Q1 2017 Earnings Call

Company Participants

- Alfred F. Kelly, Jr., Chief Executive Officer & Director
- Jack Carsky, Global Head of Investor Relations
- Vasant M. Prabhu, Chief Financial Officer & Executive Vice President

Other Participants

- Bryan C. Keane, Analyst
- Craig Jared Maurer, Analyst
- Daniel Perlin, Analyst
- Darrin Peller, Analyst
- Eric Wasserstrom, Analyst
- George Mihalos, Analyst
- James E. Faucette, Analyst
- James Schneider, Analyst
- Jason Alan Kupferberg, Analyst
- Jason S. Deleeuw, Analyst
- Kenneth Matthew Bruce, Analyst
- Lisa D. Ellis, Analyst
- Moshe Katri, Analyst
- Robert Paul Napoli, Analyst
- Sanjay Sakhrani, Analyst
- Thomas McCrohan, Analyst
- Tien-Tsin Huang, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Welcome to Visa's Fiscal First Quarter 2017 Earnings Conference Call. All participants are in a listen-only mode until the question-and-answer session. Today's conference is being recorded. If you have any objections, you may disconnect at this time.

I would now like to turn the conference over to your host, Mr. Jack Carsky, Head of Global Investor Relations. Mr. Carsky, you may begin.

Jack Carsky {BIO 15950639 <GO>}

Thanks, May. Good afternoon, everyone, and welcome to Visa, Inc.'s fiscal first quarter 2017 earnings conference call. Joining us today are Al Kelly, Visa's Chief Executive Officer; and Vasant Prabhu, Visa's Chief Financial Officer. This call is currently being webcast over the Internet and is accessible on the Investor Relations section of our website at investor.visa.com. A replay of the webcast will be archived on our site for 90 days. A PowerPoint deck containing the financial and statistical highlights of today's call have been posted to our IR website as well.

Let me also remind you that this presentation may include forward-looking statements. These statements aren't guarantees of future performance, and our actual results could materially differ as a result of a variety of factors. Additional information concerning those factors is available on our most recent reports on Forms 10-K and Q, which you can find on the SEC's website and the IR section of Visa's website. For historical non-GAAP pro forma related financial information disclosed in this call, the related GAAP measures and other information required by Reg G of the SEC are available in the financial and statistical summary accompanying today's press release.

And with that, I'll turn the call over to Al.

Alfred F. Kelly, Jr. {BIO 2121459 <GO>}

Jack, thank you, and good afternoon or good evening to everyone. And thank you for joining us today. Let me start by saying how excited I am to be with all of you. I just completed my first quarter at Visa, and past my two-month mark as the Chief Executive Officer. I think, as many of you know, I've been a board member since early 2014, so I've been involved in the business and was a party in approving the company's strategy and priorities. I also understand the majority of the opportunities and challenges around the world. My objective from day one has been to make this CEO transition at Visa seamless for our clients, our partners, our employees, and our shareholders.

I have no big plans to change our strategy in the short-term, but as a key player in a dynamic payments ecosystem, we certainly have to be prepared as necessary to adapt to our thinking as facts and circumstances change. Over the last couple of months, I've spent the majority of my time traveling to meet our valued clients, regulatory personnel and talented employees. During this time, I met with or talked to over 50 clients. I've also visited with regulators or government officials in nine countries and visited 12 of our global offices. I have to say it's been exhilarating and enjoyable. It has also reinforced my belief in our great global brand and the first-class group of clients that we have globally.

Let me begin by sharing a few early observations since I joined the Visa team. Then I'll highlight the business momentum we saw in the quarter and close with some thoughts around our strategic pillars as we move forward. First, I would say, we have a fantastic leadership team. I thoroughly enjoyed spending time with them and working with them on a day in and day out basis. I will also tell you that we have a talented group of employees after visiting with a number of them in our offices around the globe. We need to continue to foster a healthy culture that tracks, retains and develops the best talent to maintain this high level of company performance.

Second, we certainly have strong relationships with our issuer clients, our acquirer clients and the merchant community of clients, and we're constantly looking for ways to build upon those. It's been very valuable for me to hear their perspectives on Visa and how we can be a better partner in addressing their business needs going forward. We need to identify areas where we can remove friction from the process, and enabling digital payments as we pursue partnerships. At the same time, we recognize that this industry is very competitive, and the regulatory environment continues to evolve in many markets around the world.

Third, we're in a growth industry, and there's a huge opportunity in front of us. The global opportunity to digitize cash and check is enormous. We have a vibrant core business in developed regions with even more growth opportunities in the international and emerging markets with low penetration rates. Governments and emerging middle classes are leading the way to digitize more payments in developing countries, while e-commerce is displacing cash and check in developed countries. Through our focus on technological innovation and partnership development, Visa is well positioned for sustained growth going forward.

As a market leader in payments technology, we're enabling new forms of digital commerce and supporting the new businesses in mobile payments, the Internet of Things, data security, and the sharing economy. Our global network connects over 16,000 financial institutions to over 44 million merchants, with strong commercial partnerships built over many years, and a brand that's recognized by consumers for acceptance, security and convenience. I'm gratified to see that the business strength and fundamentals that I knew as a board member continue to be realized in our financial results.

