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Q2 2018 Earnings Call

Company Participants

- Alfred F. Kelly, Chief Executive Officer & Director
- Mike Milotich, Senior Vice President-Investor Relations
- Vasant M. Prabhu, Executive Vice President & Chief Financial Officer

Other Participants

- Andrew Jeffrey, Analyst
- Ashwin Shirvaikar, Analyst
- Daniel Perlin, Analyst
- Donald J. Fandetti, Analyst
- James Eric Friedman, Analyst
- James Schneider, Analyst
- Moshe Ari Orenbuch, Analyst
- Ryan Cary, Analyst
- Sanjay Sakhrani, Analyst
- Tien-Tsin Huang, Analyst
- Vasu Govil, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Welcome to the Visa's Fiscal Second Quarter 2018 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 begin.

Mike Milotich {BIO 20581476 <GO>}

Thanks, Katie. Good afternoon, everyone, and welcome to Visa's fiscal second quarter 2018 earnings call. Joining us today are Al Kelly, Visa's Chief Executive Officer; and Vasant Prabhu, Visa's 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 our IR website.

Let me also remind you that this presentation includes forward-looking statements. These statements are not guarantees of future performance, and our actual results may differ materially as a result of many factors. Additional information concerning those factors is available in our most recent reports on Form 10-K and 10-Q, 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 reconciliation are available in today's earnings release.

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

Alfred F. Kelly {BIO 2121459 <GO>}

Mike, thank you very much, and good afternoon to everybody and thanks for joining us today. Before I begin my comments, I would like to officially welcome Mike Milotich to the role as our Senior Vice President of Investor Relations. While Mike is new to this position, he's a veteran at Visa and he joined us in 2011. Most recently, Mike led our corporate finance team. And before that, Mike held finance positions at both PayPal and American Express. I know you're going to find that Mike is extraordinarily knowledgeable about the payments industry, Visa's business and our financials.

He's an experienced leader who's been a great partner to Vasant and myself in his prior role, and I'm delighted that Mike has taken on this role. And I know you'll enjoy working with him in the months and years ahead. So, I welcome and congratulate Mike, and now let me turn to our financial results.

Visa had a terrific second quarter that greatly exceeded our expectations. Revenue growth was 13%, and many of our key business drivers accelerated compared to the first quarter. The broad-based improvement in global economic growth that began last year has well actually continued. Payments volume growth on a constant dollar basis accelerated by more than 0.5 point versus the prior quarter, fueled by debit spending globally. Debit growth of 11% was up 2 percentage points versus last quarter with both U.S. debit and international debit growth accelerating by similar amounts.

Credit growth was flat to the last quarter at 10%. Year-over-year payments growth was between 9% and 17% across our six reported regions and countries, which is an indication of the broad-based global strength we are seeing. Cross-border growth on a constant dollar basis accelerated more than 2 percentage points versus the prior quarter, driven by faster growth in virtually every region. Growth both in and out of Europe and the U.S. was strong. Growth inbound to the U.S. reached double digits for the first time in more than four years.

Globally, both card-not-present and face-to-face growth accelerated by approximately 2.5 percentage points versus the prior quarter, with card-not-present growth continuing to outpace face-to-face spend growth. Investments in talent and markets around the world as well as marketing focused on the Winter Olympics and the upcoming World Cup led to double-digit expense growth on an adjusted basis.

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Our tax rate was 19% due to the execution of a specific state tax initiative and U.S. tax reform. EPS growth on a GAAP basis was 523%, but adjusted for two special items last year, growth was 30%. These strong results have led us to raise our full year outlook for both revenue and profit.

We had a number of deal wins in this quarter. Visa and Capital One executed a new agreement that continues our partnership in the affluent consumer and small business space. Capital One is one of our largest issuers, and we're excited to continue our partnership.

Also in the U.S., IKEA has selected Visa as the network for their new co-brand program. We signed a multiyear debit issuing agreement with CIBC in Canada. In Asia, we renewed our consumer credit and commercial partnership with Shinhan Korea, the largest issuer in Korea. We're partnering with Citi and P-Crom (05:00) to launch the new exclusive co-brand card in Taiwan, and we also renewed a number of our largest partnerships with clients in Japan, China and Thailand.

We renewed Banco Davivienda our second largest client in Colombia. And we renewed our debit agreement with Mashreq Bank (05:21) in the UAE. We also returned approximately $2.5 billion of capital to shareholders in the second quarter consisting of $2 billion of share repurchases and nearly $0.5 billion through dividends. Vasant will take you through our results and our revised full year outlook in more detail when I complete my remarks.

Let me turn to Europe. Our technical migration in Europe is well underway and off to a great start. The clearing and settlement migration was completed successfully over the months of February and March with no major issues.

Over 500 clients were migrated. Authorization migrations begin later this month. Unlike the settlement migrations, which occurred in two major tranches, the authorization migrations will occur client-by-client over a longer period of time. We remain on track to complete the technical migration by the end of the calendar year.

The conversion of European client contracts to commercial incentives is largely done. For the few deals that are outstanding, the terms are finalized, but the contacts are taking longer than expected to be signed. We expect to be finished in Q3.

Overall, we are quite pleased with the business we have secured. We reviewed and transitioned over 100 contracts to new commercial terms, many highly contested by our competitors. Of course, we would have liked to win them all, but retaining almost all of these clients does exceed our assumptions made at the time of the Visa Europe acquisition. Now that we're done transitioning our existing clients to incentive contracts, we can shift more focus to growing our business in new ways in Europe.

