

Q2 2019 Earnings Call

Company Participants

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

Other Participants

- Bryan Keane, Analyst
- Harshita Rawat, Analyst
- James Friedman, Analyst
- Jeffrey Cantwell, Analyst
- Lisa Ellis, Analyst
- Moshe Orenbuch, Analyst
- Ryan Cary, Analyst
- Sanjay Sakhrani, Analyst
- Tien-Tsin Huang, Analyst

Presentation

Operator

Welcome to the Visa's Fiscal Second Quarter 2019 Earnings Conference Call. All participants are in a listen-only mode until the question-and-answer session of today's conference. 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, Jordan. Good afternoon everyone, and welcome to Visa's Fiscal Second Quarter 2019 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 could differ

materially as a result of many factors. Additional information concerning those factors is available on our most recent reports on Forms 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 reconciliations 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 and good afternoon everyone, and thanks for joining us today. First, a few highlights related to our financial results, as Vasant will go into much more detail later. The Company continued to perform well in the second fiscal quarter with approximately 47 billion transactions on the Visa network, driving \$2.8 trillion in total volume.

Revenue growth was over 8%, slowing versus last quarter as expected due to 1.5 points of FX drag, lapping high currency volatility last year and slower cross-border growth. This was in line with our expectations. Payment volume growth was 8% on a constant-dollar basis. However, growth was 10%, excluding China, and the impact of processing days and US credit conversions.

Growth in the US, the UK, and China drove most of the growth difference versus last quarter. As you saw in the numbers reported by the US banks over the last two weeks, processing days and the shift of Easter impacted the numbers. That said volume growth in many markets around the world was still quite attractive. Growth in our CEMEA region was 22%, and Latin America grew 14%. Also sub-regions like India, Southeast Asia, Central Europe and Eastern Europe, all were growing at mid-teens or better. Processed transaction growth was 11%, consistent with last quarter. Growth remained strong in our large tap to pay markets such as Australia, Canada and the UK.

Cross-border growth on a constant dollar basis was 4%, slowing 3 percentage points from last quarter. Adjusting for the e-commerce platform reorienting acquiring within Europe for cross-border to domestic and the cryptocurrency purchases last year, growth was 6%, and growth improved moderately throughout the quarter.

Expense growth was 7%, slowing to mid-single digit as expected. Growth was primarily driven by personnel related additions, focused on critical business building initiatives. EPS growth was 17%.

When we look year-to-date, we've had strong performance posting 11% growth in revenue and 19% growth in EPS for the first half of the year. We remain focused on investing in multiple growth opportunities, including strategies that both grow the overall pie for payments and funds transfer as well as enhance our capabilities to ensure we continue to be the preferred partner in payments. Examples include the embedding of Visa credentials into more transaction flows, including those with new partners in the P2P -- B2B space, P2P, FinTech, digital bank and wallet space; growing the reach of our digital

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offerings such as tokenization and cyber source and growing our capabilities in areas like risk management, fraud prevention, loyalty and data products. Combining these solutions with one of the most recognized and strongest brands in the world is compelling for both existing and new partners.

We continue to see tremendous long-term growth opportunity in many markets including Continental Europe, Africa, South America, Japan, Mexico and many parts of Asia. Additionally, we continue expanding our footprint in both mature and emerging markets and we remain committed to growing access and acceptance until every business and every device in the world is enabled to send and receive funds via the Visa network. With that as backdrop, let me provide a few examples of the progress we made this last quarter.

Let me start with Visa Direct where we continue to integrate Visa Direct into key verticals to enable new and enhanced existing business models, including in the cross-border remittances and P2P space, which represents a \$6 trillion to \$7 trillion market opportunity. We believe that Visa Direct provides capabilities superior competing solutions including pre-authorization, real-time payment capability available 24/7, sending money to bank accounts as well as reloadable prepaid and credit credentials and scale to serve more than 150 countries with one systems integration, including cross-border capabilities.

These capabilities are enabled without consumers and businesses needing to share their bank account information with third parties for payments. For remittances, Visa Direct is one of the only cross-border networks that is embedded AML and KYC controls framework, and also provides real-time in-flight sanction screening information and clients value this assistance with their compliance efforts.

We partnered with Remitly, a digital remittance company that transfers over \$6 billion in annualized volume in fast-growing regions including Africa, Asia, Central Europe and South America. Remitly and Visa plan to provide customers with more optionality through the ability to seamlessly send cross-border money transfers to recipients with the Visa credential. Similarly, we partnered with a company called EMQ, a leading cross-border settlement network in Asia Pacific to offer cross-border remittances across the region.

On the P2P opportunity, Apple launched Visa Direct with Apple Pay Cash P2P service in the United States as part of their latest iOS release, which enables their user base to load funds, send money and instantly withdraw funds using a Visa Debit credentials. Apple's offering is the first US deployment of a tokenized Visa Direct solution and Visa Direct now powers seven of the major mobile P2P programs in the United States.

We also partnered with PayPal to expand withdraw cash out capabilities from the PayPal wallet in Canada. Another key area we're expanding our reach is in the B2B payment offerings across both core card and new payment flow solutions. Within our core card business, we continue to partner with established and emerging players to expand the usage of our solutions, including virtual cards. For example, we are excited to have signed a deal with Sabre, a leading technology provider in the global travel industry, operating in 160 countries to enable virtual card payments in their B2B travel platform.