With that, let me highlight some of these now. So in the fiscal quarter just ended, we saw a healthy overall growth in terms of payment volume, cross-border commerce, transactions, revenue and earnings leverage as the business performed better than our internal expectations. We grew net revenue by 25% and adjusted EPS by 23% versus prior year's adjusted results. Transaction growth, strong cross-border activity, higher currency volatility, and client incentive delays all contributed to our revenue outperformance.

This is the second full quarter with Visa Europe in the results, which makes it a little more complicated, but Vasant will take time later to cover the financial results in greater detail. Our operational metrics are improving, and we're on track to meet our financial goals. In terms of co-brand partnerships, issuer renewals and other competitive deals, they are a normal course of business, and as usual, we've had very good success in the last quarter. We have a lot of momentum in the business and have exciting days ahead of us.

We're executing on our 2017 operating plan, and are pleased with the progress to date. When I look out longer term, we remain committed to our strategy in the six guiding pillars, three of which I look at as foundational, and three of which are keys to growth. The foundational elements of our strategy are first and foremost to retain and attract the best people. In my mind, and based on my experience, success starts there. Winning teams and organizations have the best people, so we need to build upon the solid foundation and high performing culture we have here at Visa.

We continue to strive to be an employer of choice where we can constantly attract the best talent, develop our people, and recognize their achievements as we are clearly doing excellent and wonderful things here. Second is transforming technology. We want to constantly be on the leading edge and push the pace of innovation. As part of extending our network and enabling easier access, we're pushing toward open access software for our clients and partners. We're providing an open platform for developers to access our APIs to quickly launch new products and experiences.

We're adding technical resources in many locations around the world, and also building a European innovation center in the UK that will open at the end of this month. The third foundational element is championing security. It is an imperative that there is a high level of trust in the payments ecosystem, and we are committed to be an industry leader when it comes to security. One way we're doing that is through tokenization. We continue to make excellent progress with Visa Token Service, which is now live in 27 countries, and more than 1,300 financial institution partners are participating globally. We've enabled launches of many financial institutions' wallets, as well as the various pays in several additional countries in this past quarter.

Now, let me turn to the three growth elements of the strategy, the first being expanding access to our network and services globally. Expanding and providing access to our network drives value for our clients and partners, consumers, merchants and governments. Around the world, we're developing supporting new products and methods of acceptance, while recognizing local market conditions. Through these efforts, we have provided payment accounts to countless numbers of people who previously didn't have access to the formal financial system.

Second, growth element of our strategy is deepening partnerships. Partnerships are critical in the payments world, and we strive to be the best possible partner we can be to enable growth opportunities for all parties in the ecosystem. We need to continue to build close relationships with our issuing partners. Likewise, it is very important that we work hard and demonstrate a commitment to our acquirers and the merchant community in each market, and find ways to deliver additional value there. Being a trusted partner is a key to our business success. So we always want to look to strengthen these relationships, and we will continue to do just that.

And the third element is digital expansion. E-commerce enabled by mobile and other form factors is a significant opportunity, and we are definitely investing behind it. As payments move from the physical to digital world, we're leading the way in developing solutions for our clients, our partners and consumers. One great example of this is Visa Checkout. We now have over 18 million consumer accounts in 23 countries, and over 1,500 financial institutional partners participating around the world. More than 300,000 online merchants have signed on to accept Visa Checkout, representing $173 billion in addressable volume.

Another key area for Visa is the acceleration of international markets. The integration of Visa Europe is tracking well. It's still in the early innings, but we're encouraged by the progress and see meaningful growth opportunities. During the quarter, we continued our focus on local market priorities alongside client engagement. The vast majority of our payments volume in Europe remains under contract. The European market continues to represent a large opportunity to displace cash, and we are accelerating digital innovation in Europe by continuing to rollout our token service in several markets as well as supporting many digital wallets.

A number of people have asked about the China market opportunity. Visa remains committed to China for the long-term, and we want to deepen our partnerships with our clients and partners to advance economic growth. We look forward to the opportunity to formally submit our license application, however we're still awaiting additional clarifications from the government before we can apply. It's our intent to move very quickly to set up our processing infrastructure once we have greater clarity from the PBOC around the timelines for their decision in granting licenses. The move to a more cashless economy in India also represents a large opportunity.

Concurrent with other measures, the new government has implemented measures to incent merchants and consumers to move to digital payments. These new measures include capped POS terminal charges, no POS import tax and duties, and in the last quarter we've seen nearly 75% increase in payments volume in India, and more than twice the number of processed transactions. We're working with a number of key stakeholders to sustain the momentum to drive digital payments in the Indian economy.

Examples include working with issuers to raise awareness and drive debit activation. We're also working with acquirers and merchants on digital acceptance solutions like mVisa to rapidly expand acceptance, and with key government bodies to facilitate longer term ecosystem growth. It is early days, but we're excited about the opportunity to expand electronic payments to consumers. Let me now share some thoughts on managing our capital and delivering shareholder value. Our number one priority with capital is to identify and find ways to grow our business. This can come organically or through acquisitions.

One example of the latter is the acquisition of CardinalCommerce which closed yesterday. This acquisition helps our clients and merchant partners to accelerate digital payments in commerce by improving online payment security. It builds on our strength in the sector, and augments issuer services and our CyberSource capabilities. In this dynamic payments ecosystem, we need to invest to drive future growth and maintain our market-leading position. Second, we will continue to deliver value by returning excess cash to our shareholders. In this last fiscal quarter, we returned nearly $2.2 billion, consisting of $1.8 billion through share repurchases and nearly $400 million through dividends.

