Q2 2018 Earnings Call

Company Participants

- Ajay Banga, President and Chief Executive Officer
- Martina Hund-Mejean, Chief Financial Officer
- Warren Kneeshaw, Head of Investor Relations

Other Participants

- Ashwin Shirvaikar, Analyst
- Craig Maurer, Analyst
- Daniel Perlin, Analyst
- Darrin Peller, Analyst
- Harshita Rawat, Analyst
- James Schneider, Analyst
- Jason Kupferberg, Analyst
- Lisa Ellis, Analyst
- Oscar Turner, Analyst
- Robert Napoli, Analyst
- Sanjay Sakhrani, Analyst
- Tien-Tsin Huang, Analyst

Presentation

Operator

Good morning. My name is Christa, and I will be your conference operator today. At this time, I would like to welcome everyone to the Mastercard Second Quarter 2018 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions)

Thank you. Mr. Warren Kneeshaw, Head of Investor Relations, you may begin your conference, sir.

Warren Kneeshaw {BIO 16549173 <GO>}

Thank you, Christa. Good morning, everyone, and thank you for joining us for our second quarter 2018 earnings call. With me today are Ajay Banga, our President and Chief Executive Officer, and Martina Hund-Mejean, our Chief Financial Officer. Following comments from Ajay and Martina, the operator will announce your opportunity to get into the queue for the Q&A session. It is only then that the queue will open for questions. You can access our earnings release, supplemental performance data, and the slide deck that accompany this call in the Investor Relations section of our website, mastercard.com. Additionally, the release was furnished with the SEC earlier this morning.

Our comments today regarding our financial results will be on a currency neutral basis and exclude special items unless otherwise noted. Both the release and the slide deck include reconciliations of non-GAAP measures to their GAAP equivalents. Please note that due to our decision to deconsolidate our Venezuelan entity starting this year, we are providing additional information regarding our switched transaction and card growth rates. The adjusted growth rates eliminate Venezuelan switched transactions and card counts from prior periods so that you can better understand the underlying growth rates of our business. Our comments on the call today will be on the basis of these adjusted growth rates. These are the only supplemental operational metrics which are significantly impacted by the deconsolidation.

Finally, as set forth in more detail in our earnings release, I would like to remind everyone that today's call will include forward-looking statements regarding Mastercard's future performance. Actual performance could differ materially from these forward-looking statements. Information about the factors that could affect future performance are summarized at the end of our earnings release and in our recent SEC filings. A replay of this call will be posted on our website for 30 days.

With that, I'll now turn the call over to our President and Chief Executive Officer, Ajay Banga.

Ajay Banga {BIO 4676567 <GO>}

Thank you, Warren, and good morning, everybody. Our strong performance continued this quarter, with net revenue growth of 18% and EPS growth of 48% versus a year ago on a currency neutral basis and excluding special items. Now even if you exclude the impact of the accounting changes and the acquisitions that affect year-over-year growth comparisons, our underlying net revenue growth was 14% and operating income was up 26%. And these results were achieved while investing for the future and reflect solid underlying business fundamentals and the continued execution of our strategy by all our employees around the world.

So let's start with the macroeconomic environment as usual, and we continue for now to see solid overall growth. However, we are keeping close tabs on the potential impacts of reduced fiscal stimulus by central banks and the increased trade barriers, which as you all know, could impact global economic growth over the longer term.

In the US, economic growth remains positive, with low unemployment and healthy consumer confidence. Retail sales are strong, and our quarterly SpendingPulse estimates are up 4.7% versus a year ago, ex-auto ex-gas. This did represent a slight decline sequentially, primarily due to the weather at the beginning of the second quarter and difficult comparisons over last year.

Conditions in Europe are stable overall, although we do remain concerned about the potential impacts of Brexit. Consumer confidence in the UK has been declining, and we are seeing some deceleration in UK retail sales growth rates year-over-year, according to our SpendingPulse data. In contrast, consumer confidence in the Nordics and Germany remain strong.

In Latin America, there are still some question marks. In Mexico, although the elections are now behind us with a clear verdict, policy uncertainties remain. In addition, exchange rate volatility continues, primarily related to the NAFTA renegotiation. And in Brazil, concern over the upcoming October elections has, I think, contributed to the depreciation of the real.

We are monitoring a few potential headwinds in Asia, trade tensions, rising US interest rates, and oil prices are weighing on sentiment in some countries, including China and Korea. In the Middle East and Africa, on the other hand, recovering oil prices are generating some optimism in oil-producing countries. So overall, there are some geopolitical and trade-related risks that we are keeping a close eye on. But as of now, they've had limited impact to date, and global economic trends remain generally positive.