In terms of digital advancement, last week, we introduced the Visa Digital Commerce program, which will provide consumers with a simple experience with more security and less friction to utilize their cards for digital payments. Our vision is to create a consistent and secure digital shopping experience across browsers and devices that largely eliminate the need to enter card, account numbers and passwords.

Online shopping should be as simple as it is in the physical world, making the checkout process easy with a single pay button. We aim to de-clutter the checkout page to streamline the checkout process. The program will incorporate our token technology and is based on the EMVCo Secure Remote Commerce framework. We're going to provide more updates on an ongoing basis as we move forward. The Visa Digital Commerce program is consistent with our other initiatives and investments to reduce friction from digital payments while maintaining high security standards.

A few examples of other actions we've taken to reduce friction from digital payments include: our partnership with PayPal, which began in the U.S. and has extended to Asia and Europe, which eliminates ACH steering while also enabling PayPal users to cash out to their Visa card utilizing Visa Direct. In fact, overall, our partnership with PayPal has gone well, and we continue to discuss ways to work together, including collaborating on a number of tokenization initiatives.

Our acquisition of CardinalCommerce about a year ago enhanced our authentication capability while also reducing transaction latency and improving the customer experience for merchants. Netflix, one of Visa's top digital merchants globally, recently expanded their card-on-file token program to include countries in both Europe and the Latin America regions. And with card on file tokens now being provisioned in countries across all Visa regions.

Visa Direct continues to gain traction in markets globally. We are beginning to see the network effect taking hold as scaled originators, such as acquirers and technology platforms, continue to use Visa's capabilities to push funds in real-time over our network. This network effect, combined with broader consumer and merchant awareness, is fueling geographic expansion and rapid growth across all use cases.

P2P, for example, is growing rapidly in a number of markets around the world. Our issuer clients as well as third-party providers, such as Square Cash, PayPal, Venmo and Facebook have enabled their customers to send money to one another using cards.

Disbursements continue to grow in a number of different industries such as ridesharing, insurance and alternative lending. Companies such as Wirecard, Worldpay, Adyen and Stripe are enabling their clients to use these capabilities.

Instant merchant deposit for small merchants continues to expand. PayPal Braintree recently joined existing partners such as Worldpay, who launched in 2017; and Square, who was the first to launch in 2015, to enable their merchants to receive their funds within minutes by initiating a push to their card.

And finally, bill payment, where consumers can pay credit card, utility and telecom bills by initiating a push of funds from their debit card. The application of this capability can vary from market to market, so let me share two examples with you.

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In Singapore, four of our top seven issuers have embedded our capability in their digital banking channels, including mobile apps, to allow customers to pay their credit card bills issued by another financial institution with a push of funds from their debit card.

In India, consumers can pay for utilities and telecom services by scanning the QR code on their bill with their banking app, and funds will flow from the consumer's bank account to the merchant via Visa Direct.

Turning to B2B, we continue to make progress on our strategy of enhancing the value that Visa brings to business payments, both through Visa capabilities and through partnerships.

In March, we acquired Fraedom, a Software-as-a-Service company, providing payments management solutions for financial institutions. Fraedom was a partner of ours for almost 10 years and underlies Visa's IntelliLink Spend Management, a core platform for Visa's commercial and small business clients. Fraedom will strengthen and expand Visa's business solutions. We're already seeing increased interest from several large issuers about our B2B capability following the announcement of the acquisition.

In February, we expanded our partnership with Amazon Business, launching in Germany with Degussa Bank. The partnership brings together information from Amazon Business purchases and Visa's processing, helping business clients spend less time on purchase reconciliation.

In January, we announced a partnership with NovoPayment, a Miami-based fintech that enables digital financial and transaction services through a cloud-based platform that supports mass disbursement and collections. The partnership will help drive digital payment services for B2B transactions in Latin America and the Caribbean. Our initial pilot with NovoPayment has helped two leading urban delivery services automate real-time disbursements to delivery personnel.

Relative to contactless, we continue to make great progress in contactless. Twelve months ago, approximately one in eight domestic face-to-face transactions that run over our network globally were contactless. Today, contactless accounts for almost one in five transactions globally. Just in the past three months alone, contactless penetration has increased by 9 percentage points to 37% in Russia. It's increased 7 percentage points to 56% in the UK. And it's increased 4 percentage points to 52% in Canada.

Just yesterday, Transport for London announced that on average, around 2.5 million contactless journeys are made across London's bus, tube and rail services every day. Since early 2016, the proportion of pay-as-you-go journeys made using contactless has risen from 25% to more than 50% today. And more than four of every five contactless journeys on Transport for London is made using Visa.

In February, we announced 14 new technology partners from across 10 countries that will participate in the Visa Ready for Transit program to promote commuting with contactless.

Visa Ready helps accelerate the adoption of new technologies by ensuring solutions meet Visa's security standards and specifications. New York, Sydney, Miami and Boston have all announced that they plan to introduce contactless payment in the coming years.

Spurred by the Tokyo Olympics in 2020, Japan's largest retailer, AEON, will introduce checkout terminals supporting Visa contactless payment at approximately 100,000 registers at AEON Group stores between March of 2019 and March of 2020, including supermarkets and drugstores nationwide.