As we've stated before, we have accelerated our share repurchases to offset the equity dilution from the Visa Europe acquisition. We will continue to be prudent as we think about ways of managing and allocating our capital. Lastly, we plan to maintain a healthy dialogue and good relationships with our investor community. I hope to meet and spend time with many of you as we move through the year. And to that end, we are in the planning stages to hold an Investor Day in June, so we will come back to you shortly once the dates and locations are confirmed. So as we begin this New Year, I'm excited about the many opportunities ahead. We're off to a really good start in our fiscal first quarter. I feel great about the future of Visa.

And with that, let me turn it over to Vasant to cover some of the financial details.

Vasant M. Prabhu {BIO 1958035 <GO>}

Thank you, Al. Fiscal 2017 is off to a strong start. First quarter revenue and EPS exceeded our expectations driven by accelerating fundamentals, which more than offset the drag from exchange rate shifts. On a GAAP basis, fiscal first quarter net revenues were up 25%, and EPS up 7%. Net income for the first quarter was $2.1 billion, and EPS $0.86 per diluted share. Adjusting for the $255 million non-cash gain in last year's first quarter from the write-off of the Visa Europe put liability, EPS was up 23%. Exchange rate shifts versus the prior year negatively impacted both net revenue and EPS growth by approximately 3 percentage points.

There were four key drivers of our Q1 outperformance; first, constant dollar payment volume growth stepped up between 1 to 2 percentage points in most geographies; second, normalized for the impact of Visa Europe, the cross-border recovery accelerated by 2 percentage points globally from 10% to 12%, once again the acceleration was broad-based; third, normalized for the impact of Visa Europe, process transaction growth picked up by 1 point from 12% to 13%, driven significantly by India as well as the U.S.; fourth, timing of client incentives and delays in expenses added almost $0.03 to our Q1 results. Strong business fundamentals more than offset the negative impact of a strengthening U.S. dollar and a weakening euro. The balance between strong business fundamentals and unfavorable exchange rate shifts will drive our results as we look ahead to the rest of fiscal year 2017.

A couple of other points to note before I get into the details of our Q1 results and our outlook for the year. We did not issue $2 billion in debt as we had planned. We did issue $567 million in commercial paper to fund our stock buyback and operating cash needs. We have over $8 billion of offshore cash, which could be repatriated if it can be done tax efficiently. We will wait to see what the new administration's plans for permitting cash repatriation are before we issue a longer-term debt. In parallel, we continue to work on other strategies to bring cash back to the U.S. Until there's clarity on this front, we plan to issue commercial paper or short-term debt to fund our buyback and other onshore cash needs. We bought back 22.3 million shares of class A common stock at an average price of $79.77 for $1.8 billion in the first quarter. We have $3.9 billion remaining in our stock buyback authorization.

Moving now to a review of our key business drivers in the first quarter; U.S. payments volumes grew 12.4% in Q1 as credit grew 20.2% helped by Costco and USAA. U.S. debit grew 4.6% helped by USAA debit conversion, but hurt by Interlink volumes. Interlink volumes were down due to lapping a significant win in the fourth quarter of fiscal year 2015, as well as PIN debit routing choices by acquirers and merchants. Excluding Interlink volumes, the U.S. debit growth rate stepped up by 3 points due to USAA and rising gas prices. Gas prices added approximately 1 point to both credit and debit payment volume growth in the U.S.

As reported, Q1 international payment volumes grew 70.5% in constant dollars. The step-down in the growth rate from the last quarter is a result of the exclusion of co-badge volumes in Europe. As you know, effective June 9, 2016, Article 8 of the EU Interchange Fee Regulation states that payment networks cannot impose reporting requirement or the obligation to pay fees on payment transactions where their payment brand is present, but their network is not used. Prior to this regulation, Visa collected a small service fee in a few countries, particularly France, on domestic payment transactions where Visa cards are co-badged with a domestic network.

Clients in Europe continue to report co-badge volume through the quarter ended September 2016. However, effective the December 2016 quarter, Visa co-badge volumes in Europe are no longer included in our reported payment volumes. Item 2 in our Operational Performance Data package will help you adjust for this change. As you can see, excluding co-badge volume, European payment volume growth stepped up from 7% last quarter to 9%. There was strength across Europe and especially in the UK. Payment volume growth rate in Asia was up 1.6 percentage points driven by India, Japan and Australia.

Our CEMEA region growth rate was higher by over 3 points helped by the Middle East and some improvement in Africa. The only region with a slowdown in growth was Latin America, pulled down by continuing weakness in Brazil. Adding in Europe to last year's payment volumes and adjusting for co-badge volumes, in other words on a comparable and normalized basis, constant dollar global payment volume growth accelerated by 1.5 percentage points in Q1 versus the last quarter. On a reported basis, cross-border volumes grew 140% driven by the inclusion of Visa Europe. On a comparable and normalized basis, constant dollar cross-border growth globally was 12%, up 2 points from the last quarter.

This information is provided in Item 3 of our Operational Performance Data package. U.S. cross-border growth in constant dollars hit double-digits for the first time since the first quarter of 2014. The strong dollar drove robust outbound commerce from the U.S., especially into Mexico, Canada and the UK. Our large U.S. acquired business was stable, benefiting from commerce in from Canada and parts of Latin America. The weak pound is driving significant inbound commerce into the UK from all parts of the globe. Euro zone cross-border growth rates remained healthy helped by a weakening euro. Cross-border commerce was strong across most of Asia, especially outbound from Australia and Southeast Asia.