Additionally, we have partnered with (inaudible) and enabling an emerging FinTech that previously worked with a competitor to enable accounts payable automation and controls for small businesses in North America, again through the use of Visa virtual cards.

In new B2B payment flows, we are gearing up to launch B2B Connect in the coming weeks, which is our cross-border supplier payments platform designed to simplify international B2B transactions through the use of a distributed ledger. FIS, a leading processor, has now signed up as a distribution partner joining previously announced partners, including Bottomline.

Now, let me turn to provide an update on a few regions where we see long-term growth that would be Europe and India. In Europe, we see good momentum as we execute our growth plans. As you know, we are well ahead of our financial projections, we continue to believe that Europe represents an excellent long-term growth opportunity for Visa and we've already made a series of changes that we believe position us to take advantage of these opportunities.

In Europe today, our business is heavily concentrated in the UK and Ireland, which represent only 17% of personal consumption in Europe, but a significantly higher portion of Visa's payment volume today. And there were 12 other markets in Europe with over \$200 billion in consumption expenditures. Of these markets we are well positioned in some and have plenty of room to grow in others.

In terms of the changes we made, it starts with people. Almost all of the leadership team is new since the acquisition of Visa Europe. As I've said in a number of occasions, payments is a local business. And to that end, we have increased the number of customer facing employees in the markets by 70% since the acquisition. With VisaNet in place, we continue to increase adoption of our risk capabilities, including risk scoring services, customer alerts and spending controls. And we are working closely with our clients to develop new authentication solutions that we think will make us a preferred partner to meet PSD2 authentication requirements without introducing new friction and we expect to have pilots in market, in the summer months.

We're also rapidly growing our FinTech programs signing four FinTechs this quarter, including Coinbase in the UK, which enables cardholders to spend their cryptocurrency at any Visa accepting merchant using a Visa credential linked to their crypto account. As you all know, this is a long-cycle business with long-term contracts. As such, they'll be a lag until the results of our actions become evident, but I feel very good about the progress thus far.

Now, turning to India. We continue to focus on growing credentials and acceptance in-store and online for both consumers and businesses. On the credentials side, Visa continues to be the market leader in both credit and debit payment volume. We have further reinforced our leadership in credit and gained share in the calendar year 2018. The total acceptance points in India have expanded to over 4.5 billion including over 1 million QR points as of February 2019.

A few new developments to share. We are working with Paytm Payments Bank to offer our debit credential solutions to enhance their offerings to their rapidly expanding customer base. Paytm's Payments Bank is also a new Visa requirer and has launched contactless point-of-sale terminals for merchants who are new to card acceptance. Paytm plans to significantly grow India's POS acceptance infrastructure in the next few years, which will certainly help power our growth in the market. We are also working on several new digital solutions for the market. We recently received the RBI's approval for our tokenization solution. This will enable us to use our token solutions with global partners operating in India.

We recently launched Visa Checkout with faster check out experience in the two factor authenticated mandated market. The Visa Checkout merchants are being set up in a way that makes for a smooth migration to secure remote commerce once it's available. India is a market where we are also piloting a network-based solution for installments on Visa Debit. And finally, we're excited about the opportunities driven by our partnership and investment and BillDesk. Together, we will look to address e-commerce friction caused by two factor authentication through accelerated adoption of Visa digital products like Visa Checkout in the near term.

We're also exploring innovative solutions including non-card payments and value-added services such as loyalty and installments. I'd like to now briefly touch on the expansion of our tokenization capabilities and reach in India and P2P with Apple and let me expand on our broader tokenization efforts. We have enabled tokenization in 100 markets that cover over 90% of our global payments volume. With so much activity, there are a number of proven benefits to clients using tokens. We have seen increased security, a couple of percentage points higher authorization rates, and better conversion on payment transactions.

Additionally, our card-on-file API allows issuers to make consumers aware of their tokenized Visa credentials, and where they're stored on file, offering consumers much better visibility and control, and several large clients around the globe have enabled this service.

In terms, of secure remote commerce, we will expand tokenization, as we roll-out this standard later this year in an effort to improve security and reduce friction from digital payments. We expect to begin migrating Visa Checkout to the standard before the end of the summer, starting in the United States. The digital capabilities that we've been enabling over the past several years are recognized by our clients. In this quarter, we signed a long-term deal with Scotiabank in Mexico, where we are dramatically increasing our share of their business. This agreement centers around enabling new, innovative payment technologies for Scotiabank Mexico's portfolio to improve the cardholders' experience, while improving security and reliability.

Similarly, we signed a new partnership agreement with HSBC, covering a combination of consumer and commercial payment portfolios in 27 countries across the globe. This agreement gives HSBC access to Visa's value-added services including the Visa consulting and analytics global team, and a number of portfolio-enhancing projects are already underway.

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In Africa and Latin America, we partnered with Branch. The most downloaded financial app in Africa, with 3 million users. Branch extends micro loans, and disburses them into mobile money for cash out by recipients. With the funds being pushed to a Visa credential that sits on the phone, consumers will be able to shop online or in-store or cash out funds at an ATM.

As before, I'd like to provide a brief update on tap-to-pay, which is now 48% of domestic face-to-face transactions that run over our network, excluding the United States. This is in-line with the increases of a few points we have seen quarter-over-quarter for some time. In the last year, almost 50 countries have seen a 10 point or greater increase in tap-to-pay penetration of all domestic face-to-face transactions.