Now against that backdrop, we are driving healthy double-digit volume and transaction growth in Mastercard across most of our markets, with momentum across our core products and services. And let me give you a few examples, starting in the United States, where we continue to make excellent progress with co-brands. Leveraging our differentiated data and analytics capabilities, we won the L.L.Bean consumer credit co-brand, and we also renewed our longstanding relationship with Hawaiian Air for both consumer and business co-brand cards.

We expanded our portfolio of PayPal co-brands, with the new Venmo consumer debit card, which as you know, will enable Venmo users to cash out their balances and use those funds online or in-store wherever Mastercard is accepted. In addition, we're partnering with leaders in the healthcare industry, such as Anthem, as they move their prepaid consumer spending accounts to Mastercard.

And on the commercial side, we recently extended our agreement with JPMorgan Chase, and we are very pleased to continue this strategic relationship with one of the largest banks in the market.

Going to Europe and building on some of the significant wins we've been announcing over the past few quarters, we have continued to secure renewals and new business with customers. I'll give you an example is Credito Agricola, where the team in Portugal will be flipping their consumer credit and debit business to Mastercard. Credito Agricola also leveraged our LaunchPad service, which enables them to work closely with Mastercard teams and using design thinking to rapidly develop a prototype for their new digital bank.

And on the topic of digital banks, we continue to drive digital payment solutions with challenger banks, including through an expanded consumer and commercial debit partnership with N26 in Germany. In Latin America, we have customers in a number of markets who are leveraging a solution that we've developed that combines our Mastercard Black premium credit product with our cross-border travel rewards, which provides a very powerful value prop for the affluent customer.

Banco Popular in Puerto Rico, for example, has chosen to leverage Mastercard's affluent solutions, including differentiated rewards, benefits and marketing assets for the bank's customers as well as advisors consulting, managed services, and data analytics to optimize their cash-back, airline co-brand and other Mastercard portfolios.

In Asia, we continue to pursue single-brand issuance in China by renewing relationships with large issuers, such as China Construction Bank and by winning new targeted portfolios like Bank of China's newly launched women's card and the Bank of Communication affluent youth card. We are also very pleased to establish an expanded relationship with Standard Chartered Bank across 11 markets in Asia, including Hong Kong, Singapore, and India.

Now moving to the Middle East and Africa region, we are also pleased that we have deepened our strategic partnership with several key customers. For example, we have renewed and extended our agreement with National Commercial Bank in Saudi Arabia, winning exclusive new commercial issuance and maintaining exclusivity in prepaid and credit, with advisors and loyalty services embedded as part of the deal.

On the product front, we are executing on our commercial strategy, including by building out new products and scaling existing solutions, such as our inControl virtual cards platform, smart data, and the Mastercard B2B hub that's powered by AvidXchange, which as you know, optimizes accounts payable payments for small and medium-sized businesses in the US.

We are expanding our accounts payable automation capabilities to mid-sized and larger businesses, and are further leveraging existing partners such as Nvoicepay. And in the second quarter, we also launched inControl for commercial payments and business travel in Italy with Nexi, a partner that will help us build scale in that new geography for us. Over time, we expect these and our full suite of commercial solutions to be very valuable tools for our partners and their customers.

We're going to working on the fact that providing choice to customers, merchants and bank partners is essential to our business, and that includes offering capabilities that reach beyond cards, such as with account-to-account transactions. So let's give you a couple of examples on the progress we've made this quarter. First, the example of our ability to combine our proprietary assets to offer one convenient end-to-end solution is the recently announced UK launch of Mastercard Send. Now, that's our push debit solution, but combined with VocaLink's real-time payments capabilities. That fully integrated solution will enable financial institutions, fin-techs, digital customers, and other business to send real-time payments to UK bank accounts and also receive payments from UK bank accounts. The connection of Mastercard Send to the Faster Payments network enables a variety of use cases, including P2P payments and B2C disbursements in a seamless way.

Additionally, we expect to expand the reach of the Pay by Bank app through the launch with HSBC later this year and as Worldpay makes this capability available to its merchant customers in the UK starting early next year, early 2019. And as I've spoken about in the past, the Pay by Bank app enables consumers to make online payments for goods and services via their mobile banking app and directly from their bank account with no need to link a card. Worldpay's reach together with our existing distribution arrangements with Barclays and ViAcard I think will provide a significant UK acceptance footprint for this new capability.

And finally, we continue to advance our secure digital solutions. That Worldpay partnership I just referenced is actually much broader and is focused on expanding acceptance and making digital payments more convenient and secure. As you may have seen in Worldpay's announcement last week, our relationship will extend to tokenization, Mastercard Send, push-to-card disbursement solutions, and support of EMVCo's secure remote commerce framework for a common checkout button.