Other high growth corridors were outbound commerce from Russia and Eastern Europe. Overall, the cross-border business was an important contributor to our Q1 outperformance. On a reported basis, global process transactions grew 44%, driven by the inclusion of Visa Europe. On a comparable and normalized basis, global process transactions grew 13%, up 1 point from the last quarter. U.S. process transactions grew 11% due to Costco and USAA. Demonetization in India drove the increase in international process transaction growth. European process transactions were stable. Through January 28, U.S. payment volumes are up almost 13% in constant dollars. Normalized for Visa Europe, constant dollar cross-border volumes grew 13% and process transaction growth was 14%.

As you can see, first quarter growth trends remain intact so far in Q2. A quick review of Q1 financial results. Service revenues grew 17%. Service revenue growth was helped by the announced price increase on U.S. acquired debit card service fees, offset by negative currency translation impact. Service revenue growth is lower than payment volume growth we reported in the September quarter, reflecting the fact that service revenue yields are substantially lower in Europe than in the legacy Visa business. Data processing revenues grew 28%. Once again, transaction revenue growth is lower than process transaction growth reflecting the lower yield on European process transaction relative to the legacy Visa business.

India demonetization doubled transaction volumes, but did not contribute much to revenues in Q1. As you may be aware, in response to a request from the Indian Government, Visa voluntarily charged no fees for processing through December 31, 2016. International revenues grew 44%. This is up from the September quarter growth rate driven by cross-border volume acceleration, higher than average currency volatility, offset by an unfavorable exchange rate impact. Other revenues grew 2%. Other revenues no longer include Visa Europe license fees.

Client incentives came in well below our guidance range of 20.5% to 21.5%. This is all due to timing of deals being done in the U.S., Asia and Europe. Many of these renewals will be executed in the second quarter, shifting these client incentive payments from the first quarter into the second quarter. Lower client incentives due to delayed deals added approximately $0.02 to our EPS in Q1. Expenses grew 16% due to the inclusion of Visa Europe. There were some shifts in marketing and technology spending to upcoming quarters.

In addition, as Europe completed the consultation process, new hiring, growth projects and integration activities were modestly delayed. Delayed expenses added $0.01 to the first quarter EPS. These expenses will be incurred through the balance of the year. Our tax rate was 30.5%, driving EPS of $0.86, up 23% on an adjusted basis. As we look ahead, two significant countervailing trends will drive our results; strong business momentum, especially cross-border growth is a tailwind; the strengthening of the dollar and the weakening of the Euro are headwinds. The cross-border recovery is broad-based and accelerated in the first quarter. We hope this will be sustained. This is a higher yielding revenue stream which improves our revenue mix.

Continued strength of the dollar is a risk to monitor. Treasury volatility staying above long-term averages as it did in the first quarter will also help. The broad acceleration in payment volumes globally is another reason for optimism. The counter trend is exchange rates. Based on spot rates and the forward curve, the dollar has strengthened around 4% versus our major currencies since September. The stronger dollar is a stiffer headwind than we expected. Our hedging program will offset some of the negative impact. The euro has weakened almost 5% versus the dollar since September. Since we did not own Visa Europe until late June, we are not hedged on our euro exposure.

In addition, the euro is now a functional currency for us, and we can only do economic hedges which could add volatility rather than dampen it. As such, we may choose to stay unhedged on our euro exposure. The weakening of the euro will hurt Europe results as reported in dollars more than we expected last September. This countertrend of favorable business fundamentals and unfavorable exchange rate shifts drive our fiscal year 2017 outlook.

For the second quarter, we are assuming payment volume momentum will be sustained. The strong dollar could cause some moderation in cross-border growth. Client incentive spend will step up with the deals that are shifting into the second quarter from the first quarter. We expect client incentives as a percent of gross revenues to be well within our guidance range of 20.5% to 21.5%. Expense growth rates are expected to be higher than the first quarter as we ramp up spending in Europe, and delayed initiatives in technology and marketing move into the second quarter.

For the full year of fiscal year 2017, we are reaffirming the ranges we previously provided for nominal revenue and EPS growth. We expect that stronger business fundamentals will offset stiffer currency headwinds. We have increased the likely currency translation drag on our reported revenue and EPS growth rates by 1 point versus prior estimates. While client incentives were lower than expected in the first quarter, we expect client incentives as a percent of gross revenues to be very much in the 20.5% to 21.5% range for the year. Other elements of our outlook for the year, operating margins and tax rates, remain unchanged. We continue to work on tax and repatriation strategies related to the Visa Europe acquisition as we've told you before.

If and when we are able to execute a tax re-organization, we will let you know what its impact will be on future tax rates and cash debt management plans. Visa Europe revenue and operating income are tracking well despite the negative impact of the weaker euro. Integration plans are modestly behind schedule due to a longer consultation process. With the employee consultation process now complete, the re-organization is being executed. Technology integration planning is on track. Discussions continue with clients to ensure that our pricing stays competitive post the elimination of rebates, as well as to extend existing contracts.

Even as this process is underway, it is important to note that the vast majority of our volume in Europe remains under contract. In summary, fiscal year 2017 is off to a good start. Strong business fundamentals are helping overcome unfavorable exchange rates. We hope this trend will continue through the year.