And as you know, tap-to-pay has proven it can displace cash at a more rapid rate and one of the most effective ways to accelerate the shift from cash to card as to enable acceptance in every day spend categories. To this end, over the last year alone, Visa has launched tap-to-pay transit solutions in 20 cities across 12 countries with more than 150 projects underway. In London, where tap-to-pay has been live for over four years, we have found the cardholders that tap to ride at transit had a meaningful lift in overall card usage versus non-transit users.

Before I close, let me briefly comment on a potential M&A deal and China. We are all awaiting the final regulatory approval for the acquisition of Earthport, and we hope to close this quarter. Given this transaction is governed by the UK takeover code, we will not be able to take any questions on Earthport or the potential transaction. In China, we continue active dialog with regulators and government to understand how to best move forward in the application process, but we have nothing new to share. In the meantime, we continue to expand our business in China, including our recent co-brand win with Carrefour the third largest supermarket in China.

In summary, we had a solid financial quarter and continue to deliver meaningful progress against strategic initiatives that will drive our future growth. We continue to strive to be the preferred partner by embedding Visa credentials in new payments -- in new transaction flows, growing the reach of our digital capabilities, and adding value to our clients through new, innovative solutions.

To share a little bit more on our second quarter results, let me turn it over to the Vasant.

Vasant Prabhu {BIO 1958035 <GO>}

Thank you, Al. Despite some revenue and exchange rate headwinds, we delivered strong EPS growth of 17% in the second quarter. Net revenue grew a little over 8% as expected. Exchange rate shifts versus prior year were a drag on net revenue and EPS growth of approximately 1.5 points. Through the first half of fiscal year 2019, net revenue was up 11% and EPS up 19%.

A few highlights; key business driver growth, payments volume, processed transactions, and cross-border volume was generally in line with our expectations. The slowdown in

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payments volume growth to 8% was driven by four major factors. Pure processing days in the US, general weakness in the UK economy, continued run-off of dual-branded cards in China, and the shift in the timing of Easter negatively impacted several key markets.

Processed transaction growth remained consistent with the last quarter at 11%. Adjusted for lapping the spike in cryptocurrency purchases last year, and the e-commerce platform reorienting acquiring within the EU, constant dollar cross-border growth was 6%, in line with our expectations. The cross-border growth trend has stabilized, moderately improving through the quarter.

Net revenue growth was a little over 8%. As we had indicated last October, fiscal second quarter growth was impacted by two significant headwinds, exchange rates and the lapping of high currency volatility in the second quarter of last year. The drag from both exchange rates and currency volatility was actually higher than we had expected. Adjusted for these factors, net revenue growth was in the low-double digits.

Client incentives were better than expected due to lower incentives from some deals and programs than we had estimated, lower volumes in some markets and some deal delays. Delayed deals will now get done in the second half. Per the new accounting rules adopted in October, we are required to mark investments to market each quarter. Several private companies, in which we have strategic investments had funding rounds or transactions this quarter that established a higher valuation. As such, we recorded investment gains of \$84 million in non-operating income. We purchased 14 million shares of Class A common stock at an average price of \$145.40 for \$2 billion in the second fiscal quarter. Including our quarterly dividend of \$0.25 per share, we returned approximately \$2.6 billion of capital to shareholders in the quarter.

Turning now to our key business drivers. Payments volume on a constant dollar basis grew 8%. Credit was up 7%, debit was up 10%. Growth remained strong in most parts of the world, with CEMEA growing 22%, Latin America, 14%; Asia Pacific, excluding China growing, 10%; and Europe excluding the UK, growing, 11%. US payments volume growth was 8%, about 2.5 points lower than last quarter. Approximately 1.5 points of the slowdown is driven by fewer processing days this quarter versus the prior quarter, as well as the timing of Easter.

Lower fuel prices contributed about 0.5 point, another 0.5 point was driven by the lapping effects of tax reform i.e, lower withholdings last year and lower or delayed refunds this year, which mostly impacted debit. However, growth remained strong in debit at 10%, helped by Visa Direct. Credit grew 6%, due to a full quarter impact from the Cabela's conversion, which started in the middle of the first quarter.

International payments volume growth in constant dollars was 9%. Growth in CEMEA remains robust at 22%, with strong growth across Russia, the Middle East and Africa. Latin America growth remained healthy, the timing of Easter negatively impacted several markets and Caribbean growth ticked down as it laps the post hurricane reconstruction spike last year.

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While growth in the UK slowed 2 points this quarter due to weak economic conditions, the rest of Europe grew 11% with particular strength in Central and Eastern Europe. Asia-Pacific growth, excluding China was 10% and soared [ph] about 2 points versus last quarter, in part due to lapping wins in Australia and New Zealand. China continues to be impacted by the run-off of dual-branded card volumes.