The U.S. is in the early stages of adopting contactless, but we are laying groundwork to enable the market. In our experience, this groundwork stage takes 12 to 24 months. And once sufficient momentum is built, contactless adoption tends to take off rapidly.

For example, it took 24 months to go from 1% to 7% contactless penetration in Australia and then another 24 months to go from 7% to 50%. That experience is not unique to Australia as we've seen similar trajectories around the globe. In the past 12 months, contactless penetration has increased from 32% to 64% in Denmark, from 31% to 53% in Spain, and 5% to 37% in Russia.

In the U.S. in the past year, we've enabled an additional 10 of the top 100 merchants with contactless, bringing contactless to a total of 56 of the top 100 merchants.

We are also increasing consumer awareness. This quarter we launched a national marketing campaign through our Olympics sponsorship that prominently featured contactless, which was seen by nearly two-thirds of U.S. adults.

And speaking of the Olympics, the Winter Olympics in PyeongChang were a success for Visa this quarter. As the official and exclusive payment technology partner of the Olympic Winter Games, we deliver unique value to our clients when they leverage our partnership.

Over 350 bank and merchant partners across 32 markets and in five languages utilized the Visa sponsorship to support their local strategies. We work together with our clients to come up with all kinds of unique campaign, so let me share a couple of examples with you.

In collaboration with Lotte Card, the financial arm of South Korean-based retailer Lotte Department Store, Visa unveiled three limited edition wearable payment devices, stickers, badges and gloves that could be used for contactless payments. And approximately 100,000 wearables were sold between November and March. Another major Korean partner issued over 500,000 official PyeongChang 2018 themed cards in the months preceding the games.

And similar to the Olympics, our FIFA sponsorship can also be leveraged by our clients. And for the upcoming World Cup in Russia, we expect more than 550 bank and merchant partners in over 100 markets to utilize our FIFA sponsorship.

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So, a few closing points. Visa recently celebrated our 10-year anniversary as a public company on March 19. The business has flourished in that time. Cards in force doubled from 1.6 billion to 3.3 billion. Payments volume almost tripled from $2.7 trillion to $7.8 trillion, and our net revenue did triple from $6 billion to $19 billion. Our total shareholder return for the period was 837%, which is 5x the S&P 500 during the same period.

Core to our success is Visa's ability to anticipate future trends and evolve. Even with our success to date, there is still tremendous room for growth with tens of trillions of dollars in opportunity across consumer cash, checks and B2B.

We continue to execute on our growth strategy and look forward to the next 10 years. The progress we've made in the first half of fiscal year 2018 furthers our confidence in the long-term investments we're making to drive profitable growth in the rapidly changing payments environment.

With that, let me turn it over to my partner and our CFO, Vasant.

Vasant M. Prabhu {BIO 1958035 <GO>}

Thank you, Al. The strong growth trends we started the year with accelerated in the second quarter and our results exceeded our expectations. Net revenues were up 13%. On a GAAP basis, which includes special items last year related to the reorganization of Visa Europe and other Visa subsidiaries, EPS was up 523%.

Adjusting last year's results for these special items, EPS was up 30%, including a 10 percentage point benefit from the impact of U. S. tax reform. Exchange rate shifts versus the prior year positively impacted net revenue growth by approximately 1.5 percentage points and EPS growth by approximately 2 percentage points. Our earnings release provides you with a schedule that adjusts GAAP net income and EPS for these special items.

A few points to note, a robust global economy continues to drive double-digit constant dollar payment volume growth. Cross-border growth accelerated, helped by a weaker dollar. Inbound commerce into the U.S. grew at double-digits for the first time since the first quarter of fiscal 2014. Outbound commerce from Europe was also up double-digits, as the euro and pound have strengthened. Acceleration of cross-border growth in these two important corridors was faster than we expected.

We have completed our post acquisition initiative to restructure all important client contracts in Europe to competitive commercial terms. While all terms have been agreed, the signing of some contracts will happen in the third quarter.

As a result, client incentives were lower than we expected in the second quarter, adding 1 point to net revenue growth and $0.02 to EPS. These delayed client incentives will largely be recognized in the third quarter.

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Our tax rate in the second quarter benefited from the successful resolution of a state tax initiative we have been working on for several years. In addition to a recurring benefit in our effective state tax rate, we recognized a non-recurring 2.5 point reduction in our tax rate this quarter for prior years.

Based on our outperformance in the second quarter, we are raising our outlook for the year. We now expect low double-digit net revenue growth and adjusted EPS growth in the high-20 range. As we indicated previously, U.S. tax reform add 9 to 10 points to our EPS growth rate.

We bought back 16.9 million shares of Class A common stock at an average price of $120.39 or $2 billion this quarter. Year-to-date, buybacks totaled 32.4 million shares at an average price of $115.73 or $3.8 billion. This leaves $7.5 billion available for share repurchases as of March 31.

Moving now to a review of key business drivers in the second quarter, payments volume on a constant dollar basis grew 11%. U.S. payments volume growth of over 10% was 0.5 percentage point higher than last quarter. U.S. consumer debit accelerated 2 percentage points with strength across retail and every day spend segments. U.S. consumer credit growth remained robust at 11%, with continued strong growth in travel categories.

