Company Name: Mastercard
Company Ticker: MA US
Date: 2018-05-02
Event Description: Q1 2018 Earnings Call

Market Cap: 193,896.74
Current PX: 185.73
YTD Change($): +34.37
YTD Change(%): +22.707

Bloomberg Estimates - EPS
Current Quarter: 1.512
Current Year: 6.060
Bloomberg Estimates - Sales
Current Quarter: 3576.560
Current Year: 14607.353

Q1 2018 Earnings Call

Company Participants

- Warren Kneeshaw
- Ajay Banga
- Martina Hund-Mejean

Other Participants

- Bryan C. Keane
- David Mark Togut
- James Eric Friedman
- Daniel Perlin
- Donald J. Fandetti
- Brett Huff
- James Schneider
- Jason Kupferberg
- Tien-Tsin Huang

MANAGEMENT DISCUSSION SECTION

Warren Kneeshaw

GAAP and Non-GAAP Financial Measures

Both the release and the slide deck include reconciliations of non GAAP measures to their GAAP equivalents

Ajay Banga

Q1 Highlights

Revenue Growth, EPS and Operating Income

- We're off to a very strong start this year
- Our first quarter net revenue growth of 27% and EPS growth of 43% vs. a year ago on a currency neutral basis and excluding those special items
- But even if you exclude the impact of the accounting changes, the acquisitions, and a couple of other items that affect y-over-y growth comparisons, all of which Martina will explain to you in some more detail later, our underlying net revenue growth was up 20% and operating income was up 27%
- All these results are driven by the focus of our folks, of our employees, on execution and solid business fundamentals as we continue to invest for the long term future of our company

Macroeconomic Front

Growth, Monetary Policies and Retail Spending

- Now the macroeconomic front
- We are continuing to see overall growth
- We are, however, keeping a very close watch as central banks around the globe evaluate normalizing their monetary policies by reducing fiscal stimulus
- The U.S. continues to perform well, low employment, healthy consumer confidence
- Retail spending remains strong and our SpendingPulse estimates are increasing to 5.3% for the quarter vs. a year ago
  - Now remember that estimate is ex-auto, ex-gas and we believe that's the best way to look at the underlying trends in retail spending

SpendingPulse and NAFTA

- Now when looking at the rest of the world, we see generally favorable conditions
- Europe remains positive overall with retail sales growth in the UK has picked up in Q1 although showed some deceleration in March, again according to SpendingPulse in the U.K.
- We do remain concerned about the potential impacts of Brexit
- Latin America continues its recovery, lower unemployment, improved consumer confidence
  - And there we will continue to monitor for potential impacts from the elections particularly in Brazil and in Mexico and of course the whole NAFTA renegotiation

Government Initiatives

- Most of the economies in Asia continue trending positively and more stable oil prices and I think a number of government initiatives have been driven some improvement in the Middle East and Africa region
  - If you put that together, we expect the global economy to remain positive absent any significant impact from geopolitics or trade risks

Mastercard

Volume and Transaction Growth

- Meanwhile we are driving healthy double digit volume and transaction growth for Mastercard across most of our markets
- We're growing share and we're executing on our strategy as we move into 2018
- And let me give you a few examples
- In the U.S., we continue to see good progress in consumer credit
- The Barclays Arrival Premier World Elite Mastercard, that's a mouthful, was just launched and includes premium benefits designed to attract and retain the traveling consumer, such as an annual loyalty bonus and airport lounge access

  - This builds on the momentum from other recent U.S. affluent product wins like the Capital One Saver Card, the Bank of America Cash Rewards Card for which by the way Mastercard issuance has now begun and Bass Pro and Cabela's which we announced last quarter

Co-Brands

New Mastercard Consumer Credit Product and PayPal

- Now turning to co-brands
- We're making real progress this quarter again including with Playground Battle which is launching a new Mastercard consumer credit product and will be migrating some of their existing private label cards over time
- We've also renewed a number of co-brand relationships including with Shell
- And now Kroger has begun converting cards to Mastercard following the win that we announced last year
- In addition we're really pleased to be the exclusive network for PayPal's first consumer debit card in the U.S. which lets consumers and customers of theirs access funds in their PayPal accounts to shop online or in stores and to make withdrawals from ATMs worldwide
  - And that's consistent with our broader PayPal partnership which currently includes all PayPal credit and debit co-brands around the world

Santander Group, Credit and Debit Renewal

- In Europe we continue to gain share in key markets and I'm very pleased to say we're expanding our relationship with the Santander Group
- In the U.K., Santander will issue Mastercard debit cards for its more than nine million consumer and commercial bank accounts, making this our largest debit slip in the U.K. to date
  - And this extends Mastercard's existing relationship with Santander U.K. on consumer and commercial credit and leverages our capabilities in digital fraud solutions and some of our exclusive sponsorship assets
- Now that's in addition to a credit and debit renewal
- Again, both consumer and commercial that we just signed with Banco Santander in Spain

New Deal and New Cashback Consumer Credit Card

- We're also pleased to announce a new deal for the U.K. Post Office Travel Money program one of the largest consumer prepaid programs in the U.K., to be exclusively Mastercard branded
- In Latin America, building on our strong underlying momentum we've added the American Airlines co-brand in Brazil this quarter
- We launched a new cashback consumer credit card with HSBC in Mexico
- And we're driving innovative consumer and commercial solutions with the largest digital bank in Brazil, Banco Inter, and providing differentiated loyalty services for a number of customers in the region, including Banco Santander in Brazil