Processed transaction growth of 11% is in line with the last quarter. Growth in the US loaded volumes, this was offset by the processing gains in Argentina, which would have their full run rate by mid-January. Growth is also accelerating in markets where contactless penetration is rising, such as the UK and Canada. As expected, based on the trends we shared with you in January, cross-border volume on a constant dollar basis grew 4% or 6% adjusted for lapping the spike in cryptocurrency purchases last year, and the e-commerce platform reorienting acquiring within the EU. Growth improved moderately each month through the quarter. The Cross-border slowdown is largely driven by sluggish outbound commerce from countries with currencies that materially weakened on a year-over-year basis. The Argentinean peso is down 49%. The Russian ruble and the Brazilian real are both down 14%, the Aussie dollar down 9%, the euro down 8% and the pound down 7%, Canadian dollar is down 5%. This has significantly impacted our largest corridor, US inbound commerce growth, which remains roughly flat. We're also lapping benefits from the Winter Olympics in Korea last year. Outbound commerce growth remained strong out of the US, the Middle-East and Southeast Asia. Inbound commerce growth remains robust to the UK and across Europe, as well as into Canada, Mexico and Australia.

A quick review of first quarter financial results. Net revenue grew 8% -- over 8% in line with our expectations. Growth is over 10% excluding the 1.5 percentage point headwind from exchange rate shifts and the drag from lapping high currency volatility last year. The adoption of ASC-606 lifted revenue by 0.8 percentage points. Service revenue grew 7% in-line with nominal payments volume growth last quarter.

Data processing revenues were up 14% as we continue to benefit from pricing changes made last April. International revenue increased 3%. Significant headwinds from exchange rates and currency volatility were partially offset by our fiscal year '18 pricing actions and favorable mix i.e., slower growth in intra-EU volumes. Other revenues grew 42% driven by the adoption of ASC-606 and increased client adoption of some of our value-added services. Incentives as a percentage of gross revenues were 21.2% -- at 21.2% are lower than our outlook range this quarter but 1 point higher than last year. Incentives were lower than we expected due to lower-than-estimated incentives for some deals and programs, some delays and also due to lower volumes in some parts of the world. We expect to see an uptick in incentives as a percent of gross revenues in the remaining quarters based on the current pipeline and timing of deals.

Operating expenses grew 7% primarily driven by personnel costs and litigation provisions, partially offset by lower marketing. Personnel expenses grew 8% driven by investments to support our key growth initiatives. We had a litigation provision of \$22 million this quarter related to matters in the US and Europe. Marketing expenses were 8% lower than last year as we lap the 2018 Olympics, partially offset by increased expenses related to ASC-606.

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The adoption of ASC-606 added 2.8 points to our overall expense growth. What has traditionally been non-operating expense (Technical Difficulty) non-operating income this quarter driven by three factors. The first and largest factor is that several private companies, in which we have strategic investments had funding rounds of transactions this quarter that established a higher valuation, triggering the recording of investment gains of \$84 million. This is a non-recurring benefit of course. Second, interest expense was lower due to forward contracts we entered into that swap some of our US dollar debt to euro-denominated debt, both fixed and variable rate. These swap agreements effectively convert a portion of our US dollar denominated fixed rate payments into euro denominated fixed and floating rate payments hedging some of our euro asset exposure and balancing our interest rate exposure, while at the same time reducing our interest expenses due to lower borrowing costs in Europe.

This benefit will recur adjusted by exchange rate and interest rate differentials between the US and Europe. And finally, interest income on our cash balances increased due to higher interest rates. This benefit will also recur and is tied to moves in interest rates.

Our tax rate for the quarter was lower than expected at 19% due to better-than-expected application of tax reform rules on foreign income related to FDII and GILTI. We expect our tax rate to be higher in the second half of the year.

Moving now to our outlook for the third quarter and the rest of fiscal year 2019. First, let me share our business driver growth for the first three weeks of the third quarter. Through April 21, US payments volume growth was 12%, with US credit growing 10% and debit 13%. Processed transactions grew 15%. Cross border volume on a constant dollar basis grew 7% or 9% excluding intra-Europe cross-border transactions.

All metrics are benefiting to some degree from the timing of Easter and are not indicative of our expectations for the full quarter. Our outlook for the second half assumes stable growth trends across our key business drivers in line with what we experienced in the second quarter with a couple of adjustments. Payments volume growth adjusted for the processing days impact in the second quarter, a small increase in the cross-border growth rate based on the improvement in monthly trends through the second quarter.

As has been the case all year, the net revenue growth cadence from quarter-to-quarter will be impacted by year-over-year comparative impacts from exchange rates, currency volatility pricing and incentives. In the third quarter, the exchange rate drag is expected to be the highest for the year at 200 basis points on net revenues and 300 basis points on EPS. Currency volatility will likely remain a significant headwind. We lap fiscal year '19 pricing actions, and have a partial year benefit -- and have a partial quarter benefit of fiscal year '19 pricing actions.

Client incentives growth will be higher than the first half in the 22% to 23% range as a percentage of gross revenues. When you put all this together, we expect third quarter net revenue growth to be similar to moderately better than the second quarter. Third quarter expense growth will be in line with the second quarter. In the fourth quarter, based on

current exchange rates, the currency translation drag eases to 100 basis points of net revenues and 150 basis points on EPS.

We have a full quarter of benefit from the fiscal year '19 pricing actions. We also lap higher client incentive levels from last year. All of this is expected to drive net revenue growth back up to the low-double digit range. Expenses in the fourth quarter are expected to grow at the lowest rate for the year. We are updating a few components of our full-year fiscal year 2019 outlook. Client incentives as a percent of gross revenue will be in the 22% to 23% range for the second half of the year. But given the results to date, we expect to be at the low end of the 22% to 23% range for the full year.