International payments volume growth in constant dollars was 11%, up 1 percentage point versus last quarter. Growth was strong across Asia, driven by China and Japan. Growth stepped up in Latin America, helped by Brazil. Growth in Europe remained stable and strong. Cross-border volume growth accelerated 2.5 percentage points on a constant dollar basis to over 11%.

The drag from an e-commerce payments platform shifting acquiring of UK cardholder volumes to the UK from another EU location which we mentioned in the past three quarters, reduced cross-border growth by over 2 percentage points. We will fully lap this change in the third quarter. Partially offsetting this drag we are lapping a settlement delay in Europe last year. As a reminder, some volume that would normally have settled in March shifted into the first week of April last year.

This contributed 1 percentage point to cross-border growth this quarter and will reduce growth by the same amount in the third quarter. The impact of each of these items on net revenue was de minimis.

Growth of inbound commerce into the U.S. reached double digits for the first time since the first quarter of fiscal 2014, helped by a weakening dollar as well as initiatives to grow cross-border volume that are bearing fruit.

Outbound spend from Europe, excluding intra-Europe transactions, also accelerated into the double-digit driven by the stronger euro and pound. Outbound spend from the U.S. and inbound volumes into Europe continued to hold up despite these currency shifts.

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Other markets with notable inbound commerce growth include Russia, the Middle East and several countries in Southeast Asia. Outbound commerce accelerated from Mexico, Japan and the Middle East.

Processed transactions growth was flat to last quarter at a healthy 12% with acceleration in the U.S. offset by lapping India demonetization and some new business in Europe in the prior year's quarter.

Through April 21, U.S. payments volumes are up 9%. Constant dollar cross-border volumes grew 6% as reported. Adjusting for the impact of the settlement delay in Europe, cross-border volumes grew 10%. Processed transactions grew 9%.

The shift in timing of the Easter holiday impacted growth across all three metrics during the first three weeks of April. We expect the impact of the Easter shift to be de minimis for the quarter. As I mentioned earlier, the settlement delay will reduce reported cross-border growth by 1 point.

Turning now to financial results, net revenue growth of 13% was significantly stronger than expected. As a reminder we have reached apples-to-apples revenue growth comparisons for Europe, Costco and USAA. Service revenue grew 13% with strong performance in the U.S., slower China dual branded card runoff and some recent renewals performing better than expected.

International revenue increased 19% with accelerating cross-border growth particularly inbound to the U.S. as well as favorable exchange rate shifts. Data processing growth of 15% benefited from a higher proportion of cross-border transactions and the overall strength in U.S. payments volume.

Client incentives were lower than we expected this quarter at 20.3% of gross revenue. Contract signing delays in Europe are the primary reason. This translates to an additional $0.02 of EPS in the quarter which we expect will be offset due to higher client incentive in the third quarter.

Compared with the second quarter of fiscal 2017, however, client incentives are up 25% as many of the contract conversions in Europe were completed during the second half of fiscal 2017. Our Europe contract restructuring initiative is complete.

Deal terms have been agreed with all clients and we expect the remaining contracts to be signed in the third quarter. This was a large and complex initiative that is executed very well by our team in Europe.

We are pleased with the results relative to the expectations we had at the time of the Visa Europe acquisition. We look forward to building upon the client partnerships that we have solidified through the contract conversion process.

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On – as reported on a GAAP basis, operating expenses grew 4%. As a reminder, the second quarter of last year included a non-recurring contribution to the Visa Foundation related to the reorganization of Visa Europe and other Visa subsidiaries. This charitable donation was recorded in general and administrative expenses.

Adjusted to exclude this special item from the second quarter of fiscal 2017, operating expenses grew 17.6%, primarily driven by personnel costs and marketing. The second quarter of the last fiscal year was the low point in our head count post the global restructuring, including the reductions in Europe.

The year-over-year increase reflects the investment in personnel we have made since then directed at our key growth initiatives. In addition, this quarter included the increase in our 401(k) matching contribution for U.S. employees and higher employee incentive accruals tied to better than expected year-to-date performance.

We stepped up marketing investments for the Winter Olympics and in preparation for the FIFA World Cup, which kicks off during the third quarter. Professional fees reflect increased investment to accelerate strategic initiatives in Europe and the deployment of Visa Direct.

Growth in network and processing expenses included Europe integration costs. Amortization related to acquisition, CardinalCommerce in February of fiscal 2017, and Fraedom, which closed March this year, contributed to higher D&A expenses.

Finally, exchange rate shifts, particularly the stronger pound, added 1 percentage point to expense growth. Non-operating expense was $13 million higher than the second quarter of last year, driven by new debt issuance in the fourth quarter of fiscal 2017.

Our effective tax rate for the quarter was 19%. This includes a 6 percentage point reduction related to U.S. tax reform and the benefit from the successful resolution of a state tax initiative I mentioned earlier.

With that, I'll move to our outlook for fiscal 2018. Given stronger than expected growth in the first half, we now expect full year net revenue growth in the low double digits on a nominal dollar basis.

This includes approximately 1 percentage point of positive foreign currency impact. Given that the weakening of the dollar accelerated starting in the fourth quarter of fiscal 2017, the exchange rate tailwind moderates in the fourth quarter of this fiscal year.

We're narrowing the range for incentives as a percent of gross revenue to 21.5% to 22%. We expect incentives paid to be higher than prior expectation since our volume growth is better. However, our incentive as a percentage of gross revenues are now expected to be in the lower half of our original outlook range since gross revenue will be higher.