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

Jack Carsky {BIO 15950639 <GO>}

Thanks, Vasant. At this time, May, we're ready to take questions.

Q&A

Operator

Thank you. First question is from Bob Napoli. Your line is now open.

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

Thank you very much. Al, congratulations on a very nice quarter. You really have accelerated momentum since you've become CEO. So congratulations on that.

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

Team effort, but thank you, Bob.

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

The question is on client incentives. Just the change in client incentives from last year to this year, what percentage of that is from the integration – from the Visa Europe acquisition versus other items like Costco or just general business conditions? And do you expect, as we look to fiscal 2018-2019, to see that percentage continue to increase?

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

Yeah, as we said on our call last quarter, we said that it was roughly half due to Europe, and some of it is how the accounting works when you remove rebates and replace them with client incentives. And the rest was driven by Costco, USAA, and also renewals that we expect this year. So nothing has changed much on those fronts.

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

As far as the longer-term outlook?

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

Sorry?

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

Just the trend into 2018. Sorry.

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

Well, I think it's too early to talk about that. We'll certainly get into all that as we get to later in the year and talk about next year. But as you know, we're tracking below our range in the first quarter, so you should assume that it'll catch up in future quarters this year.

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

Thank you very much.

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

Thanks, Bob.

A - Jack Carsky {BIO 15950639 <GO>}

Next question, please.

Operator

We have from KBW, Sanjay Sakhrani. Your line is now open.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thanks. I was wondering if we could get more color on where you guys are with the pricing initiatives in Europe for the year.

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

We're moving ahead with plans we had. And some of it, as we've told you before, we don't plan to announce them per se in calls like these. Certainly, in the market in Europe, people are aware of what we have done. As we said in our comments, we are engaged with all our issuers and acquirers in Europe on all these issues. There are ongoing discussions. We're happy with how things are going. And as far as that's concerned, we're very much on track in terms of everything we wanted to do.

A - Jack Carsky {BIO 15950639 <GO>}

Next question, please.

Operator

We have from Jason Kupferberg from Jefferies. Your line is open.

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

Thanks, guys. So just in light of the longer consultation period in Europe and a little bit of the delay in the integration, is 2% to 3% EPS accretion from Visa Europe still the right number?

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

Yes, I think that's certainly what we're continuing to target, Jason.

A - Jack Carsky {BIO 15950639 <GO>}

Next question, please.

Operator

I'm sorry, we have George Mihalos. Your line is open, from Cowen.

Q - George Mihalos {BIO 5891367 <GO>}

Great. Thanks. Nice to see the encouraging trends pretty much across the globe. Just curious within the U.S. market, I know there's a number of deals that are still ramping up. But sort of on an apples-to-apples basis, are you seeing an acceleration on the part of your issuers in trying to push more credit products and maybe the volume you're seeing again on sort of a same store sales basis ex-Costco and USAA?

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

I would say that, given the continued amount of attention reward products are getting, we're certainly seeing that our issuers are very focused on the credit card segment for sure.

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

Yeah, in general, credit growth rates when you normalize for all things that are, as you said, adds to our business, the underlying growth trend is higher in credit than debit, and is roughly stable quarter-over-quarter.

A - Jack Carsky {BIO 15950639 <GO>}

Next question, please, May.

Operator

Next question is from Craig Maurer from Autonomous. Your line is now open.

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

Yes. Hi. Thanks. I was hoping with all the noise in the numbers, you could help us see through to some level of organic growth for the European franchise. Thanks.

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

We've tried to do our best to give you the business drivers. So if you go to our Operational Performance package, what you'll see is that European payment volumes grew 2 points faster than they did last quarter. So it was 7% growth last quarter, 9% this quarter, and that is Item 2 in the Operational Performance Data. So you can see that. And then in the commentary, we talked about cross-border being quite strong in Europe. We're seeing a huge amount of inbound commerce into the UK, certainly helped by the pound. Generally speaking, cross-border across Europe is quite strong, helped by the weakening euro. Europe is definitely a beneficiary of a lot of inbound commerce. And then in terms of transactions, I think you heard us say in our comments that transaction growth rates in Europe was stable. We're moving very well in terms of all the other actions we want to take in Europe as it relates to costs and so on. So all-in-all, as Al said earlier, we feel very good about both Europe's financial performance and also the accretion that we anticipated this year. We are on track to do as well as or better than we had assumed we would his year.

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

Thank you.

A - Jack Carsky {BIO 15950639 <GO>}

Thanks, Craig. Next question.

Operator

Next is from Darrin Peller from Barclays. Your line is now open.

Q - Darrin Peller {BIO 16385359 <GO>}

Thanks, guys. Just a little bit of a follow up on that and then on the incentive side again. First, can you help us understand, I mean, is there a way that you can just kind of tell us what the pro forma revenue growth rate would have been had you owned Visa Europe this time last year? And then part of your guidance obviously seems predicated on, as you said Vasant, incentives being notably higher than the run rate in both fourth quarter and now the first quarter was the same as a percentage of growth. I guess just, I mean, you had USAA and Costco both in there. I know a lot of the European banks were done already. I guess, just why would it increase at that level? Thanks again, guys.