We now expect our effective tax rate for the year to be approximately 20%. Net revenue growth expectations remain unchanged at low-double digits on a nominal basis as do expense growth expectations in the mid-single digits. We are raising our EPS growth expectations to the high-end of mid-teens, on an adjusted non-GAAP nominal dollar basis and the low 20s on a GAAP nominal dollar basis. The exchange rate drag on net revenue growth for the year will be over 100 basis points and almost 150 basis points on EPS. We've had a strong first half of the year with 11% net revenue growth and 19% EPS growth despite higher-than-expected exchange rate headwinds and some slowdown in cross-border volume growth.

The first-half demonstrates yet again the earnings power of our business model. We remain focused on driving growth in our core payments business, while investing to develop new payments flows to sustain robust volume, revenue and profit growth well into the future.

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

Mike Milotich {BIO 20581476 <GO>}

We are ready to take questions Jordan.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Jamie Friedman from Susquehanna. Your line is now open.

Q - James Friedman {BIO 20091873 <GO>}

Hi, thank you and we appreciate the incremental disclosures especially about Europe and India. I guess I'll ask my question about Europe, and that was really helpful that 17% observation. I guess my question is are you closer to the beginning or middle or end of the pricing journey in Europe? Maybe if you could help us characterize that and update that would be helpful. Thank you.

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

Thanks, Jamie. I don't really want to get caught up in this game of where we are in pricing. Pricing is something we look at in the business on a continual basis. And we will continue to do that around the globe, and in Europe, and it is -- it's a lever that we are well aware of, and we'll continue to pull as we think the value that we deliver is commensurate with that.

A - Mike Milotich {BIO 20581476 <GO>}

Thanks. Next question?

Operator

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

Q - Lisa Ellis {BIO 18884048 <GO>}

Hi, good afternoon guys. Al, I was hoping to ask you about the Japan market actually, not one that you did a deep dive into, but it's another one where there is a government imperative to drive up digital adoption, it's large, it's underpenetrated, etcetera, and you've got kind of -- you guys with your partnership with Line there are bit also players like Alipay active. Can you just talk and comment on the competitive dynamics in that market, particularly around the use of like card-funded wallets versus stored balance wallets, QR codes versus tap and pay, et cetera? Thank you.

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

Thanks, Lisa. Well, Japan is obviously a very exciting market, and one where we are investing fairly heavily given the fact that we are now I guess 15, 16, 17 months from the Tokyo Olympics, and the government is using the Olympics as a platform to attempt to make sure that payments continue to grow, and the fact driving more payments to digital and away from cash. So we are working with both the traditional banks and acquirers, as well as new entrants there to try to embed ourselves into as many of the payment flows as we possibly can. We just did a deal with SMCC, one of the big acquirers there, where we are integrating CyberSource to help with build their capability that they offer to merchants relative to e-commerce, and trying to improve reporting and reduce fraud. So it is well -- was not a market I called out, it is certainly a market that we see a lot of potential in between now and the Olympic Games next July and August. But we also see Japan as a market that has an awful lot of downstream capability as well.

Q - Lisa Ellis {BIO 18884048 <GO>}

Perfect. Thank you.

A - Mike Milotich {BIO 20581476 <GO>}

Next question?

Operator

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

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Great, thanks. Yes, Al, When you talked about Europe, you mentioned kind of very heavy concentration in a couple of markets and then other markets where you've got opportunity. Just talk a little bit about the plans to how to address that and are there countries or parts of Europe that seem more where that's going to be more conducive, and just talk about that a little bit?

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

Thanks, Moshe. I don't want to give away kind of specific plans by market. But I think that when we look at Europe, there is certainly focus on trying to see where we can win a little bit more processing. In Europe, we're well established in the debit space, less well established in the credit space. So, that's certainly an area of concentration for us. FinTechs are very prevalent in Europe, and Europe was in fact the first of the markets that we announced that we were going to get much more aggressive relative to FinTechs. Europe's a place that we're spending a lot of time thinking about Transit.

I mentioned transit in my remarks, I'm a huge believer, and we are investing heavily behind Transit, where, and as you know, there is a very established rail and bus system throughout Europe, where Transit when people are commuting are using their product 10 times a week, and that really builds the habit of using the card. So we're continuing to try to make sure that we're focusing on Transit in several markets. I mentioned PSD2, and we are going to be coming out with a number of pilots of different capabilities to help issuers throughout Europe or kind of struggling with getting ready for meeting the requirements of PSD2, and we want to help them with capabilities to make that a bit easier for them.

And then I would say Europe's a market where we're pushing hard on Visa Direct, and we see a lot of opportunity to build Visa Direct throughout Europe, particularly in some of the market that are more inclined to move from -- to digital. Europe is a mixed bag, you've got some countries that are still very, very heavily cash and then you've got some countries that are really have adapted digital. So those would be a number of the things Moshe that I would highlight as things that we're focused on in trying to drive volume -- drive our business and more volume business and more volume in Europe.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Great. Thank you.

A - Mike Milotich {BIO 20581476 <GO>}

Next question?

Operator

Our next question comes from Bryan Keane from Deutsche Bank. Your line is now open.