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Third quarter client incentive growth will be higher than prior expectation due to the delay of some contract signings in Europe. Full year operating expense growth is forecast to be in the low double-digits, adjusted for special items in fiscal 2017.

The increase in expense growth is driven by larger marketing investments, the acquisition of Fraedom, and higher employee incentive accrual related to better-than-expected performance. We anticipate an additional 1 point of foreign currency impact, primarily due to the strengthening of the pound.

Given the FIFA World Cup and some seasonality in personnel costs in the third quarter, coupled with the ramp-up of investment initiative, we expect double-digit expense growth to continue in the third quarter. Expense growth should moderate to the mid-single-digit range by the fourth quarter.

Our tax rate, including the impact of U.S. tax reform, is expected to be between 21% and 22%. This reflects the lower tax rate realized year-to-date.

Bringing all this together, we now expect EPS growth in the low-60s on a GAAP nominal dollar basis and the high-20s on an adjusted non-GAAP nominal dollar basis. This includes 1.5 percentage points of positive foreign currency impact and a 9 to 10 percentage point benefit from the impact of U.S. tax reform.

As a reminder, we will adopt the new revenue recognition standard at the beginning of fiscal 2019. If applied to second quarter fiscal 2018 reported results, the impact of the new standard would have been small. The impact to fiscal 2019 is partially dependent on the terms of new incentive deals executed and will, therefore, vary.

We will continue to assess the impact of the new standard throughout this fiscal year and provide an update if we believe that the application of the new standard to new deals in aggregate could have a more significant impact on reported results. As a reminder, the new accounting standard has no impact on cash flows or the economic value of our business.

Finally, let me add my welcome to Mike Milotich in his new role as our Head of Investor Relations. I worked closely with Mike since I joined Visa and believe he'll be a valuable resource for all of you. Mike has a deep understanding of the strategic and financial aspects of our business. You will find Mike a pleasure to work with. I look forward to introducing Mike to you all over the coming weeks.

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

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Mike Milotich {BIO 20581476 <GO>}

Thanks, Vasant. We are now ready to take questions, Katie.

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Q&A

Operator

Our first question today comes from Dan Perlin from RBC Capital Markets. Your line is now open.

Q - Daniel Perlin {BIO 20452045 <GO>}

Thanks and good evening. I had a question around pricing and the demand environment in Europe in particular. There seems to be some suggestions, I think, in the market that scheme fees on acquirers are rising pretty quickly and have been so for the past couple quarters. And I'm just wondering is there a dynamic that you guys have been able to take advantage of recently?

And then secondly, on the clearing and settlement, that sounds good that you guys are done there. Once you get authorization migrated, is there a meaningful opportunity from a product perspective that we should be thinking through? Thank you.

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

Well, first of all, Dan, on the pricing front, when we first made the acquisition of Visa Europe, we took some pricing. We've subsequently taken some pricing. And as I look out, I think there's pricing opportunities. I'm talking about Europe now, pricing opportunities in Europe looking forward as well.

In terms of the migration, I think once we get through – I mean, first of all, once we get through, one of the biggest benefits that is going to be available is that VisaNet being a global system and with us having four data centers around the world, we're going to be able to ensure real fallback for our clients and for our business in Europe. Prior, it was one system running in one data center. So that's one big advantage that we will have in terms of backup and security.

And I think beyond that, there's going to be opportunities in some of our risk tools and in loyalty for sure, where we'll be able to offer new and different capabilities to clients in Europe that they wouldn't have had on the old legacy system.

A - Mike Milotich {BIO 20581476 <GO>}

Next question, please.

Operator

Our next question comes from Don Fandetti with Wells Fargo. Your line is now open.

Q - Donald J. Fandetti {BIO 6095992 <GO>}

Hi, Al. I was wondering if you could talk a little bit about sort of how you came to the thought process on the shared single button digital wallet approach. I know you've been

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working on Visa Checkout for a while. And can you talk a little bit about how it will work from a logistics standpoint?

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

All right. Well, first of all, Don, this is something that the EMVCo standards body actually developed, of which we're a participant. We actually believe that the – we're very excited about this. I think that – I think I talked to some of you about this in the past. I think that there's way too much clutter in the e-commerce checkout environment.

And it's just not good for users, and it's not good for merchants. It creates too much friction. There's consumers who don't know what to do. And after they actually make a decision to buy, it's too confusing for them and they fall out of the buying process. And that's just lost business for everybody in the ecosystem.

So because of the simplicity, because of the security and because of what we think is going to be a much better user experience, Don, we're very excited about it. We're committed to it and are doing everything we can to move forward to make it a reality.

Well, we've been committed to Visa Checkout. We'll remain committed to Visa Checkout, especially in certain geographies and in – for certain merchants where they see value. But I think the ultimate future as I see it in e-commerce, and it will take time to bleed it in throughout the entire ecosystem, is a move to this EMVCo standard, which creates a single button, which is much more analogous to the situation that you see in the physical world where there's a single terminal and all products run through that terminal.

In essence, we've had in the e-commerce world a moral equivalent of multiple terminals, if you will. And I think that's just terrible. It's lousy for the merchants. It's a bad experience for consumers. So, we're excited about this Secure Remote Commerce framework and standard that EMVCo has come up with.

A - Mike Milotich {BIO 20581476 <GO>}

Next question.