So with that, let me turn the call over to Martina for an update on our financial results and operational metrics. Martina?

Martina Hund-Mejean {BIO 3677291 <GO>}

Thanks, Ajay, and good morning, everyone. Turning to page three, we are very pleased to deliver another strong quarter, even when you exclude the 2 ppt tailwind from foreign exchange to net revenue and the 3 ppt to net income, which is primarily due to the appreciation of the euro since last year. I will now highlight the numbers on a currency neutral basis and also exclude special items related to litigation provisions, most of which we have already announced in late June.

Net revenue grew 18%, driven by strong underlying performance, and it includes a 4 ppt benefit from the new revenue recognition rules and acquisitions. Excluding this, underlying revenue growth was 14%. Operating expenses increased by 6%, which includes a 6 ppt increase due to the new revenue recognition rules and acquisitions. Operating income grew by 28%, or 26% if you exclude the revenue recognition and acquisition related impacts that I just noted.

Net income was up 45%, reflecting strong operating results and the impact of the US tax reform, which contributed approximately 7 ppt to this net income growth. EPS was $1.66, up by 48% year-over-year, with share repurchases contributing $0.03 per share. During the quarter, we repurchased about $1.5 billion worth of stock and an additional $279 million through July 23, 2018.

Let me go to page four, and here you can see the operational metrics for the second quarter. Worldwide gross dollar volume or GDV growth was 14% on a local currency basis, similar to last quarter. We saw solid double-digit growth across most regions. US GDV grew 9%, down 1 ppt from last quarter, and was made up of credit and debit growth of 8% and 11%, respectively. Outside of the US, volume growth was 16%, similar to last quarter, primarily due to Europe and Asia-Pacific.

Cross-border volume grew at a healthy 19% on a local currency basis, driven by double digit growth in all regions, with the strongest growth contribution coming from Europe. This was down 2 ppt from the first quarter due to lower cryptocurrency purchases and one less switching day in Q2 and this was in line with our expectations.

Turning to page five now, switched transactions continued to show strong growth at 17% globally, normalized to exclude Venezuelan transactions, as we no longer consolidate that entity. We saw healthy double digit growth in switched transactions across all regions, led by Europe and the US. In addition, global card growth was 7%, again, normalized for Venezuela. And globally, there are 2.4 billion Mastercard and Maestro branded cards issued.

Let us go to page six for highlights of a few of the revenue line items, again, described on a currency neutral basis unless otherwise noted. The 18% net revenue increase was primarily driven by strong volume and transaction growth as well as growth in services. The new revenue recognition rules and acquisitions contributed 4 ppt to the growth rate. Excluding these impacts, underlying net revenue growth was 14%. This solid growth was in line with our expectations, as an increase in deal closings and implementations in Q2 caused rebates and incentives to pick up from Q1 levels as planned, and we lapped the VocaLink acquisition at the end of April.

Looking quickly at the individual revenue line items, the domestic assessments grew 22%, while worldwide GDV grew 14%, the difference being primarily due to the impact of the new revenue recognition rules. Cross-border volume fees grew 18% while cross-border volume was up 19%. The 1 ppt gap is mostly due to higher intra-Europe growth.

Transaction processing fees grew 20%, primarily driven by the 17% normalized growth in switched transactions as well as revenues from our various service offerings. And finally, other revenues grew 13%, driven by increases in our advisors and safety and security services.

Moving on to page seven, you can see that total operating expenses increased 6% excluding special items on a currency neutral basis. Underlying operating expense growth was 7%, primarily related to investments in strategic initiatives, such as digital infrastructure, safety and security platforms, data analytics, and geographic expansion. The difference of 1% relates to the nearly offsetting effect of a 7 ppt benefit associated with FX hedging gains and a 6 ppt impact related to the new revenue recognition rules and acquisitions.

So let me turn to slide eight. And first, let's discuss what we have seen for the first three weeks of July, where our drivers are generally similar to what we saw in the second quarter. The numbers through July 21 are as follows. Starting with switched volume, we saw global growth of 15%, similar to the second quarter, with solid growth in all regions. In the US, our switched volume grew 11%, and outside the US it grew 19%, both similar to what we saw in the second quarter. Globally, switched transaction growth was 17%, the same as in the second quarter, with healthy growth in each region. And with respect to cross-border, our volumes grew 18% globally, down 1 ppt sequentially, due to slightly lower growth in Europe and Asia-Pacific. This is in line with our expectations. And as a reminder, we anticipate facing more difficult cross-border comps in the second half of the year.