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Q - Bryan Keane {BIO 1889860 <GO>}

Hi guys. I wanted to just ask about on the incentives. I see that incentives are coming in a little bit lower. And I know there's been some deal delays. Just trying to figure out, I saw the guidance overall little bit lower, but just trying to figure out the latest update on incentives and how to think about modeling it going forward?

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

Well, I'll say a couple of things, Bryan and then, Vasant can add. First of all, there are some big renewals that have already been occurred in the first half of the year. BBVA, Air Canada, Citi's Commercial business, Tinkoff in Russia, HSBC, SBI and ICICI in India, and then I talked about Scotiabank in Mexico. There is some win back and early -- with early renewals. It was initially announced that we had lost the TSB debit business in the UK, but I'm very excited to share that we retained that business, and that we will no longer be converting their UK debit portfolio. And the last point I'd make is that there is some small deals in Asia, CEMEA and Russia that have just been pushed to the second half of the year. So those are number of the factors that we -- that lead us to forecast higher level of client incentives in the second half. Vasant, would you add anything?

A - Vasant Prabhu {BIO 1958035 <GO>}

Yes, I think it's -- couple of things again to highlight, which I mentioned in my comments. First of all, we make estimates about what incentives are going to be, and it's based on certain ideas on how things will renew and certain programs we have that we often use incentives to get faster adoption off. You know sometimes you might provide incentives for contactless penetration, et cetera . So one of the reasons incentives as lower is permanent, which is why for the full year now, it will be at the low end of our range of 22% to 23% [ph], that's because some of these have come in lower than we expected. So those are reductions and not delays. Yes, there are some lower volumes in some markets.

In terms of deals, as Al said, I mean the second half has more of the larger deals that are likely to be -- they're all going well and we expect them to be executed in the second half when the incentives get recognized. We had TSB, as a win and that's a second half impact. We also have potentially another early renewal of a very large account that was not contemplated, but we are delighted to have a early renewal, and that will be a second half impact. So you should assume that, you know our second half will be very much along the lines of what we told you, it will be in that range of 22% to 23% as a percent of gross revenues, and for the full-year, it will be at the low end of that range.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Got it, got it. And then just one follow-up. I just wanted to ask on the difference of course between cross-border volume, I think it was normalized about 6% and the international revenue growth grew at 3%, just that delta again, I know that comes up a lot with investors. Maybe you can just help go through that.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yes. No, I think it's important that people understand those delta. So let me give you a few things to help you with that. The biggest reason why revenue grew 11% last quarter and is

growing 3% this quarter, the biggest swing is the year-over-year impact of changes in currency volatility and their impact on our treasury revenues. So Q1 this year, currency volatility was -- in Q1, it was a significant tailwind for revenue growth on the international revenue line, because last year was a low volatility year in the first quarter. The currency volatility was -- let's say below the five-year median. Q2 of this year volatility was a significant headwind because volatility last year actually was quite high, above the five-year median. So volatility this year was a little lower in the second quarter than the first quarter, but the comparisons to last year were quite significantly different, it went from being a tailwind to a headwind, that's one thing.

The second thing is exchange rates are a drag on both quarters, but a larger drag on the second quarter. If you remember, Q2 last year was the high point for the strong dollar. So on a year-over-year comparative basis exchange rates are a headwind in the first quarter, but a bigger headwind in the second quarter. The pricing benefit is essentially the same between both quarters. We had a slight mix benefit in the second quarter, because our intra EU volumes were growing slower than -- intra-EU cross-border volumes are growing slower than cross border volumes elsewhere.

Another way to sort of simplify this for you and washout some of these quarter over quarter things this a sort of look at a two-year stacked growth rate, which tells you that not a whole lot has changed between the two quarters. So if you add the growth rate in Q1 last year and the growth rate in Q1 this year in revenues, the stacked growth rate is 23%. If you look at our growth rate last year in revenues -- on international revenues and this year and add the to in the second quarter, it's 22% and when you do that kind of thing it sort of washes out some of the quarter-over-quarter comparisons. So that's where some of the noise is. There is no great change in the nature of the business. It's just these year -- sort of year-over-year changes in a couple of different variables.

One last thing, I would give you is, last year our volume grew 10% in the first half roughly and our international revenues grew about 15%. The entire delta was an exchange rate tailwind because the rest of it was a wash. This year a volume grew between 5.5% and 6% in the first half, our revenue grew about 7%. In this case most of the pricing is offset by FX drag and the reason revenues are growing a little better than volumes is because the mix is a little better. So, hopefully this will demystify some of it, I know it's hard for you to figure all that from the outside, but the underlying trends are basically -- there's not lot of confusion there. It's just some of these comparative that are driving it.

Q - Moshe Orenbuch {BIO 1497419 <GO>}

Okay, great color. Thanks guys.

A - Mike Milotich {BIO 20581476 <GO>}

Next question please.

Operator

Our next question comes from Jeff Cantwell from Guggenheim Securities. Your line is now open.

Q - Jeffrey Cantwell {BIO 15025614 <GO>}

Hi, thanks for taking my question. If we look at your announcements today and really over the past few months. It seems like you're opening up your business very rapidly and in some interesting ways. So, I know you can't comment on Earthport, so I'm not going to ask about that, but I did notice a few interesting announcements this quarter. One of which was with Coinbase so -- can you frame your expectations around that partnership for us in terms of how much you think it might be incremental to your volumes every time? It just seems pretty interesting to think about a crypto platform plus your network and how that could grow. So I just wonder if you could frame that for us. And also I just have a second related one as a follow up. Thank you.