Commonwealth Bank

Australia Credit and Debit Deal

- And we are strengthening our position in other markets as well
- This quarter we extended our Commonwealth Bank of Australia credit and debit deal which includes a portfolio flip
- In India, we signed a comprehensive debit agreement with Bank of Baroda that includes advisers, consulting, data analytics, and managed services
    - As you know, our focus on India is on growing both the issuing side and merchant acceptance in a number of different ways, including with digital technology such as QR codes, and we have talked about this in the past

PromptPay

- Shifting to [ph] account paid (08:36) faster payments, we are making progress with Vocalink and we're in the RFP response phase for a number of potential opportunities around the world
- But the PromptPay mobile payment system in Thailand is a good example of an international payment system powered by Vocalink gaining scale quickly
- What PromptPay does is it enables bank transfers using a mobile number or a citizen ID.
    - And as of April, 14mm users in Thailand have signed up, generating more than 170mm transactions since its launch in January 2017 and the equivalent of about $16B in consumer, business, and government payments in the last six months alone

EMVCo Standards

- On digital, you heard us recently announce our support of the EMVCo standards for simple and unified payments
- When people shop online and in-app, they expect the same convenience and security that they have in store
- And just like the single acceptance terminal in a physical store, we believe there should be one common checkout button in the digital world
    - That will deliver tremendous benefits for consumers, for merchants, and for issuers
- A common checkout button would give consumers a consistent, secure, low-friction checkout flow, making it far easier for merchants to implement secure digital payments and provide issuers with improved fraud detection and prevention capability
    - And that should result in lower abandonment rates and more sales, good for everybody in the ecosystem

Tokenization Services and Authentication Services

- Since these standards also build on our tokenization services and authentication services, I think that brings us closer to a secure token-based world. 75% of all our cards are already enabled to be tokenized, and we see demand from merchants like Netflix and now Flipkart in India as well
- And when you tokenize payment details at a merchant site, they essentially become useless if a fraudster steals them and tries to use them somewhere else
- More importantly, it eliminates the need to manually update account numbers when cards are replaced

  - That happens automatically
- It helps merchants and consumers by reducing declined transactions; again, good for everybody in the ecosystem

Acquisitions

- What's the bottom line? The bottom line is the EMV framework will bring the benefits of standardization, openness, and interoperability to consumers, to merchants, to acquirers, to issuers in the digital space
- Now of course, we at Mastercard will continue to innovate and offer differentiated services for consumers and merchants in a whole range of ways, from loyalty and user experience to analytics with new kinds of security and authentication tools that we can provide, including with our recent acquisitions of NuData and Brighterion

Digital Strategy

QR Codes

  - Staying on our digital strategy, we are developing new ways for consumers to pay and for merchants to get paid through QR codes and particularly in emerging markets
  - A recent example is the partnership we announced with M-KOPA in East Africa to make it easier for people to access reliable energy sources to power their homes and businesses
    - And the idea is to boost productivity and prosperity
  - Masterpass QR enables people to finance solar power through small daily payments by scanning a QR code with their smartphones or entering the merchant ID into their older feature phones
  - Distribution partnerships on social platforms like Facebook and mobile financial services platforms like Tigo Pesa in Tanzania further extend the availability of QR codes to millions of users at a time

General Data Protection Regulation

- And finally, we continue to expand our suite of differentiated services
- As many of you know, the General Data Protection Regulation in Europe, known as GDPR, establishes new rules for the use of personal data, and it puts consumers in greater control over how their data is used
- Now we've always been committed to strong protection for consumer privacy
  - And you know, for example, that we only work with data in our analytics business on a fully anonymized and aggregated basis
- We are very well positioned, therefore, for compliance with GDPR by the late May deadline across the full scope of the new requirements of this regulation

Innovative Approach and Truata

  - Having said that, one part of GDPR is related to how data must be anonymized for later use
  - And in this area, we've taken what I think is a particularly innovative approach
  - We have designed a compliant solution for this, founded an independent trust called Truata to offer this service commercially

    - Essentially, customers of Truata will remove personal identifiers from their data before sending that information to Truata, which further anonymizes it to protect an individual's identity
  - Customers will then receive analytics and aggregated insights back to use in their products and solutions
  - That way you ensure that the data and the resulting analytical capability and output can never be linked back to an individual
    - So that's a service that Truata's customers, including Mastercard, will use to further scale data and analytics services in a secure and compliant way

Martina Hund-Mejean

Financial Highlights

We are very pleased to deliver a strong start to the year, even when you exclude the 4 ppt tailwind from foreign exchange to net revenue and the 6 ppt to net income, which was primarily driven by the appreciation of the euro since last year

Currency, Revenues and Operating Expenses

- Here on page 3, I will now highlight the numbers on a currency neutral basis
- And also I will exclude special items related to litigation commissions
- Net revenue grew 27%, driven by strong underlying performance and it includes a 4 ppt benefit from the new revenue recognition rules and a 2.5 ppt benefit from acquisitions
  - Excluding these items, underlying revenue growth was 20%
- Operating expenses increased by 32% which includes 20 ppt of growth due to acquisitions our charitable contribution to the Center for Inclusive Growth and the impact of the new revenue recognition rules
- Underlying expense growth was 12%