Turning to our thoughts for the full year of 2018, which I will describe on a currency neutral basis excluding special items, frankly, not much has changed with the exception of foreign exchange. As we've heard from Ajay, although we are monitoring certain macroeconomic factors, they have yet to show up in the numbers, and global economic trends are generally positive. Our business fundamentals remain strong, as we had a solid first half. And we continue to expect year-over-year revenue growth to be in the high teens. As a reminder, this growth includes the impact of the new revenue recognition rules that we adopted in 2018 and the full-year effect of acquisitions.

And with the strengthening of the US dollar, we now expect foreign exchange will be a benefit to revenue of between 0.5 ppt to 1 ppt for the year. We had previously estimated a 2 ppt benefit. And this means that we expect FX will be a headwind in each of the next two quarters.

On operating expenses, not much has changed. Although we had some foreign exchange hedging benefits in Q2, we continue to expect year-over-year expense growth to be in the mid-teens. This growth includes the impacts of the new revenue recognition rules, the full-year effect of acquisitions, and our investment in our Center for Inclusive Growth. For Q3, we do expect marketing expenses to increase sequentially and total operating expenses to grow in line with our annual expectations.

So with that, let me turn the call back to Warren to begin the Q&A session. Warren?

Warren Kneeshaw {BIO 16549173 <GO>}

Thanks, Martina. Christa, we're now ready to begin the question-and-answer session.

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Bob Napoli with William Blair. Your line is now open.

Q - Robert Napoli {BIO 1526298 <GO>}

Thank you, thank you very much. Two questions if I could, one on VocaLink and then one on Mastercard Send. First of all, are you comfortable with the trends in VocaLink? And, Ajay, there are several contracts there, and I think some of those contracts are up for bid. Is there some risk of losing part of that business or in expanding it? What are your thoughts on VocaLink? And then I just wondered, is does Mastercard Send, do you view that as the equivalent of Visa Direct and the opportunities to be the same? Thank you.

A - Ajay Banga {BIO 4676567 <GO>}

So first of all, VocaLink is doing well. We're actually happy with all the underlying trends as well as the opportunities that we see with VocaLink in other parts of the world. I mean, we've got VocaLink in both licensed software form as well as a little more role to play in different countries, in Sweden and Thailand, PromptPay is run by VocaLink software. And in fact, our business in Thailand is benefiting not just from the relationship with the Central Bank of Thailand that comes from the ACH work there, but also on debit. And so VocaLink and us I think that's working the right way.

The contracts that VocaLink has in the UK is specific is what I think you're referring to, we actually have an extension on the largest one out to 2022. But look, all contracts are competitive and they come up for bidding. And people are going to bid against us, and we're going to try our best to extend it beyond that and keep winning them. And there will be some that you'll win, some that you won't. Right now, things are okay with VocaLink and they look good, and the expansion opportunities with VocaLink look good. So that's the first part of the story.

The part about Mastercard Send, Mastercard Send is a loosely used term to include both the ability to move money from a card to a card, but also in combination with VocaLink's current capabilities from an account to an account, and also in combination with our JV with HomeSend on -- too many sends in these words, but with that JV you also get the chance to move the money to mobile phones and the like around the world.

So when you look at the capabilities that we've got together, it's not just the card-to-card capability. It is the account-to-account and also to mobile phone numbers. That I would believe is far superior to what most other institutions can claim to have once you actually dig into the details of what we are capable of doing. That is what we're trying to put together.

For example, in my opening remarks, I talked about the UK. There it's a combination of the card-to-card but also VocaLink's Faster Payments network link to be able to do account-to-account payments. That's what gives you the P2P business case and the B2C disbursement business case. And so my belief is that it's the combination of assets that matters and the choice that we provide to banks and merchants and governments. With us they can get what they want out of that combination like a menu-driven approach.

So all in all, I'd say we're in a good place with VocaLink. I like what I see when we're going elsewhere. I think in the UK, we're going well with VocaLink. I think the opportunities of the combination of assets of Mastercard Send, VocaLink, and in fact the HomeSend JV, all that put together is really a good plus for us.

Q - Robert Napoli {BIO 1526298 <GO>}

Thank you very much.

A - Martina Hund-Mejean {BIO 3677291 <GO>}

Bob, let me just add a couple of operational stats on the Mastercard Send rails. We have access to more than 3 billion bank accounts in over 100 countries. And we have clearly a rapid growth rate, albeit it's still on a very low base.

Q - Robert Napoli {BIO 1526298 <GO>}

Thank you very much.

Operator

Your next question comes from the line of Craig Maurer with Autonomous Research. Your line is now open.

