 16385359 <GO>}

Yes. That's helpful, thanks guys.

Operator

Our next question comes from Harshita Rawat from Bernstein. Your line is open.

Q - Harshita Rawat {BIO 18652811 <GO>}

Good afternoon and thank you for taking my question. So I have a follow-up on e-commerce. As you noted that e-commerce is very good for you as cash since we had an option. Can you expand upon other benefits Visa fees and e-commerce in terms of greater services tokenization value added have you processed more of those digital transactions? And then as a follow-up, based on what you are seeing in the market is the uptick in e-com usage coming from people who are already very avid e-com users or is it new demographics or geos who are also coming online who were historically reluctant to buy? I was just trying to figure out if new payment habits and digital businesses are being acquired now.

A - Alfred F. Kelly {BIO 2121459 <GO>}

So thanks for the question. So in terms of e-commerce certainly, it gives us an opportunity, amongst other opportunities to sell our CyberSource capability as more and more businesses I think are going to seek to be omnichannel and businesses that didn't realize that they paid the price I believe Vasant talked about it in his remarks, that one of the differences that we saw from country to country was that countries that did not have mature e-commerce capabilities or infrastructure, definitely have suffered more than company -- countries that do have it. I think that e-commerce relationships can tend to be sticky. If you can get the card front of digital wallet or front of on file, certainly as we've talked about it a few times. The reality is that we can easily see that e-commerce it brings new people into the fold that previously wouldn't have spent if not having the capability for being able to buy online.

So and I hope it does accelerate improvements in the experience in e-commerce I talked a number of times about the fact that we still have work to do because the abandonment rate is not very -- is still too high. Authorization rates can be too low and there is a real opportunity to improve those and improve the experience and SRC is one of the reasons that we want to do that. We're also seeing that new users and e-commerce is up material materially in segments like food and drug and restaurant and QSR where e-commerce was never a big, big before as people are looking to have alternatives to just the food that they get at the supermarket. So we're seeing that up that uptick as well.

A - Mike Milotich {BIO 20581476 <GO>}

Last question, Jordan.

Operator

Our last question comes from Eric Wasserstrom from UBS. Your line is open.

Q - Eric Wasserstrom {BIO 3626772 <GO>}

Great, thanks very much. Can you hear me alright?

A - Alfred F. Kelly {BIO 2121459 <GO>}

Yes.

Q - Eric Wasserstrom {BIO 3626772 <GO>}

Okay, great. So I know it's a little difficult in the context of the withdrawn revenue guidance. And as you underscored there is many conflicting dynamics there, but is there some way that you could help us frame how we should be thinking about maybe the puts and takes in operating margin. Obviously, you've done a lot to contain the costs. There is, it sounds like there's going to be some yield shifts on the revenue side of course you've got Plaid on the horizon. So is there some way Vasant you could help just frame what operating margin might look like or within some bounded range or something?

A - Vasant Prabhu {BIO 1958035 <GO>}

Sure. I think you can, you can sort of get to it yourselves. So we give you a sense of what our second half expense growth is going to be, we said it would be flat including acquisitions. It will be down in the low single digits, excluding acquisitions and we hope to do better than that. We are still working on some expense reduction program. So if you have a general line, and remember our non-operating income will be, will be higher. Non-operating expense will be higher because of interest expense is going up and interest income going down, so you sort of know those lines. So it all depends on where revenue comes out. So you can model revenue decline, you know where expenses are and it will tell you what the margins will then end up being, as we've always said, we think of this as margins and an outcome are an outcome, not an objective. So that a function of what your revenue growth is versus your expense growth. The expenses are declining in the low single digits, but your revenues are declining more than that. As is likely in the third quarter then it will have a margin impact.

In terms of modeling revenues. I mean we've given you the most up-to-date information as to what the trends are. So as we look at it, you know it all depends on, do you think where we are is the trough. When do you think we will start to recover from that trough and then what is the nature of that recovery going to be, is it going to be a sharp V shaped recovery, is it going to be more like a U-shaped recovery as people talk about where it's a slow start and it picks up steam or it will be is it fits and starts where you get some recovery then some stabilization and then another recovery and some more stabilization.

And as you saw, I mean this varies across categories, and it does vary across countries. So there is a lot of variables here, which is why we've chosen not to give you any kind of specific forecast, we'll wait and see.

Q - Eric Wasserstrom {BIO 3626772 <GO>}

Okay. Thanks for the clarity.

A - Mike Milotich {BIO 20581476 <GO>}

And with that, I'd like to thank you for joining us today. If you have any additional questions, please feel free to email or call us and the Investor Relations team. So thanks again and have a great evening.

Operator

Thank you for your participation in today's conference. You may disconnect at this time.