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

Darrin, I'll start with it, there were a couple of deals that we thought would close in the first quarter that have just drifted into the second quarter, and a couple of them are big deals outside of the United States. And so we have a pretty good insight to what the second quarter is going to look like based on the fact that these deals are either have closed or were at the very last level of red lining the deal. So we have pretty good insight. So I think the guidance that you heard from Vasant is good guidance. In terms of the first part of your question, we're not in a position to start getting into a lot of the detail on Visa Europe individually. I think we're very excited to have moved to kind of a one Visa concept that as quickly as we possibly can. We're going to be happy to be able to talk about it on a total global company basis.

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

Yeah. It doesn't make a whole lot of sense to sort of divide up the report, the financial reports into, this is Visa Europe's performance separately. We try to help you as much as we could in the business drivers to give you a feel for how Europe is performing and how the business is actually performing on an organic basis if you adjust for Europe. And then I think the other question you asked was, why would we expect incentives to be higher this year than the fourth quarter of last year. It's a variety of reasons, some of which we walked through on the call last time. Someway it has to do with how the accounting for the rebates worked post the acquisition of Visa Europe. It's Visa Europe coming into our numbers. It's Costco and USAA being in there for the full year. And it's some of these renewals that we were anticipating this year that Al mentioned. So what we told you is what we still expect, and that's why we indicated that what you saw in the first quarter was a result of some delays, but the overall full-year expectation for client incentives does not change.

A - Jack Carsky {BIO 15950639 <GO>}

Next question, May.

Operator

Next question is from Tien-Tsin Huang from JPMorgan.

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

Hi. Thank you. I'll ask on the debit routing modification that caught a lot of news when it was announced in December. With you I guess taking up guidance here doesn't seem to be a big issue from a P&L standpoint. Just curious if you can maybe comment on how impactful that modification or clarification has been or could be to your P&L. Thanks.

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

Per the request of the FTC, we made the clarification. But I think that for the most part we were acting in the appropriate fashion. But we see very little impact of any meaningful level on the business whatsoever.

A - Jack Carsky {BIO 15950639 <GO>}

Next question, May.

Operator

Next is from Dan Perlin, RBC Capital Markets. Your line is open.

Q - Daniel Perlin {BIO 20452045 <GO>}

Hey. So a quick question on India. You talked about significantly increasing transactions but not driving much revenue, and part of that was the function of the Indian Government asking you guys to kind of keep prices subdued for a little period of time. I'm wondering, as you think about the guidance that you just gave us, are you assuming more normalized pricing in that horizon, and if not, when would you expect that to somewhat normalize in your opinion? Thanks.

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

I think we're assuming some pricing in that model. I don't think we're – I would say, we're being fairly conservative in what we expect to be able to gain in terms of revenue. This is, I think for us very importantly, and strategically this is a build opportunity that the government really has put out there in front of us. And so in my mind, at this point I'm much more focused on capitalizing on this opportunity and investing heavily behind driving both awareness for consumers and incentive for merchants to get signed up. There's only a very fractional amount of the merchant community in India that is enabled today to be able to accept electronic or digitized payments, and we want to try to get that number up as much as we possibly can. So I think when you consider the economics of the investments we'll make in India, plus a fairly conservative pricing, it's certainly not going to be a market in this fiscal year that's going to drive a lot of profit for us. But I think, it's a great year for us to make sure that we do everything we can in one of the two largest population countries in the world to get as good a position as we can to help us over the next decade.

Q - Daniel Perlin {BIO 20452045 <GO>}

Thank you.

A - Jack Carsky {BIO 15950639 <GO>}

Thanks, Dan. Next question, please.

Operator

We have one from Ken Bruce from Bank of America Merrill Lynch.

Q - Kenneth Matthew Bruce {BIO 3658968 <GO>}

Thanks. Good afternoon. My question also relates to Europe. I'm hoping you might be able or willing to compare and contrast the go-to-market strategy with the issuers, and what you're doing or what you plan to do in Europe differs from the U.S. You kind of pointed out that you've got a very incentive driven market here in the U.S. and you're able – and you've been very successful in terms of using the interchange framework here to drive a lot of issuer wins. Can you maybe just help us understand how you're attacking Europe differently?

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

So I think, Ken, Europe is almost a number of different segments in and of itself. I mean, the Europe for us right now is hugely dominated by the UK where we have most of the debit market taken up. Then there's four or five other markets across the EU where we have a reasonable amount of business. And then there's a number of big economies, certainly Germany being one example, where it's still a heavy cash society, where I think we've got a lot of opportunity in the medium to longer term to see more of commerce digitized or in some form of electronic form. Europe is also different than the United States in terms of processing, where there are in certain markets domestic processing schemes. And we've got a strategy to try to win more processing volume in Europe as well.

So we're engaging, I would say, hopefully, what I believe to be a thoughtful segmented approach with different issuers and different acquirers on a country-by-country basis because each of these countries is different, and having spent most of my life as an issuer on the issuing side of the business, I know full well that the issuing business is really a local consumer business, and you've got to figure out the right strategy on a market-by-market basis. So we're not going to have kind of a pan-European strategy. It's really going to be a market-by-market strategy within Europe.

A - Jack Carsky {BIO 15950639 <GO>}

Next question, please.

Operator

Next question is from Lisa Ellis from Bernstein. Your line is open.

Q - Lisa D. Ellis {BIO 18884048 <GO>}

Hi. Good afternoon. Al, I just wanted to ask you if you wouldn't mind commenting on two areas that you did not explicitly mentioned in the strategy that you laid out; one is Visa's expansion into adjacent markets like remittance or potentially into B2B, and what your plans are there; and then, secondly, when you mentioned partnerships, you did not call out the big tech firms like Apple, PayPal, Alipay, et cetera. And so I'm just curious if you have a comment there. Thanks.