Operator

Our next question comes from Andrew Jeffrey with SunTrust. Your line is now open.

Q - Andrew Jeffrey {BIO 1493346 <GO>}

Hi, guys. Thanks for taking the question. I wonder, Al, if you can kind of frame-up the opportunity as you see it in China and India in particular, obviously big, well-highlighted, cash-centric markets. And wonder if you can just give us a sense of Visa's strategy. I know China has been particularly challenging but to address may be India. And what kind of timeline you think there is for sort of material contribution from potential electronic payments growth there.

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

Andrew, let me start with China. I mean, we continue to be very excited about China. We have an application into become a international payment provider in China, and we're hoping that the People's Bank of China and the Chinese government look favorably upon our application, and we can begin the process of moving toward being ready in cooperation with the government in China to be a domestic player.

In the meantime we're continuing to work with our over 50 bank partners in China to continue try to grow our coverage in China as well as obviously facilitate as much cross-border volume from traveling Chinese as they leave the borders of China.

In the case of India, India is in a different place because we are very pleased with where things are in India. And India, post demonetization, has really attracted huge interest, so.

And that makes sense because the cash displacement opportunity is really great there. The reality is we're the market leader. We've got over 50% share in credit and debit and we've continued to grow in 2018 despite the fact that we're growing over some huge numbers that were related to demonetization in 2017.

We're really working with the Indian government on the Bharat QR code and scaling that. I think we're up in somewhere in the area of 450,000 merchants that are enabled for this standard QR code. We're growing overall acceptance. We've doubled from the fourth quarter of 2016.

We've doubled the number of POS terminals by the end of last year to 3 million. We're continuing to partner with our issuers there in terms of building awareness and usage and we're also – we're partnering with clients there on digital solutions, tokenization, contactless, scan and pay.

So, I see China as something we're excited about but something that's probably still a couple years away in terms of us being a player there and being able to start to produce any kind of volumes never mind meaningful volumes.

But India I see as a long-term play. They're a country of nearly 1.4 billion people and I think we've barely scratched the surface in terms of the opportunity as kind of as big as the numbers feel from a relatively close to a standing start. I think that it's an exciting opportunity for the industry. And as the market leader in India, we see it as a very exciting opportunity for us.

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A - Mike Milotich {BIO 20581476 <GO>}

Next question.

Operator

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

Q - Ryan Cary {BIO 20145963 <GO>}

This is Ryan Cary on for Jason. Thanks for taking my questions. I was hoping to dive a little deeper into the international growth in the quarter, which came in well ahead of what we were modeling. Is there anything worth calling out that surprised you to the upside?

And it looks like the spread between volume growth and revenue growth also widened pretty materially. I'm assuming there were some benefit from FX in there but was there any pricing benefits in the quarter? Thanks.

A - Vasant M. Prabhu {BIO 1958035 <GO>}

Yeah, yeah, several things in there so I'll take them one by one Jason if I can get to them.

A - Mike Milotich {BIO 20581476 <GO>}

Ryan.

A - Vasant M. Prabhu {BIO 1958035 <GO>}

...or Ryan, sorry. Sorry about that, Ryan. I guess Jason is elsewhere today. So why was it better than – it was better than we expected. Coming into the year, as you know our inbound business to the U.S. has been a weak business for several years because the dollar was strong.

And coming into the year, we hoped that with the weakening of the dollar, there would be some improvement in that business. And we projected a step-up in the growth rate. We were pretty much in line with our expectations in the first quarter but the acceleration continued pretty fast into the second quarter.

And in many ways the inbound business to the U.S. has grown faster than we expected. So the recovery has been – come in earlier than we might have projected. That's one reason.

The other reason is the outbound business from Europe, business that is leaving the EU in total, also grew in the double digits for the opposite reason because the euro and the pound are now stronger. Those two clearly were much stronger than we expected and they're very important corridors for us. The revenue impact is greater because the mix of business is better. Because the inbound business to the U.S. for us is an attractive business, and the mix of our cross-border business suddenly got better.

There was no pricing that was any – new or different than anything that was in place prior to coming into the quarter. Certainly, exchange rates were a little better, so that certainly helped that line more than other lines. And then overall, I mean, adding to these two

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corridors, the cross-border business, because of strong global economy has been strong just about everywhere in the world.

A - Mike Milotich {BIO 20581476 <GO>}

Next question.

Operator

Our next question comes from Ashwin Shirvaikar with Citigroup. Your line is now open.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Yeah. So, thanks for taking the question, good quarter. My question was with regard to debit volume growth in the U.S. If you could break down what's driving this increased macro or in the spend trend any particular wins to call out? And also just to clarify, is Visa Direct classified here?

A - Vasant M. Prabhu {BIO 1958035 <GO>}

Yes. So the debit growth was clearly very strong. And at this point, as we told you earlier, it's not benefiting from any conversion type benefit. This is real apples-to-apples growth and, therefore, quite heartening to see it as strong as it was. As we've dug into it, it was pretty broad-based. We're seeing growth, as I mentioned in my comments, across many segments of retail and across all the everyday spend categories. We essentially attest it to a pretty strong consumer profile in terms of propensity to spend. As a business shifts more to e-commerce, that clearly, also helps in many ways. And then as far as overall sort of the underlying sort of mix of business, that also remains very good. So all in all, just about every aspect of the debit business looked very good this quarter.