Operating Income and Net Income

- Operating income grew by 23% or 27% on an underlying basis based on the adjustments to revenue and operating expense I just noted
- Net income was up 39% reflecting strong operating results and the impact of the U.S. tax reform, which contributed approximately 8 ppt to this net income growth

EPS and Share Repurchasing

- EPS was $1.50 per share, up by 43% y-over-y with share repurchases contributing $0.03 per share
- During the quarter, we repurchased about $1.4B worth of stock and an additional $608mm through April 27, 2018

Operational Metrics

GDV Growth and Volume Growth

- So let me turn to page 4, and here you can see the operational metrics for Q1
- Worldwide gross dollar volume or GDV growth was 14% on a local currency basis and that's up 1 ppt from last quarter
- We saw solid double-digit growth across most regions
- U.S. GDV grew 10%, up 1 ppt from last quarter and was made up of credit and debit growth of 9% and 12% respectively
- And outside of the U.S. volume growth was 16%, up 2 ppt from last quarter primarily due to Europe and Asia-Pacific
  - Cross-border volume grew at a healthy 21% on a local currency basis, driven by growth in all regions, with the strongest growth contribution coming from Europe

Switched Transactions

- Turning to page 5, switched transactions continued to show strong growth at 17% globally, normalized to exclude Venezuelan transactions as we no longer consolidate that entity
- We saw healthy double-digit growth in switched transactions across all regions
  - And transaction growth was also up sequentially, led by Europe and the U.S.

Global Card Growth

- In addition, global card growth was 6%, again normalized for Venezuela
  - Globally, there are 2.4B Mastercard and Maestro branded cards issued

New Revenue Recognition Rules

- Now let me turn to page 6 for highlights on a few of the revenue line items, again described on a currency neutral basis unless otherwise noted
- The 27% net revenue increase was primarily driven by strong volume and transaction growth as well as by growth in services
- The new revenue recognition rules contributed 4 ppt to the growth rate, higher than what we anticipate for the total year
- Excluding this impact and acquisitions, underlying net revenue growth was 20%
  - This growth was stronger than expected due to the delay of new deals resulting in lower rebates and incentives for the quarter and higher growth in services and cross-border

Domestic Assessments and Cross-Border Volume Fees

- Looking quickly at the individual revenue line items
- Domestic assessments grew 20%, while worldwide GDV grew 14%
- And the difference is primarily due to the impact of the new revenue recognition rules
- Cross-border volume fees grew 19%, while cross-border volume was up 21%

- The 2 ppt gap is mostly due to the higher intra Europe growth

Transaction Processing Fees and Other Revenues

- Transaction processing fees grew 22%, primarily driven by the 17% normalized growth in switched transactions as well as revenues from our various service offerings and from Vocalink
- Finally, other revenues grew 33% driven by increases in our advisers and safety and security services
  - As a reminder, most of the Vocalink revenues show up in this line which accounts for 10 ppt of this growth

Operating Expenses

- Moving on to page 7, you can see that total operating expenses increased 32% excluding special items on a currency neutral basis
- As I referenced earlier, this includes an 8 ppt impact from acquisitions, an 8 ppt impact from our charitable contribution of $100mm and a 3 ppt impact related to the new revenue recognition rules
  - Excluding these items, underlying expense growth was 12%
- This reflects our investment in strategic initiatives such as digital infrastructure, safety and security platforms, data analytics and geographic expansion as well as higher costs related to our increased revenues in certain areas such as loyalty

Switched Volume and Transaction Growth

- Turning to slide 8, let's discuss what we have seen in April through the 28th where all of our drivers are similar or a bit slower than our first quarter drivers but in line with our expectations and comprehended in the outlook that I will talk about in a moment
- The numbers through April 28 are as follows
- Starting with switched volume, we saw global growth of 14%
  - That's down 2 ppt from what we saw in Q1 with solid growth in all regions
- In the U.S. our switched volume grew 8%, down three ppt from Q1 with lower growth in both credit and debit programs
- Switched volume outside of the U.S. grew 18%, down 2 ppt from Q1
- And globally switched transaction growth was 17%, the same as what we saw in Q1 with healthy growth in each region
  - And with respect to cross-border, our volumes grew 19% globally down 2 ppt sequentially in part due to the drop of crypto wallet funding

Y-over-Y Revenue Growth

- Turning to slide 9 and our thoughts for the full year 2018, which I will describe on a currency neutral basis and excluding special items, our business fundamentals remain strong as we continue to grow share across our core products and expand our service offerings
- We continue to forecast a healthy economic environment

- And with a solid first quarter we now expect y-over-y revenue growth to be in the high teens percentage-wise, up from our previous expectations of mid-teens
  - As a reminder, this growth includes the impact of the new revenue recognition rules in 2018 and the full year effect of acquisitions which we continue to estimate will contribute about 3 points to growth on a combined basis

Organic Growth

  - As you can see on the orange bar at the bottom of the chart our organic growth excluding these items would be in the mid-teens range, up from our prior expectations of the high end of low double digits