Q - Craig Maurer {BIO 4162139 <GO>}

Thanks. I was hoping two things you can comment, one on the UK PSR's report that was published yesterday or two days ago on acquiring -- if you can, just give your thoughts on the broader industry from that? And secondly, if you can, comment on the outage that was recently reported. What caused that, and if there will be any impact we should think about for third quarter? Thanks.

A - Ajay Banga {BIO 4676567 <GO>}

Thanks, Craig. So first of all for third quarter, I mean, the UK PSR's report, by the time they actually get together, analyze all the aspects of the UK card acquiring services and their practices, that's going to take a fair amount of time to work our way through it.

Look, what typically the PSR does is they will do a broad assessment of the market, and they'll figure out is it working properly? Is it delivering the outcomes they want? And they're going to look at all the range of factors related to the services, which acquirers provide to merchants. And I think this whole thing is a year to two years in the making. So then to get to that, and I'm sure they'll also want to talk to us about -- even though we're not an acquirer, they'll want to talk to us about the role we play in that whole ecosystem, and that's a good thing. I actually believe that transparency and a dialogue around the role we play, the role acquirers play in the ecosystem is great in a market like the UK.

As far as the outage is concerned, honestly, our outage was for all of a short period of time. It related to extra traffic on a server in certain sites got zapped off of that. We were back to normal soon after that and moved right on. So I don't even know whether you'll see an impact in any quarter out of that kind of an outage. It's not really an outage. It's a slowing down of the approval rate of transactions, the speed of approval of those transactions in a period of time lasting for an hour to an hour and a half, depending on which part of the market you were in.

Q - Craig Maurer {BIO 4162139 <GO>}

Okay. Thank you.

Operator

Your next question comes from the line of Darrin Peller with Wolfe Research. Your line is now open.

Q - Darrin Peller {BIO 16385359 <GO>}

Hey. Thanks, guys. Just first question is really around the margin sustainability. I mean, when we back out some of the M&A adjustments, it looks like it was pretty flat. And margins were -- I mean expenses were generally flat. Margins look pretty strong. And I guess just your thought process on that and rationale and I guess strategy of whether or not you still think that could just be a side effect of what you need to invest and grow revenues versus letting it expand. And then just quickly, Martina, on the tax rate expectations for the year, if you don't mind updating us on that.

A - Martina Hund-Mejean {BIO 3677291 <GO>}

Let me do the last one because it's easy. It's just basically saying a repeat of what I said at the last quarter. It's going to be 19% to 20% given all of the benefits that are running in from the US tax reform as well as on the Belgian tax reform as well as some of the tax structures that are still benefiting us out of our Asia-Pacific operation, so really no change from that.

On the margin comment, Darrin, it's really no different from what we had said before. As you know, we have been evaluating every year, given the set of businesses and the expansion of the businesses that we have, what kind of minimum margin profile should we have as a company, which is that 50%-plus that you get to hear from us when we iterate our three-year financial performance target.

And what we do is we take the extra margin that we're making on the core business and investing it very significantly in terms of expanding in the other things that we have been talking about. One is the services, right? Many of these different services have actually lower margin other than safety and security fraud services. But we're investing in that still heavily, such as data analytics, such as loyalty, et cetera, and that will continue to happen.

The second expansion that we have been talking about in a fairly significant way since our last Investor Day in September of 2017 is the investments that we're doing in the B2B space. Remember, the $120 trillion of opportunity which we are taking certain slices of the opportunity, and those kind of investments will continue to stay with us.

So no changes, when you see some margin expansion coming through from time to time, they're really two factors. One is our revenue line happens to be higher than what we set up in the budget, and we're not going to be able to of course correct that quickly to be taking the extra dollar to be investing it in additional investment. And number two, you should be expecting that over time in our services line items, the margins are going up simply because we're going to run more volume over that.

A - Ajay Banga {BIO 4676567 <GO>}

The services business, Darrin, you've heard me talk about just a little while ago somewhere in the first question. I think I talked about Thailand and PromptPay and ACH and debit. By doing all those things with the Central Bank of Thailand, not only are we doing Fast ACH and the debit switching partnership. We're also running our services through them, which gives us scale, be it safety and security, be it other kinds of data analytics. What that does is it gives us a much broader, wider relationship, as that is what we're investing our money into is to create a stable system of having a broader, wider relationship beyond just the core payment transaction revenue stream that used to be in this company the primary source of revenue 8, 9, 10 years ago. That's what we're trying to build. And then if we get to scale with those services, as Martina said, you expand the margin on each of them as you go along.

Q - Darrin Peller {BIO 16385359 <GO>}

Got it.