A - Mike Milotich {BIO 20581476 <GO>}

Next question.

Operator

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

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

Thanks so much. Good results. I guess, I wanted to follow-up on a couple of the questions on international and whatnot. I'm curious, Al, in your travels, has the nationalism sort of theme being settled (46:19)? I know you're making a push towards localizing a lot of the business. I heard your answers around China and in India. But just bigger picture, I'm curious if the whole nationalism sort of pendulum has shifted in any way in your mind?

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

Tien-Tsin, in the last five weeks, I've done a trip to Korea, I've done a trip to China, and I've done our trip to the Middle East and Northern Africa. I still see quite a strong nationalism

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theme. I think from my perspective, which I've said before, this business, this payments business is a very local business. So clearly on one hand, the solution set that we need to go to market with our issuer clients and our merchant clients is different market by market, and that's a positive thing. And we recognize that and we're putting more resources as we add personnel, adding more people out in the actual countries because that's where the action is.

The negative or the watch out of nationalism is what happens in terms of regulation and domestic processing. And does that grow around the world? And what are the rules as it grows? There's domestic processing in a number of markets, some of them it's a very fair playing field where the government is not mandating that you must process on a local processor but it's yet just another option. In a couple of countries, it's not quite an even playing field and we continue to push and work with those governments to try to get it there. So that's what I'd say I was seeing, Tien-Tsin.

A - Mike Milotich {BIO 20581476 <GO>}

Next question.

Operator

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

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

Great. I was wondering whether you would talk a little bit about whether you're thinking about any sorts of incentives whether it's a carrot or stick type incentives to kind of encourage the move towards that single pay button. And just as a related thing, since you did link in the discussion with PayPal to Visa Direct, is have you ever given any kind of metrics on the size or growth rate of that channel for you?

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

Hi, Moshe, it's Al. We're in the top of the first inning here on the Secure Remote Commerce and the single pay button. We're just getting familiar with the standards from EMVCo and trying to understand exactly what we have to do and what merchants have to do in order to make it a reality in the marketplace. I think that our kind of immediate focus is to get very familiar with the technical aspects of what needs to happen in terms of getting it set up.

My personal belief, and we'll have to see how this plays out, is that this is going to come as a really, really positive news for both consumers and merchants. And I think that if done correctly, which we hope that it is, that adoption is going to – the curve of adoption is going to be quite quick.

That said, there have been cases in the past where to accelerate progress we have thought about and used incentives, but we're nowhere near being able to make a decision on that at this point. And I'm hoping we don't because I'm hoping that it's such a

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very clear improvement in the user experience and the friction, it goes out of the system that people will adopt very, very quickly.

In terms of your second question, which I think was around volumes related to PayPal and Visa Direct. We haven't provided any color on that as of this moment.

I would say that we're pleased with the way adoption of Visa Direct is continuing. As I said in my remarks, right now, there's a few use cases that we're focused on. And we're pleased with those use cases and we're trying to increase in essence the distribution of those use cases over time. We're hoping to actually look to add further use cases, which will further expand the universe of places where Visa Direct can be used. So I think there's a tremendous amount of upside relative to Visa Direct as we look out over the next couple of years.

A - Mike Milotich {BIO 20581476 <GO>}

Next question?

Operator

Our next question comes from Sanjay Sakhrani with KBW. Your line is now open.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thanks. Vasant, you talked about sort of the stronger economy driving some of the more robust trends. I was wondering, in the U.S., was any of it discernible from tax reform? Like have you guys seen any impact as it relates to tax reform?

And then on the shared button comment, as far as costs are concerned, are there any cost savings as a result of not having to go full force with Visa Checkout? Or are there other costs that we have to contemplate, given the new initiative? Thanks.

A - Vasant M. Prabhu {BIO 1958035 <GO>}

Right. In terms of are we seeing any impact from tax reform on consumer spending, I would have to say that it's hard for us to isolate those kinds of impacts. So I don't think we have a point of view on that, and it's probably a little too early in any case. So I'm not sure I can tell you anything specific on that front.

As it relates to the button, as Al said earlier, many of these questions are relatively premature given where we are. In terms of Visa Checkout, we remain as focused on it as we were. We will use Visa Checkout in those parts of the world where it clearly is a valuable option for people, especially outside the U.S. In the U.S., there are merchants who would see value in it. We would definitely use Visa Checkout as a solution there.

Once this single button solution is available, then we'll just have to see how that plays between the Visa Checkout option and the single button. In the meantime, we will have to

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spend some money to develop the single button option from a technology standpoint and all that.

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

I think, Sanjay, it goes back a bit to Moshe's question as well. Look, if this gets – if the pace of adoption is quick, then the reality is that – and we don't have to either do incentives or do big advertising to promote it. Obviously, that's a good thing.

In the case of Visa Direct, we obviously have spent quite a bit of money in promoting it and pushing it. That's why we've gotten over 30 million users of Visa Direct.

But I think it remains to be seen until we play this out a little bit more over time as we become more familiar with what's going on, based on the data we're seeing, we'll certainly give more color and commentary on it. But it's just – it really is early.

A - Mike Milotich {BIO 20581476 <GO>}

Next question?

Operator

Our next question comes from Jamie Friedman with Susquehanna. Your line is now open.