Deal Closings and Implementations and Cross Border Growth

- I would like to call out a few items related to the revenue profile for the year
- First, we do expect deal closings and implementations to pick up from Q1 levels which will increase rebates and incentives in the following quarters
- Second, we expect cross border growth to moderate somewhat
  - This is due to the recent drop-off in crypto wallet funding
- And in addition, cross-border will also face tougher comps for the balance of the year given the strengthening of the euro during 2017
  - You can see this a bit already in our April metrics

New Revenue Recognition Rules

- Thirdly, we do not expect to see as much revenue uplift in the next three quarters from the new revenue recognition rules as we saw in Q1
- And finally, just a reminder that we have lapped the Vocalink acquisition at the end of April

Expenses

- On expenses, we're accelerating our investments in strategic areas such as safety and security, digital and our B2B products
- We're also seeing some increased operating costs related to our higher revenues, in particular related to some of our services such as loyalty
- As a result of these factors, we now expect y-over-y expense growth to be in the mid-teens, up from our previous expectations of low double digits
  - This growth includes the impact of the new revenue recognition rules, the full year effect of acquisitions and impact of the contribution to our Center for Inclusive Growth

Growth

  - When combined, we continue to estimate that these three items will contribute about 8 points to growth

- Again as you can see on the orange bar at the bottom of the chart, expense growth on an organic basis excluding these items would be in the range of high single digits, up from our prior expectations of mid-single digits
  - With respect to our quarterly expense profile, as usual Q2 and Q3 will grow significantly more vs. year ago than Q4

Foreign Exchange, Net Income and Tax Rate

- A few other items of note
- Foreign exchange is now expected to be a 2 ppt benefit to the top line and a 3 ppt benefit to net income for the year with the biggest uplift having already occurred in Q1 given the profile of the year ago exchange rates
- And the estimated tax rate of approximately 19% to 20% for the year, based on our current expectations of regional mix of earnings
  - Of note, Q1 effective tax rate of 17.7% is lower than the expected full-year tax rate, as Q1 included discrete benefits of 2.3 percentage points

QUESTION AND ANSWER SECTION

<Q - Bryan C. Keane>: I want to ask about the strength you're seeing in Europe and Asia in particular. Are those share gains vs. the competitors, or is that just the overall growth in the markets? It's probably a little bit of both I'm guessing.

<A - Martina Hund-Mejean>: We're seeing both, Bryan. Actually in Europe, we're seeing domestic growth really showing up very nicely. Cross-border growth has actually improved from what the statistics that we have seen before, including what we're seeing, by the way, in the UK. So we are seeing very solid spend in the UK domestically. We see solid double-digit cross-border growth outbound of the UK as well as inbound into the UK. So we're seeing at the moment no clouds on the horizon, even though we are obviously worried about Brexit. We see very solid growth in Eastern Europe showing up.

In Asia-Pacific, what we're really seeing is that Australia is coming back a little bit. And we're also seeing some healthy growth, it's like in the high single digit rate, from a cross-border perspective in China.

<Q - Bryan C. Keane>: And just as a quick follow-up, on the rebates and incentives side, the pickup you expect, is there any way to think about the cadence throughout the rest of the year? Will it pick up each quarter going through, or is it just a little bit of a pickup here in Q2 as some of the deal closes? Thanks so much.

<A - Martina Hund-Mejean>: You're asking me the $100 question here because that is always what I'm asking our people in the business. It really depends in terms of when we are signing agreements and when we're implementing the agreement. The best outlook that I have at this point in time is that probably Q3 is the high-water mark in terms of rebates and incentives. But again, once we close out Q2, we will let you know.

<Q - David Mark Togut>: Could you comment on the pace of RFPs you're seeing in Europe for ACH-related offerings? Specifically I'm asking about Vocalink's positioning on Continental Europe ahead of PSD2.

<A - Ajay Banga>: There are a number of RFPs out there, not just in Europe but around the world. We're participating in all of them. I don't think there's any change in the pace of RFPs based on the implementation dates of PSD2. A lot of the RFPs have to do with countries and locations trying to upgrade their clearinghouse systems over the years from what was built many years ago to what's more state of the art in terms of Fast ACH with better messaging and better data transmission capabilities connecting to directories and the like. That's what we are participating in.

<Q - David Mark Togut>: And then as a follow-up, could you comment on any update with respect to your B2B hub?

<A - Ajay Banga>: So that work progresses, and we are in the process of rolling out with the first client early in H2 this year. Meanwhile, we already had a number of our clients who had relationships with AvidXchange. This is the partner we have used to build the B2B hub with. And those volumes are doing really well. In fact, one of those, for example, is KeyBank. And we have seen not just great volumes coming through, we've seen an increased share shift from check to card. So we've got good momentum on that commercial business beyond the B2B hub, as well with growth across Bank of America Merrill Lynch, Capital One, Citibank, and a bunch of other partners in commercial.

<Q - James Eric Friedman>: I wanted a clarification, if I could. You were going quick there. But when you were talking about other revenue growth and then you had called out advisers and safety and security. I think, and I apologize if I wrote this down wrong, but you said there was 10 ppt of growth contribution from Vocalink. Is that – what's the antecedent? Are you referring to other revenue or services revenue or total revenue?

<A - Martina Hund-Mejean>: The other revenues, as you know, has most of our services business included, and it grew for the quarter by 33%. And 10 percentage points of that was related to the acquisition that we did of Vocalink, so the underlying growth actually was 23%. And of the 23%, the line items that drove it most was advisers as well as safety and security.