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

On the latter, Lisa, I think I maybe shorthanded it, but I did say that we're working with all the pays, and so it's all of those pays. And we're in different stages of relationship with all of them. But obviously they're increasingly important people in the payments ecosystem as mobile devices become an important form factor in the digital world. So absolutely we're working with them. Look, I think there's a lot of vectors for growth for Visa, and the whole commercial space and disbursement of different kinds and business-to-business kinds of payments are very much on our radar screen. We have a group of people headed by a very senior person who's dedicated to this space now. We're not as strong a player as we'd like to be, but we are stacked up and spending a lot of time on this issue. And it's something that we do want to get a stronger position in the whole commercial and B2B space.

A - Jack Carsky {BIO 15950639 <GO>}

Next question, please.

Operator

Next is from Moshe Katri, Wedbush Securities. Your line is now open.

Q - Moshe Katri {BIO 1504320 <GO>}

Hey. Thanks for taking my question. One, can we get an update on the PayPal agreement in terms of where we are? And then in that context, going back to Visa Europe, have we seen any change in issuer attrition while you're renewing your book there? Thanks a lot.

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

Well, in terms of the latter question first, I think either in mine or Vasant's remarks, we talked about the fact that a lot of our issuer volume in Visa Europe is under contract. So we actually bought Visa Europe at a time where we've got a pretty good book of business that's going to be with us for a while. I mean, that said, as I said in my remarks, I'm very, very much a client-focused person, and we're going to work hard with every single one of our clients in Europe as well as around the world. But we do have a lot of good long-term relationships locked up. In terms of PayPal, I'd say that everything is progressing as planned. Our issuer clients who are very important to us, obviously, are engaged with PayPal, and they're working to migrate customers off of ACH back onto their cards. PayPal has been executing marketing campaigns and changes in their user experience to make it much easier for Visa card holders to pay with their Visa card, and to make it their default payment option.

Q - Moshe Katri {BIO 1504320 <GO>}

Thanks.

A - Jack Carsky {BIO 15950639 <GO>}

Next question, please.

Operator

Next question from Wasserstrom from Guggenheim Securities.

Q - Eric Wasserstrom {BIO 3626772 <GO>}

Thanks very much. My question, Vasant, is just on the use of CP and short-term debt rather than the debt issuance that you had planned. What motivated that decision, particularly given that the rate environment presumably would be pretty good still for term debt?

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

Well, the fact is that we have offshore cash. And let's say we issue $2 billion of long-term debt, and we're able to repatriate somewhere in the region of $8 billion of offshore cash either because there's a change in the rules that allows it to happen tax efficiently, or because we are able to, as part of our – some thoughts and ideas we have on the re-organization in Europe, we're able to repatriate cash. We will have more cash than we need to keep for settlement guarantees and all that. And that excess cash is available. So that's the reason to wait a bit and see whether we want to use our own cash rather than lock in more long-term debt. I mean, this is something we monitor on a regular basis, and if there's any changes on that front, we'll certainly let you now.

A - Jack Carsky {BIO 15950639 <GO>}

Thanks, Eric. Next question, please.

Operator

Next question from Bryan Keane from Deutsche Bank. Your line is now open.

Q - Bryan C. Keane {BIO 1889860 <GO>}

Hi. I just want to ask in the U.S. debit market, you guys talked about some headwinds due to the PIN debit routing choices. Is that a shift from Interlink to other EFT networks, or are you guys seeing or think you're going to see a switch in the market towards more PIN versus Signature? And then just quickly, secondly on cross-border volume, what are you guys expecting exactly in the guidance, continue at these elevated levels or to fall back down?

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

So on the first question, what we talked about was really that our Signature Debit business actually stepped up in growth rate by 3 points this quarter, and that's driven a lot by USAA. So really all we were referring to was switch away from our PIN debit volume, which would be Interlink volume. Some of it is because the Interlink volume declined this quarter as it did last quarter, some of which we told you was because we were lapping a significant win from the fourth quarter of 2015, and then some of it was because volume moved to other PIN debit networks. So it was all around volumes away from our PIN debit network, or hard comparisons for our PIN debit volumes versus prior years. So that was the answer on that one. What was the other question?

A - Jack Carsky {BIO 15950639 <GO>}

Cross-border volumes.

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

Oh yes, cross-border volume, I think as I said in my comments, for the first 28 days of January, cross-border volume growth was certainly holding up. But the dollar has strengthened, so our go- forward assumptions assume that the cross-border growth rate is healthy but perhaps a little bit of a moderation in the rate of growth than what we saw in the first quarter. So we'll wait and see.

A - Jack Carsky {BIO 15950639 <GO>}

Next question, please.

Operator

From Jason Deleeuw, Piper Jaffray.

Q - Jason S. Deleeuw {BIO 15340689 <GO>}

Thanks. I was hoping to get an update on Visa Checkout, what some of the current investments are right now on the consumer merchant side. And then what's the longer-term vision for Visa Checkout and how does that fit in with the partnerships with the other pays? Thank you.