Q - James Eric Friedman {BIO 20091873 <GO>}

Hi, thank you. We recently saw a bulletin saying that MasterCard had increased its assessment fees on payment volumes. So I was just wondering what your general thoughts were on the trajectory of Visa's pricing going forward, particularly in the U.S.?

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

Well, we generally don't talk a lot about what our pricing plans are. We obviously look – we have a dedicated pricing team. We look at pricing on everything that we do from the pricing to issuers, the pricing to acquirers, the services that we make available to our issuer and merchant customers, and we look at the price value equation, we look at the competitive set, and we make judgments on an ongoing basis. And I think that's the most I'd say about it.

A - Mike Milotich {BIO 20581476 <GO>}

Next question.

Operator

Our next question comes from Jim Schneider with Goldman Sachs. Your line is now open.

Q - James Schneider {BIO 15753052 <GO>}

Good afternoon. Thanks for taking my question and welcome, Mike. I just want to ask a question for you, Al. You talked quite a bit about contactless payments and adoption rates across the globe.

Can you maybe just give us a sense about the details of your plans around the U.S.? You talked about some enablement for on the merchant side. But what are you doing to get that stronger on the bank issuer side? Any plans you can articulate there?

And then maybe share with us your expectations, say, maybe two years out about what the penetration rate could be or look like in the U.S.?

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

Well, Jim, I think the U.S. market – I think I've talked about this before but maybe I haven't. The U.S. market is a bit different. It's a little upside down in terms of how this opportunity has – presents itself.

Usually, around the world, the issuer side of the equation has been ahead, and we've had to kind of pull the merchant community along, which I actually think is the harder lift.

In the U.S., we kind of got the opposite situation, where we've got nearly 60% of the top 100 enabled. We've got virtually all the terminals being shipped today are enabled for contactless.

The whole transit system push, which is happening at a fairly large clip in terms of interest is a stimulant. So in our case, in the U.S., the reality is that we need to catch up on the issuer side, and that's a smaller constituent group versus millions and millions of merchants.

So we're in lots of discussions with our issuer partners. And I think that there's a lot of interest on the part of our issuer partners to move to contactless. Nobody's too anxious to do a mass card replacement, but I think as cards start to get replaced, you'll start to see more contactless evolve. That said, as I said in my remarks, this is at least a year or two to get this off the ground before you start to get the beginnings of movement. And then if the U.S. is like other markets, which I have no reason to believe it won't be, I think that, we'll – in a couple of years, we'll – if we're in the single-digit that we'll start to see real acceleration then over the next couple of years.

And I'm hoping maybe because it's really – progress is more going to be driven by issuer side movement that maybe the adoption could – curve could be actually a little bit quicker than we've seen in some of the international market. But that said, I'm not going to get into predicting this right now as to exactly what level of penetration it would be in a couple of years. But I could tell you this, we're excited about it and we're pushing on it.

A - Mike Milotich {BIO 20581476 <GO>}

Last question, Katie.

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Operator

Our final question comes from James Faucette with Morgan Stanley. Your line is now open.

Q - Vasu Govil

Hi. Thanks. This is Vasu Govil for James Faucette. Just two really quick ones. One on Visa Direct, you guys talked about a lot of traction there. Could you maybe talk a little bit about what geographies you were seeing more traction in? Is it mostly in the U.S. or what international geographies you're seeing more traction?

And then from a P&L perspective, where are these volumes and revenues getting captured? And then quickly on – just following up on the nationalism question before, recently, I think the Central Bank in India is considering some regulation that all user data needs to be stored only in the country. So, what would that mean for Visa in terms of your ability to process transactions there? Thank you.

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

Okay. So I think there were three questions there.

A - Vasant M. Prabhu {BIO 1958035 <GO>}

Visa Direct.

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

So Visa Direct is a product running on VisaNet. So, it is a true global offering. I mean, it – because VisaNet is global, Visa Direct is global and it's operating in a large number of markets around the world, including Europe, now that we've got VisaNet starting to run in Europe. So I mentioned in the remarks that today probably P2P remains one of the bigger use cases for Visa Direct, but there are other disbursement use cases that we're looking at and are coming onstream that are also producing volumes on Visa Direct. I think your second question was where is it captured?

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A - Vasant M. Prabhu {BIO 1958035 <GO>}

Where do we see most of the volume?

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

It's payments volume, right? And some of it is – it's mostly domestic, but there are some cross-border, so it's mostly showing up in service fees and data processing.

A - Vasant M. Prabhu {BIO 1958035 <GO>}

Right and the U.S. certainly is among the better developed markets. You were asking the question from a geography standpoint, and we're starting to see volume in Europe and other parts of the world. And as we've told you, our goal is to have 1.7 billion or so debit credentials enabled by the end of this calendar year on a global basis going all the way to 2 billion. And then there was one

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

And then the last question on India. Yes, the RBI, the Central Bank of India has issued in the last 10 days or so a data localization rule. We're still get – starting to get – trying to get our hands around them and understand what it means. They're looking for some form of adoption in six months, which is a tough timeframe. So it's early, again, very early there. We're in almost daily discussions with our tech team, with the government in India, with the RBI in India to try to get a sense of what are they really trying to accomplish and what might be the best way to get there. So, again, more to come as we continue our dialogue with the folks in India.

A - Mike Milotich {BIO 20581476 <GO>}

And with that, we'd like to thank you for joining us today. If you have additional questions please feel free to call or e-mail. Thanks again and have a great day.

Operator

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

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