The Vocalink acquisition, I just called it out because we still have not lapped the acquisition. Remember, we made the acquisition only on April 28, 2017, so it wasn't in there for Q4, so that's why we're calling it out for you. Of course, the impact in Q2 will be much lower because you only have one month's worth of the Vocalink revenues coming in y-over-y.

<Q - James Eric Friedman>: And then I guess like a moth to the flame, I've got to ask about the crypto. Let's see how to ask this one. That's a bigger callout than we had anticipated on the crypto. I guess what corridors are you seeing that come through and where is it deteriorating from? And do you think it will ever come back?

<A - Martina Hund-Mejean>: The issue in this, first of all, in terms of the stacks, on the cross-border volume growth, the cryptocurrency funding or the crypto wallet funding really was 1 ppt. It was 1 ppt that we saw in Q4 and it was 1 ppt that we saw in Q1.

What the issue is that a number of the banks have decided, in particular in the United States, that they would not allow the usage of cards for this particular funding vehicle. And that's why we have already seen a relatively significant decrease of the volume related to that event.

In terms of where the funding is coming from by country, we're seeing quite a bit coming out of the United States. We saw quite a bit coming out of Australia and some other select countries in Asia, and then a number of countries in Europe.

<A - Ajay Banga>: The governments around the world – I was out in Asia recently. And Korea, for example, has pulled back on allowing some of these exchanges as well to operate. There's a lot of concerns even in Japan because one of their biggest exchanges got hacked into and has now been bought out by another company in an effort to bring that back to an even keel.

In general, the in and out of buying currency – a normal fair currency to put into a crypto wallet, which is what we were involved using our cards with, it depends a little bit on the interest in cryptocurrency. And as you can see, right now there's a little less interest than there was in the latter part of Q4 and Q1. So when we did our earnings call last time, we actually said that this is not something we count on because we just don't know how to predict it or we don't even want to count it.

<Q - Daniel Perlin>: I had a question on the commentary around organic operating expense growth. So in the quarter it was 12%. I think you're guiding to kind of high single digits for the remainder of the year. So that to me would imply a step-down. But then there's the commentary about the significant ramp in investments or just continued advancement in investments. So I'm just trying to reconcile that statement a bit.

<A - Martina Hund-Mejean>: It's really y-over-y comps, so you're going to have to look at where the operating expense numbers were in the second and the third and Q4 2017. So it's just a reality of that. There's nothing really more to it, Dan.

<A - Martina Hund-Mejean>: I can maybe add one more thing. So in Q4, often enough we go for lower A&M expenses. And you might see some of that too because we are trying to move some of that into the earlier quarters. But that's really – it's not going to be very different than what you saw last year.

<Q - Daniel Perlin>: And then can you just provide some commentary around the step-down in these April statistics? You've already mentioned obviously cross-border but switching in global U.S., outside the U.S., they all kind of stepped down so. Thanks.

<A - Martina Hund-Mejean>: First of all, I just want to remind you that this is completely in line with our expectations. And I comprehended it totally in the stats for 2018 from a net revenue point of view. But when you look at the U.S. where the switched volume is down, really predominantly it's because of the debit programs. And there it's a seasonality adjustment. You might remember that we are powering the Social Security benefits with Comerica for the United States.

And depending when they get paid, you have a little bit of an uptick in Q1. Secondly, we are also the provider for H&R Block in terms of tax reimbursements. And of course, in Q1, especially at the end of the quarter, there's actually quite a bit of an uptick which you don't expect to continue into Q2. So that's for the United States.

In terms of the volume outside of the U. S., 18% down 2 ppt. Look, I mean this is like – if it's 1 or 2 ppt or even 3 ppt here or there, it's little upticks and downticks country by country. I'm not going to go through all of this. But it's just what we see from time to time q-over-q.

<Q - Donald J. Fandetti>: On the common checkout button, can you talk a little bit about sort of a realistic timeline when you think this could be up and running? And I guess my question is, do you think that this approach will be a little more successful in terms of merchant penetration? I think my sense is over the years that it's been a little bit of a struggle for the networks under digital wallets.

And then, secondly, how important strategically is success here? Clearly if you look at where volumes are going, ecommerce is the future. And can you talk a little bit about that?

<A - Ajay Banga>: Look, ecommerce is definitely growing. And but remember we participate in ecommerce as well through the funding of lots of different wallets and methods of paying over the Internet, whether you pay from a phone or you pay from your computer. So ecommerce is growing which typically takes out cash as well and also does take out retail brick-and-mortar in some ways.

It's a good thing as far as we're concerned. It's all about digital payments. So I'm not fussed about that. And remember this that ecommerce at the end of the day is if that's what the consumer wants to do and that's how they want to interact, our job is to make sure the consumer can do that in a safe way, in a simple way, in a convenient way, in a way that meets their needs and gives them rewards and incentives and the like to do it.

So I'm actually quite inclined to think that that's where a lot of effort will go and think about the Internet of Things and digital physical commerce coming together, so all that's important. Therefore, finding a way to also grow in the digital space, not only by relying on other wallet providers but also giving our issuers a chance to be able to be present on merchants' checkout locations in an appropriate way, in a brand friendly way, in a simple way for consumers is also important.