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

So, we -- look we've been watching that the whole crypto techs of developments around the world and I think that this particular announcement with Coinbase gets that some of the concerns that I think we've had and probably consumers have had. We are not having the crypto tied to some kind of (inaudible) currency makes it challenging to figure out when to use it, when not to use it and obviously it's difficult for merchants and there's not a lot of merchant accepted by Coinbase literally being able to -- in this case convert cryptocurrency to pound sterling in the UK and then put that book whatever amount of pound sterling -- crypto now converted to pound sterling that people want on a Visa debit card allows a consumer to be able to use their Visa debit card anywhere Visa is accepted online or in -- in a face-to-face situation and they have the, the global acceptance of Visa and they understand exactly what they're paying for. So it's, we'll see -- we'll see where it goes. We're intrigued because of the fact that it's a fairly large crypto player looking at alternatives to have that, that crypto currency tied to an accepted market of (inaudible) currency and that's what we find intriguing. We'll continue to look for those opportunities around the world to what degree this is jumping-off point that other crypto players will copy will say.

Q - Jeffrey Cantwell {BIO 15025614 <GO>}

Thanks. I appreciate that. And just second related one. And if we look at B2B specifically, this is sort of an under the radar, but Blockchain World Wire, which is part of IBM was recently launched. I'm just curious if you're looking at partnerships with non-traditional payment companies like IBM as a way of accelerating your share gains in areas like B2B payments in particular? Thanks.

A - Vasant Prabhu {BIO 1958035 <GO>}

Well, B2B Connect as you know is based on a distributed ledger technology. So we are leveraging distributed ledgers already in the B2B space and B2B Connect is now ready for launch. It has got all the necessary approvals. It's got partners lined up, banks lined up. Hopefully when we talk again B2B Connect will be live. We talk to everybody in the space. As you know, I mean as Al said earlier, we're the network, we are -- we need to facilitate movement of processing transactions for anybody. We try not to pick winners and losers. And so we are quite open to partnering with all new models, not really figuring out ahead of time what's going to work or not and we talk to all players, including people who want to use -- you know, distributed ledger type technologies to do what they're trying to do.

Q - Jeffrey Cantwell {BIO 15025614 <GO>}

Thank you very much.

A - Mike Milotich {BIO 20581476 <GO>}

Next question.

Operator

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

Q - Harshita Rawat {BIO 18652811 <GO>}

Hi, good afternoon and thank you for taking my question. I want to ask about long-term potential in cross-border payments. You've a very strong and differentiated franchise and consumer to business cross-border. And then now there are other areas in cross-border particularly in B2B and person-to-person, which have a lot of pain points in the market today. And over the last year, you appear to have double down in the flows with your investments in products, such as B2B Connect and Visa Direct. So my question is if you can talk about, how should we think about cross-border payments and within that new payment project is B2B disbursements and B2B in the long term for you?

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

Harshita, thank you. Look as I said in my opening remarks that getting into as many payment flows as possible is a big objective of ours. And those -- that could be with traditional players or less traditional players and obviously as we try to get into those flows cross-border plays a big role. You look at the movement around the world toward putting new RTP Systems in. Those RTP Systems are in many ways, kind of modernized ACH systems that are focused on speed domestically, but they aren't domestic-based networks. And I think we have an opportunity to partner with those networks to kind of extend their reach beyond their -- beyond their borders.

There are players that are focused on trying to make cross border payments easier around the world where certainly in discussions with as many of them as we possibly can. Our goal is to embed ourselves into as many payment and transaction transfer flows as possible with a unique eye on cross border because of our scale, our security, the number of countries in which we operate and then we have the real test case -- the real proven case of Visa Direct where we have a capability that is facilitating domestic and cross-border transactions right now and has all the advantages that I cited in my remarks at the beginning. Anything else you would add?

A - Vasant Prabhu {BIO 1958035 <GO>}

No, I think, I think -- I mean if you had -- the simple answer to your question is we view P2P cross-border and B2B cross border as significant, let's call it expansion and new payment flow opportunities. And we are already in the business. You've heard us talk a lot about remittances in the last few calls, this call we talked about Remitly. We've talked about MoneyGram before, there are more in the works. The attraction we offer in remittances for

example which is already a big business is that we address KYC, AML and sanctions-related issues on the real-time basis. In addition to being far more convenient and far more secure than an agent based approach to it.

As Al said, I mean Visa Direct is a big component to B2B. Also Visa Direct is already in the business of facilitating B2B payments and B2B Connect then takes that to larger corporates and larger businesses on a global basis as Visa Direct deals with it on cross -- provides cross-border solutions for small and medium-sized businesses. So this is clearly a central element of our future growth plans.

Q - Harshita Rawat {BIO 18652811 <GO>}

Thank you very much.

A - Mike Milotich {BIO 20581476 <GO>}

Next question.

Operator

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

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

Thank you so much. Al, let me get your thoughts on the recent consolidation in the US with large merchant acquirers joining the core bank processors. Any implications for Visa since they touch both the merchant and the bank side separately?