Operator

Your next question comes from the line of Lisa Ellis with MoffettNathanson. Your line is now open.

Q - Lisa Ellis {BIO 18884048 <GO>}

Hi. Good morning, guys. I was hoping to drill in a little bit on your purchase volume growth number. If I'm looking at it, it looks like FX-neutral purchase volume growth was about 15.5% in the quarter, which our quick look back looked like we hadn't seen a number close to that since about 2012. So could you just parse apart a little bit what's driving that acceleration? And in particular, is it -- do you see -- is this underlying secular cash displacement? Is this e-com related acceleration? Is this share gains? Is this some early impact from Mastercard Send? What would you call out?

A - Martina Hund-Mejean {BIO 3677291 <GO>}

Okay. So, Lisa, Mastercard Send, as I said before, that's still a relatively low base, so that is not really driving the numbers. The numbers are really driven by our core business and all the good work that many of our -- all of our employees are doing around the world. So when I start with the US you can look at the numbers. And I know you're talking purchase volume. I really generally talk gross dollar volume because it shows the entirety of the company and what we're going after. But you obviously see in the United States a really nice step up both from a credit and from a debit point of view as you're looking over the last five, six quarters. And that is we have been talking about the US in terms of winning quite a few businesses, particularly in the co-brand space, and you're starting slowly but surely to getting all these wins coming into the numbers.

When you look at overseas, we actually had terrific growth in many, many of the regions. Europe is obviously outstanding, right? I mean, you can see those numbers every year. There's really no change in terms of how Javier and the team are going after those kinds of businesses. We will be at it down the road a little bit more in the UK because of some of the UK businesses that we have won and a couple of other countries. But I would suspect that that will just continue to be providing this fantastic double digit growth trend that we're seeing from a volume perspective in Europe.

When you go to Asia-Pacific, Asia-Pacific -- I'm throwing Middle East-Africa in it. As Ajay talked a little bit this morning, there are some ups and downs in it, right? So we're seeing China still good growth, but it's in the high single-digit kind of range at this point in time. But you're seeing from the other countries really good growth that's additive. By the way, in India, if I were to tell you this, I mean, it's almost a 30% growth rate at this point. So this is still some of the benefits from the demonetization. Middle East-Africa, some of the numbers have been starting to come back simply because the countries feel a little bit better as they're oil producing.

And then when I look at Latin America, that is where you see a bit more challenges in terms of the numbers. While you might think the domestic volumes are okay, they have from a cross-border point of view a bit of a challenge because of the devaluation of the currency, in particular of the real. And by the way, my comment for the third and the fourth quarter, where I said that we probably will see tailwinds on the foreign exchange. It's mostly related to the real, not really to the euro.

A - Ajay Banga {BIO 4676567 <GO>}

The only two things I would add to that, Lisa.

A - Martina Hund-Mejean {BIO 3677291 <GO>}

Headwind -- let me just say, I said tailwind, headwind.

A - Ajay Banga {BIO 4676567 <GO>}

Okay, headwind. The only thing I'd add to that -- tail and head. Anyway, the only thing I'd add to that is in the US, remember, we've also won affluent products like the Capital One Saver card and Bank of America's Cash Rewards card. Those issuings are beginning to happen. You will see results of that. And in India, we have actually done really well on debit growth. We have got -- last quarter I talked about Bank of Baroda. This quarter actually I didn't mention it but I was there a little while ago. We signed a deal with Bank of India. These are large public sector banks. We already had the State Bank of India and a bunch of others. Our debit business in India is doing well. Our ability on debit to be seen as a real partner for growth is good.

And so I'd say you're seeing the results of both secular movement in a country like India, but you're also seeing in a lot of countries around the world some of the impact of some of the business wins of the last few years. And I would be a little cautious about cross-border in some places because of both foreign exchange. We're also a little cautious about the impact in China and Korea right now caused by what's going on with central bank actions and oil prices and the like.

Q - Lisa Ellis {BIO 18884048 <GO>}

Perfect, thank you.

A - Martina Hund-Mejean {BIO 3677291 <GO>}

You had one more question, which was e-commerce. I just want to add to that. E-commerce continues to grow in a terrific way. For this quarter it was about 24%.

Q - Lisa Ellis {BIO 18884048 <GO>}

Perfect, thank you.

Operator

And your next question comes from the line of Tien-Tsin Huang with J. P. Morgan. Your line is now open.