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

Well, we think of Visa Checkout as a platform, and it's all part of us trying to make sure that we're a leader in terms of bringing potential solutions to the marketplace. We feel very good about the fact that we now are up to 18 million users signed up for Visa Checkout. It happens to also be a very active base of customers in terms of usage of Visa Checkout. We are facilitating more of our issuer clients to put their products side-by-side, embedded within Visa Checkout. And at this stage, the pays are out there obviously doing their thing as well, and we're going to continue to work with them. I think it's too early to tell how all of this is going to shake out. My personal view is that there are too many wallets out there. Consumers are not going to ultimately want to have 50 wallets, and we're not necessarily anxious to be in the wallet business per se, but we're anxious to take advantage of us being a trusted acceptance mark in the payments eco-space, and want to be able to make sure that we're taking a leading position in establishing Visa as a trusted mark, and as an important partner to our issuers in terms of them trying to establish as much volume as they can get in the digital space.

A - Jack Carsky {BIO 15950639 <GO>}

Next question, May.

Operator

Next from Jim Schneider, Goldman Sachs.

Q - James Schneider {BIO 15753052 <GO>}

Good afternoon. Thanks for taking my question. I was wondering if you could maybe comment on the impact broadly that you expect from the Trump administration and other Congressional policies, both in terms of tax policy, regulatory impacts, or other impacts, and maybe talk about some of the largest positive or largest potentially negative things you can see in the future.

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

Jim, I think, it's too early to tell. I mean, we're barely two weeks into this presidency. And while the President has been active with executive orders, I think that as things start to settle down and we get into more specific policies and his cabinet is confirmed and in place and the legislature gets going, I think it remains to be seen what happens. I will tell you this, that we have a world-class group of government relations people who are already fully engaged as much as we can in the relevant conversations in Washington. But I think there's things that relate to trade, relate to taxes, all of which could play into our business. But I honestly just think it's too early to start to speculate. And we're certainly not building anything into our plans positively or negatively for that matter related to any policies that might come out. But I can assure you that we're watching it very closely.

A - Jack Carsky {BIO 15950639 <GO>}

Thanks, Jim. May, next question.

Operator

From James Faucette, Morgan Stanley.

Q - James E. Faucette {BIO 3580933 <GO>}

Thanks very much. Wanted to kind of follow up on that. You talked about having visited with a lot of customers as well as government officials, et cetera, around the world since you've taken on the CEO role. Can you talk and summarize a little bit what the particular regulators were asking from Visa, and kind of what their objectives are, and how Visa can help fulfill those? And I guess, kind of what's happened in India as it creates an interesting lens through which to view that. So maybe elaborate a little bit on some of those relations, et cetera. Thanks.

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

So I've talked to regulators in both very developed markets as well as regulators in developing and emerging markets, and I think the content and tenor of the conversations is a bit different depending upon who you talk to. I mean, there are governments around the world who very much are seeking a close partnership with us. Their desire is learning how they can be helped in moving to a much more of a cashless society, how they can get many more of the people in their countries actually engaged in the financial system, how there could be greater financial literacy. And so in those particular cases, I would say that we're trying to take a very active role, and in some cases a very proactive role, in helping shape how the government thinks about what steps they ought to take. Including, by the way, in some cases working with governments to have them be a role model by making sure that they are moving away from paper in favor of a digitized world.

So for example, in Egypt, instead of vouchers being handed out, giving people prepaid cards so that they could in fact begin to start to have an experience with plastic. And what that does is it automatically starts setting up and incenting a whole merchant network to get built out as these people have to have a place to go, be able to spend their money that's on these prepaid cards, and merchants in this particular example who are involved in food and beverage, for instance, want to be able to get their fair share of that volume so they're very quickly incented to get to a point where they can accept plastic and be signed up as a merchant. In more developed countries, there are countries where the ship has sailed, and they've made decision on interchange as an example. Probably Australia and Europe being two real examples there where, I think, now it's just a matter of what does that mean and how does that play out for issuers and consumers in those markets.

I think, there are countries that I've talked to where there's pressure on both sides of, say, the finance ministers in countries where some of the merchant coalitions want to see lower interchange, but in markets, for example, where reward propositions are big on plastic, or on whatever form of payment vehicle it is, the consumer is going to get hurt in terms of those programs if interchange is lowered, because it's a two-sided market. The economics have to – there's only so much economics, and people will do what they'll have to do to make sure that they stay economically viable. So I think there's a number of markets where truthfully the government is trying to stay out of it and kind of let the free market system take over. And I think, in general, there's markets where the regulators are taking a very, very active role and in other cases I think a much more passive role. Again, often quite different depending on the specific country we're talking about.

A - Jack Carsky {BIO 15950639 <GO>}

Thanks, James. May, at this time we have time for one more question.

Operator

We have Tom McCrohan from CLSA.

Q - Thomas McCrohan {BIO 5827846 <GO>}

Hi. Thanks for squeezing me in. You've covered so much ground on the call, I'll just ask a simple question. The total integration cost of $450 million to $500 million over the next three years, any change to that. Thank you.

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

Yeah, we said it was $80 million this year. We'll wait and see how things go and give you any updates as we get towards the end of the year on future outlook. But at this point, really we wouldn't say anything different about the future. We expect that we will spend the $80 million we thought we would spend this year. Thank you.

A - Jack Carsky {BIO 15950639 <GO>}

Thanks, Tom, and thank you all for joining us today. If anybody has any follow-up questions, feel free to call Investor Relations. And when we have a set date for our June Investor Day, we will put that out in the public domain. Thank you, all.

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

Thank you.

Operator

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