And for merchants which is to me where it all started from as well, if you go to them with each network or each wallet attempting to create its own way to connect with a merchant, think through what that means. Forget big merchants. It's a nuisance for them. Think of the medium and smaller sized ones. It's a nightmare for them.

So the right way to this is the way we did the physical card business, take away the issues of multiple terminals in merchants' locations. It becomes impossible, difficult, expensive and inconvenient and make it simple for them with one terminal. That's what this is about. It's one checkout button.

And then after that, it flows the way you would normally flow with all the offers that we can provide from rewards and incentives and loyalty and security and all those things. So do I believe this is important? I absolutely do. Not just for the networks or the banks, I actually think it's really important for merchants and consumers. That's what I'm really focused on and why I'm a big supporter of the single checkout button. I think it's transformative for the industry as a whole, for the ecosystem. I think our job is to execute it well.

Now your first question is about timing. My belief is it that we better do this well. Somewhere over the course of the latter part of this year, you'll begin to see the first aspects of this coming out into the marketplace. You'll probably see a real push in the early part of next year.

Remember merchants have got to gear up for getting into this. Banks have got to gear up for getting into this. Normally the banks have already signed up to network digital wallets but also how they then offer it seamlessly to their customers for online enrollment.

There's a whole set of things to be done here if we're going to do it well for the merchant, the consumer and the issuer. That's what we're focused on.

<A - Martina Hund-Mejean>: And I just want to add one step to what Ajay has been saying on how important the ecommerce business is to us. In this quarter, the ecommerce business grew 25% okay?

So that's a very, very large growth. And by the way, these kind of stats we have been seeing quarter after quarter. It's either in the lower 20s, mid 20s or high 20s depends on which quarter you're looking at. So it's obviously a huge focus for us.

<Q - Brett Huff>: Can I dig in a little bit more on the B2B strategy that you have? It sounds like the investments are going to be accelerated there.

Can you just be a little more specific on what specific strands of investment that you're going to accelerate there? Is it more partnerships? Is it more organic building of technology? Could you just be a little more detailed for us?

<A - Ajay Banga>: That's part of Martina's expense commentary that she was talking about, right? I mean look, we are taking advantage of two things. Let me put them in context.

One is better revenue growth and two is the tax reforms that have allowed us to think in terms of accelerating some of our investments in strategic areas. Commercial B2B is one of them but there's safety and security. There's everything we're doing at digital and contactless. There's all the work we're doing on expanding acceptance with QR codes and the like. There's the matter of loyalty and rewards. And so there's a bunch of places the money is going into.

Commercial and B2B is a very important part of that. That's why we called it out in a prior Investor Day. What are we doing? It's not just what we've done already which is commercial cards which, by the way, are growing well.

And that's – somebody asked me a question a little while back and I talked about good commercial growth in the U. S. with Bank of America and Capital One and Citi and elsewhere as well. That's typically inside the traditional card based business, whether physical cards or virtual cards. And that basically aims at corporate T&E, at fleet cards, at purchasing cards, at B2B payments through Amadeus and the like. That's one part of it.

That uses things like Smart Data. It uses In Control. Those are all, I would say, assets of ours that we are continually investing in to keep them state of the art but they're there. We own them, we have them.

What's interesting is we're all seeing interest beyond the typical bankcard issuers. The technology providers who embed commercial payment solutions into their software, into their platforms are getting interested in our ability to provide them with a full service suite when they go and sell to small and medium merchants. As well as payment aggregators in verticals like construction and insurance where we haven't had great penetration over the years.

Then there's the third aspect, which again somebody asked me about it, the B2B Hub and all the work in the accounts payable place. The idea there is to streamline accounts payable which otherwise has over the years become more and more of a nightmare to most people.

There's lots of people you're buying from, lots of people you're paying to. Trying to reconcile those two together and find a way to ensure that complicated payments are reconciled appropriately and don't leave you with enormous issues at the end of the cycle as well as providing access to easy credit. That kind of stuff is what the Mastercard B2B Hub can help with.

We don't provide the credit but we can help enable the efficiency of the accounts payable space. And then the last one which we're actually quite focused on and which shouldn't be the last but it's just that way I'm talking about it is actually capturing cross-border B2B payments. That's where Mastercard Send and HomeSend on the one hand combined with Vocalink on the other is to me the killer app.

So today I can go to the bank and go there and say I can meet your B2B needs. You want them through ACH and direct debit, talk to me. You want them through virtual cards, talk to me. You want them through commercial cards, talk to me. You want them through any aspect, I can help you. And I can help you Mr. Bank, and Mr. Medium and Small Merchant by making life easier for you, quicker for you, more efficient, easier to reconcile and streamline. That is our B2B strategy.

<Q - Brett Huff>: And then just any update on the economics of how you see the Vocalink business kind of being deployed, be it more network effects or network economics vs. kind of being an arms dealer or a mix. I know that was something you talked about at your last Analyst Day. Thanks.

<A - Ajay Banga>: Arms dealer? I don't know if I used that. That's an interesting topic. So here's the deal. I'll start off and I'll give it to Martina. My view is that Vocalink will go in the marketplace, as I said, one, through RFPs where they are actually creating or participating in the infrastructure of fast payments in a country.

The UK is where we not only participate in helping the infrastructure, we run it. In other countries like in the United States, it's our software that's powering the clearinghouse which is in the process of rolling out this instant ACH systems.