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

Thanks, Tien-Tsin. Yeah, its an interesting quarter with FIS and Worldpay, Fiserv, First Data and then you didn't necessarily refer to it, but BB&T and SunTrust announced merger as well. Look, let me direct your point to Fiserv-Worldpay -- Fiserv-first data, FIS-Worldpay. We've got very good relationships and a lot of history with all four of these players, and I think in many ways them coming together provides greater -- a smaller number of high scale players that will help us be able to distribute our capabilities through their distribution network.

And that's a good thing. Both of these combined companies are very interested in one of their thesis of combining is to grow their global footprint, which is good for the payment ecosystem because in a number of markets, the reality is that there just aren't enough merchant acquirers or issuer processors. So I think that's a good thing. And they're looking for our help. I've spent a significant amount of time talking to the CEOs of these companies over the course of the last three weeks, and they are extremely anxious to work with Visa and to help get our help in making sure that they do everything they can to achieve the synergies revenue and expense that they've talked about as well as talking to us about plans and how they can continue to grow their business going forward.

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So I think this is a good thing and we're going to build upon the relationships that we have and help them. Since I brought it up I'll comment quickly on BB&T and SunTrust obviously, still similarly, they've got to get through all of the approval processes, etcetera. We've enjoyed a good relationship with both institutions. BB&T is much more heavily a Visa bank. SunTrust more of a MasterCard bank. If we expect to continue to do everything we can to serve both of them as clients while they are still individual companies, and we're going to do everything we can to obviously push to be there, their payments partner as they merge.

A - Mike Milotich {BIO 20581476 <GO>}

Next question.

Operator

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

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thanks. I want to make sure I understood some of the points that Vasant made on the revenue trends. I guess first as far as pricing impacts are concerned for this fiscal year that are kicking in, in April. Is that a tailwind for the second half of this year? And then secondly, the FX trends now you guys are using spot not a depreciating dollar. And then third, the Easter benefit quarter-to-date? Is there any way to quantify that and how we should think about how it might flow through for the rest of the quarter? Thanks.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah, there were several questions there. Hopefully, Mike remind me what all of them were. I think --

A - Mike Milotich {BIO 20581476 <GO>}

Pricing, FX.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah, the first was pricing. So the way pricing works in the second half is it will mostly impact the service revenue line and the international transactions line. Last year's pricing was most impactful on the data processing line. So we will start to lap pricing from last year. So you lose some of the benefit from the FY '18 pricing, you get the benefit from the FY '19 pricing. It's a little bit of a wash in the third quarter because you don't get a full quarter of FY '19 pricing just based on some of the timing. It is a, a small net benefit in the fourth quarter, the pricing going in has a more positive impact than the pricing that is now being lapped. So, that's sort of the best way to describe pricing.

The second question was exchange rates. Yeah. Exchange rates. I mean if you track where things are, I mean typically what we do? I mean, we don't know how to forecast rates any better than you can, but we do use forward curves and this always what we've used for want of anything better. You can use spot rates of forward curves, and you're going to be

wrong both ways. So you should assume we've used forward curves. And on that basis -- and again the forward curves are not the reason necessarily why the FX impact is better in the fourth quarter. It's better mostly because last year the dollar really started to weaken in the fourth quarter.

I'm sorry, the dollar really started to weaken in the fourth quarter. So the comparisons become a little easier. So that's how we get to sort of a 200 basis point net revenue and 300 basis point EPS impact in the third quarter and the meaningfully lower impact in the fourth quarter and then the last question?

A - Mike Milotich {BIO 20581476 <GO>}

Easter benefit.

A - Vasant Prabhu {BIO 1958035 <GO>}

Yeah, look, I think -- you know, the impact of Easter is not that easy to quantify. I mean we do the best we can and we've given you a sort of our best estimate. I think you should assume that there is some impact of Easter on the first three weeks and regardless of what the Easter impact is as we've cautioned you every time we give you this three week numbers is that three weeks don't make a trend. So you should just handle with care as we say the three week numbers.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

All right. Thank you.

A - Mike Milotich {BIO 20581476 <GO>}

Okay. And last question please. Jordan, we just take one more.

Operator

Our last question comes from Jason Kupferberg from Bank of America Merrill Lynch. Your line is now open.

Q - Ryan Cary {BIO 20145963 <GO>}

Hey, guys. This is Ryan Cary on for Jason. I just wanted to ask about how you're seeing cross-border volume growth going forward. Clearly you got a nice recovery through the first three weeks of April. So is it fair to say growth bottomed out in this past quarter or are there other variables you are keeping an eye on for declaring 2Q as the low watermark? Thanks.

A - Vasant Prabhu {BIO 1958035 <GO>}

Well, as you said in the comments. When we talked to you last quarter the trend was changing. And we told you, we don't know if the trend is going to get worse, stay the same, get better. I think we can tell you that based on what we saw through the quarter, it definitely stabilized and definitely improved through the quarter.

And while there's some Easter impact, looks to have improved again in April. So, I guess the verdict on where the cross-border trend is -- it's definitely stabilized and is improving whether improves a lot or is roughly in this range, again we can't give you that kind of thing. We've assumed in the third quarter that the growth rate will be somewhat better than the second quarter because we saw this improving trend.

A - Mike Milotich {BIO 20581476 <GO>}

And with that, just like to thank you all for joining today. If you have any additional questions, please feel free to reach out to me, either by phone or by email or our Investor Relations team. Thanks again and have a great day. Thank you.

Operator

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

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