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

Thanks, good morning. Maybe just to build on your answer to Lisa's question, I'm just curious on the timing of some of the new wins like L.L.Bean, Santander, Bank of America, as you mentioned. Have we seen those kick in yet? And I think some of that comes in next year, I know. And then also as a quick follow-up, I know you mentioned some challenger bank wins like N26 in Germany. Why have you guys done so well you think with the challenger banks? I know Resolute and even Venmo/PayPal, et cetera, have all issued under Mastercard. Why is that? Thanks.

A - Ajay Banga {BIO 4676567 <GO>}

Tien-Tsin, the first part, there's the speed. Those are all rolling in. You know this business well. You know how it comes. I would tell you that the L.L.Bean stuff is very early stages, very, very. It's just begun literally. The UK wins, TSB, Santander are all early next year. They're actually just not even coming yet. That's why in Lisa's answer, I was saying we should expect to see more of these recent wins roll in later, but some of the earlier wins are showing up today. So it's the nature of the mix of our business. And I think that on the whole, the trends on our share growth as well as secular movement are helpful to us at this stage.

The aspect of digital banks, I actually believe that the reason that we are winning digital banks is just that, in addition to our good looks, we have guys who actually care deeply about the fact that the environment, the ecosystem is adapting and changing around the world, where digital banks are having a role to play. They're smaller today, but they're offering a different product set and a different construct. And you have to be capable of flexibly moving your product offering and your benefit system to suit what they want and they hold as valuable as compared to what a merchant may hold or a different kind of bank may hold. It's just different strokes for different folks.

I'm a believer that our future will be built on choice and on offering bundled solutions. And those are the two things I'm very focused on building, choice across every category of payment. So we want to digitize every form of payment and we want to allow every form of payment to be available as a one-stop shop from us. You want it, we've got it. That's the approach that we're trying to use. And you combine that with bundling both payments with all these other services solutions that a number of the newer banks want. They don't have those capabilities themselves, be it fraud management, be it data analytics, be it processing data, loyalty and rewards. If we can try to bundle these things together, then we get a good attractive conversation going with them. I think that's probably what's helping us right now.

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

All right, good to know. Thanks a lot.

A - Ajay Banga {BIO 4676567 <GO>}

Thank you.

Operator

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

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thanks, good morning. I guess following up on VocaLink, I believe there's also an initiative to overhaul the Fast ACH infrastructure, Ajay, could you just talk about how that might affect VocaLink and maybe its positioning there? And then just one quick question on FX. Martina, I know you mentioned the cross-border volumes were in line with expectation, and they were obviously quite strong. I'm just curious if there are any signs of impact from a strengthening dollar. Thanks.

A - Ajay Banga {BIO 4676567 <GO>}

Sanjay, I was in the UK -- I don't know -- I think last week or the week before. And this idea of looking at the Fast ACH infrastructure is actually not something that's got either clarity or dimension to it. VocaLink, the Faster Payments system, the banks are all talking to the payment systems regulator and the others thereabout what the future of Faster Payments in the UK should look like, what other feature functionality should be built into it and the like.

So as far as I'm concerned, even if you look at VocaLink itself, the technology being used to drive Faster Payments in the UK, it's scale, scope, capability, speed, the number of transactions, the amount of data that flows back and flows through each transaction. If you compare that to what currently we are bidding with in our markets with VocaLink, and already there's a difference because that technology is moving very fast. And what we do is we build. We build in another place and we roll that technology back into the prior markets, a bit like we do with Mastercard, when new releases go back and they build the quality of the original infrastructure in the older markets as well. So honestly, we are involved in that discussion. I don't know whether they have got legs yet or not. I don't know what the dimensions will be. But we're very deeply embedded and involved with all conversations on Faster Payments in new countries.

A - Martina Hund-Mejean {BIO 3677291 <GO>}

On the strengthening dollar question, we are seeing a bit of an impact on US acquiring. So it's still double digits. It's in the low teens. It used to be high teens last quarter. And really, what we're seeing is inbound from LAC and from Asia-Pacific tempering a little bit. So early days, we'll see if that has more legs.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Christa, we're ready for the next question, please.

Operator

Your next question comes from the line of Harshita Rawat with Bernstein. Your line is now open.

Q - Harshita Rawat {BIO 18652811 <GO>}

Hi, good morning. Thank you for taking my question. Ajay and Martina, I want to ask about QR codes. As you know, QR codes drastically reduce the cost of payments acceptance, and it does appear that many emerging markets such as India evolved to use that as one of their payment methods. And I know you have the Bharat QR code standard, which you are rolling out in other emerging countries as well. So my question to you is how do you envision competing with very nimble local players and Internet giants in the QR code front when you often have to rely on banks as a distribution channel in many markets?