Like that we are the participants as I said in Thailand, that's the example I gave you about that. One where we are more than just software and also helping them actually manage their capabilities. We do that in Sweden. We do that in Singapore. We do that in a number of countries. We're participating in RFPs for that kind of work in a number of markets around the world from Latin America to Asia.

There is a second aspect, which is to be able to bring our knowledge and capabilities of this to banks as they attempt to make ACH become a bigger part of their payments but do it in a way that takes it from being a relatively blunt instrument where reconciliation and settlement is happening, sometimes one day later, sometimes two days later, to on-time, real-time instant. And what that changes in terms of the value added services they can provide and therefore find a way to build loyalty with their customer base. That work is another space. We call that fondly the scheme kind of thinking.

Then there's a third which is more application built, which you read about us launching in the UK, the Pay by Bank app which is an ability for banks to pay at a merchant space and offer their consumer the choice of paying by card or by direct debit or with some kind of economics and value-added services that make sense for the consumer, the merchant, and the bank. All that is part of what Vocalink's up to. It's a different set of strategies for different markets. It's is not going to be one sort of fit of the code for every country.

<A - Martina Hund-Mejean>: From an economic point of view, typically when we go to the infrastructure layer, it's either a license fee. That is not a lot of money we always tell to our investors, or there is a basic fee for people who are using the infrastructure. Where the money is really going to be made is what Ajay referenced, when you run the scheme or when you have an app. And typically transaction-based pricing, very similar to our core model, comes in at that point in time. And that's what we're already proving out in the UK with the Pay by Bank app.

And then lastly, on top of that with the services that we're building, and we showed a number of those services in our last Investor Day in September, that is a normal pricing if it's a data analytics service or if it's a loyalty service or if it's a fraud service. That's k the normal pricing that we have established already from a core perspective. So those are the three layers in terms of what you should be watching out for us to develop.

Having said all of this, this will take some time. This is not like we're turning the key and suddenly you're going to see this all coming in next year. It's going to take us a number of years to really prove the case.

<A - Ajay Banga>: And the reason for that is we're dealing with clearinghouses in different countries. These are not individual one-on-one bank to us deals. These are deals where you're going to get either the government or a set of banks that own the clearinghouse together to be able to migrate to Fast ACH. There are lots of implications of this. But it makes us the player that can offer choice to a country, to an issuer, to a merchant, and to a consumer. And choice is what we are focused on.

<Q - James Schneider>: I was wondering if you could maybe address two items on debit. One is do you think that the – it seems like the trends are pretty strong globally. Anything to call out in terms of your debit share from an issuance perspective beyond the things that you noted in terms of Kroger and your confidence that can improve from here?

And then the second one relates to the transactions processed on network or switched transactions. That seemed to step down a little bit. Was that purely an effect due to European mix, or was there something else going on there?

<A - Martina Hund-Mejean>: First of all, our debit performance is very strong in the United States and in Europe, really in the rest of the world too, but that's the two questions that you asked. In the U.S., as you can see, we're winning some share. When you look at transactions in the U.S., it really depends which quarter you're looking at because the routing of the PIN transactions by the merchants can make a difference. And you might remember that we won quite a few of those routing RFPs quite some quarters ago, and some of those are lapping. But also merchants make dynamic decisions from time to time. So I don't think you should be reading into that anything from a U.S. point of view other than that we continue to make good progress. From a European...

<A - Ajay Banga>: We also have the PayPal debit deal in the U.S., which will help us.

<A - Martina Hund-Mejean>: Which will help us. It hasn't rolled in, of course at this point in time. And then in Europe, in Europe I think we're very strong in debit in most countries in Europe. There's only one country where we had a little bit more of an issue, which is the UK And as you can see from a number of these announcements that we have been making over the last few quarters as well as what Ajay talked about this morning with Santander, we are really going back into that space and being able to compete effectively. You are not seeing some of those stats yet coming into our actual numbers. It will typically take a 6 to 12-month period for the implementations to happen and for those portfolios to flip over.

<A - Ajay Banga>: Last time we talked about Crédit Mutuel in France. We got a debit flip there. We've got ING Bank in Italy. I just talked about Bank of Baroda in India. You'll find that our growth rate on debit in India is strong. And over the next couple of quarters, you'll see us talking about the India debit share there.

The debit, you're aiming at millennials. You're aiming at everyday spend. You're aiming at contactless, which really attacks cash. So you're also obviously aiming at ATM withdrawals and getting cash out of ATMs. Debit meets all those needs. And so debit is important to us, and that's where we're focused on. We're also doing a lot of work on converting some Maestro cards to Mastercard debit because that gives banks and consumers a better capability of using those cards. So there's a lot of building blocks to our strategy on debit.

<A - Martina Hund-Mejean>: I just want to point out because I'm not sure if you're getting confused because of that is, remember we are excluding the results of Venezuela starting Q1 2018, which in particular impacts transactions. It doesn't really impact volume. And so you're not seeing – you're seeing the same 17% growth or so that we had in transactions. But in fact, if you strip that out, then the transaction growth in Q4 was 15% ex-Venezuela, and in Q1 is 17%. So you actually saw an acceleration from a transaction point of view.

<Q - Jason Kupferberg>: I was just wondering if you could give us some rough sizing on your China outbound business as a percent of total cross-border. We just continue to get some questions around the expanded acceptance of Alipay and WeChat Pay. I know we've talked about this a little bit in the past. But as the acceptance footprint in the U.S. and other Western countries expands and more Chinese citizens traveling in the West potentially use some of those services, is this something that's significant enough to ultimately move the needle on those outbound China cross-border volumes? Is it too small to really matter? Just any context there would be helpful.

<A - Martina Hund-Mejean>: I'm going to start and then probably Ajay is going to add some comments on it. First of all, we're seeing from a cross-border volume growth point of view, outbound in China high single digits, okay? That's what we saw in the last quarter and then it went around that for the last few quarters.

The Alipay, the Tenpay, that's not a big impact at this point in time. What is much more of an impact, what happened in China last year in terms of the dual-branded cards were actually not allowed to be issued or banks took the PBOC guidance not to issue dual-branded cards. And that got changed some quarters ago where the banks were willing to again go into the dual-brand card business. And dual-branded cards as you know both have a cup logo which is the card is being used domestically as well as Mastercard logo on it where the card is being used cross-border. And that actually did impact our growth when they were cut off and it does impact our growth positively as they're starting to come back into the market.

In the meantime, we have issued quite a few what's called single-branded cards. So these are just Mastercards. There's no domestic logo on it. And those single-branded cards are used by customers only in the cross-border context. As you can appreciate, those cards have to work their way up to top of wallet, right, because a Chinese consumer is not going to be able to use it daily in China. But we're going to have to make sure that they put out that card overseas and there are lots of loyalty programs and other things that we're doing actually with our issuers. But those cards also carry less spend than the dual-branded cards because they're less top of wallet. That was much more of an impact than what you saw from the pays.

<A - Ajay Banga>: The only think I'd add to that is that you've got to realize that I think China is an interesting market going forward. But today, total numbers, it's a relatively small part of what Mastercard is. So yes, some of the cross border from China goes one way or the other, one quarter it's up, one quarter it's down. It's interesting, but it doesn't transform our life. Yes, out some period of time, some years depending on how the strategy in China plays out, I believe there is a very interesting opportunity for our company there. And we are deeply thinking our way through that. And that's where our focus is.

That, by the way, includes our ability to operate for domestic processing in China which, as you know, we've got our own effort to apply to get the ability to get a domestic processing license. We went in there with a joint venture structure, constructed in a way that brings lot of local expertise with us into the system but enables us to offer value added services from our technology overseas as well. So it's a very nice balance of allowing local business people to be helpful to our company while also helping us add value from our global constructed services.

We're obviously waiting for clarity from the Chinese government and talking to them regularly. Clearly, the U.S. China trade circumstances will help or impede some of that movement, but I don't measure this in three months and six months. I measure this over a few years. I've been here nine years and I've been working on this topic for nine years. So it's not going to change in a day. Meanwhile, Alipay and Tenpay are actually partners of ours in a number of ways. So I have a lot of respect for them. I admire their capability. I think we can do a lot together with them as well.

There is a change on the ground in China as well with the regulator and the government beginning to put a more constructive playing field around what banks are doing and what digital players are doing. And I think you should kind of go and study that a little bit to get a sense of this isn't going forward, what it was looking back. It's just there's a whole new landscape working out in China and we believe that there's opportunity for us as well as others in what's a very large marketplace.

<Q - Tien-Tsin Huang>: I don't have a lot of stuff. Just wanted to ask on the regulations side, because we've been getting this question. Just on the euro cross-border and dynamic currency conversion proposals. Any implications for Mastercard?

<A - Ajay Banga>: Implications always in a sense is going to help get it implemented, but I actually think it's consumer-friendly. And so if you do it the right way it actually helps consumers understand what they're paying, when they're paying and how much they're paying. So I don't think it's – implications is there to get it done, but it's probably the right thing to do.

<Q - Tien-Tsin Huang>: And then just one quick one. Just on the services side. It sounds like very strong growth there. I'm curious, given all the focus and sensitivity on data sharing, does this change in any way your thinking on monetizing analytics and info services and things of that nature?

<A - Ajay Banga>: In fact, Tien-Tsin, I believe that we can set a bar on how GDPR kind of rules get implemented in different parts of the world. We are ready with the GDPR work in Europe. We're are not really ready with our work. We're creating a commercial opportunity out of what most people think is a cost.

And we believe if you do it the right way you can still protect consumer privacy. You could still protect their interests, as you and I want our interest provided, but still provide you with good value added services that include your ability to choose how your data is shared. I don't see that as conflicting.

Remember that the majority of what we see as data today is essentially not consumer specific. The overwhelming majority is only of card number, the dollar value, or the euro value, the time of the transaction and the merchant code. So I don't think that's changing.

Ajay Banga

Closing Remarks

We'll wrap up with some closing thoughts

We are off to a very good start of the year with record revenue and earnings growth this quarter

Martina actually has willingly raised our expectations for the year as well, which is a first

We're pleased with our deal momentum with wins like Santander in Europe

And that leverages our differentiated service offerings

- That's what Tien-Tsin is also getting at just now

And to advance our digital strategy, we are executing on delivering the best digital experience across all channels, all devices, in both developed and emerging markets

So we believe that our investments in these and other key areas will continue to position us really well for long term growth