A - Ajay Banga {BIO 4676567 <GO>}

So first of all, QR codes reducing acceptance cost drastically, let's just parse that statement a little bit. What it actually does is reduce the initial capital cost of installing a terminal in a merchant store as compared to a QR code system, which could be a static QR code which is put on a merchant's counter, which by the way, has all kinds of issues involved with ensuring that it is managed well, compared to a dynamic QR code, which could be generated and put onto a mobile phone, either by the merchant or the consumer, and clearly has more security features built into it.

That capital cost is substantial in terms of an older terminal, which could cost $500. That capital cost is not that substantially different when you're comparing it to a dongle like a Square dongle or somebody else's dongle. So what I'm trying to get across to you is the actual story around the cost of acceptance of QR codes needs to be understood in its entirety, not in one-off buzzwords that get passed out by companies that believe that QR codes are the answer to the future of mankind on acceptance.

I would tell you that acceptance growing from current 50 million merchants to get it to the next 50 million or in India to go from the current 3 million, 4 million, which is dramatic growth over the 1 million of a year ago, to get to 60 million, which is the opportunity in India, that QR codes may not be the only solution. It will be a mix of dongles, QR codes, and terminals that will go through the system. And within QR codes, it will be static QR codes versus dynamic QR codes. And within dynamic QR codes, it will be consumer presented ones versus merchant presented ones. That is a fairly complicated ecosystem.

And I'm not trying to compete with somebody else building out their own QR code. I'm just trying to say when you've got that kind of complexity, there is a benefit in having standardized ways of rolling these out. And the standardized way of rolling out QR codes that EMVCo is putting out there, which as you know is supported by all the members of EMVCo, which include Visa, AmEx, Discover, but also China UnionPay, is that we are trying to put these standardized QR codes out there as a way of making it simpler for acquirers and merchants to integrate one time as compared to multiple times, not different to the story of secure remote commerce, the single checkout button online, which also is trying to take away from the complexity of merchant and acquirer integration for online payments.

So I kind of view all this as a developing ecosystem, and I view us as being people who place bets on every one of these acceptance expansion systems as compared to picking winners and losers because our job is to create standards that the rails can be built on so that we can get to scale. And I'm participating in all of these actively, whether it's in India with Bharat QR, whether it's in other markets across Pakistan, Africa, parts of Asia, where I consider this to be a real opportunity. But I want to do it with standardization and I want to do it with safety and security. And I would prefer to do it therefore in collaboration not just with banks, but for example, in India with the payment banks. I mean, we're already out there with a bunch of offers with Airtel Bank and with the Indian Post Office Bank for quite a while in India, not now. We're doing Airtel Bank sort of issuing and acquiring for a while.

So to be honest with you, I think of QR codes and as I see it as an ongoing evolution of acceptance efforts, just as dongles were a great evolution from the older terminal.

Q - Harshita Rawat {BIO 18652811 <GO>}

Perfect. Thank you very much.

Operator

Your next question comes from the line of Ashwin Shirvaikar with Citi. Your line is now open.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Thanks. Hi, Ajay. Hi, Martina. You guys mentioned maybe a global deal with Worldpay, so a two-part question related to that. One is any thoughts on Pay by Bank rolling out beyond the UK and the opportunity there? And secondly, maybe use the tokenization comment to kind of parse out the monetization opportunity associated with tokenization broadly.

A - Ajay Banga {BIO 4676567 <GO>}

So I want to be clear on tokenization and monetization. We don't either try to monetize tokenization by charging a fee for it. Neither do we force that as a method of steering any transactions around. That is not our way. Our attempts with tokenization is to raise the level of water in the river so that the thief finds it tougher to swim. And you don't do that by charging fees for raising the level of water.

So what we are trying to do here is to make it safer for the industry as a whole, and the effort is to get digital transactions and then card-on-file transactions and eventually every account-to-account based transaction to have the benefit of a secure cryptogram-protected token in front of it. That's the visualization of where they're going over the next few years. And that's the journey we're on, and I think that's the journey most people in the industry are on. It's a way of raising the level of the water in the river. And that's the idea.

So back to Pay by Bank, I think Pay by Bank is a really interesting idea, but you've got to make sure that it has real acceptance in the marketplace. In the UK, it's very early days because it's only now with HSBC, Barclays, Worldpay, as I mentioned, the Wirecard guys, and I'm beginning to think of the UK is having a certain amount of scale being attached rolling out Pay by Bank, at least for online purchases where consumers could pay with their mobile banking app.

I consider Pay by Bank to be an interesting app in other markets, where let's assume in our ACH, if there is an ACH of Fast ACH system in a country in which we cannot play directly, somebody else is operating that Fast ACH. Then we have a choice. We could help get that Fast ACH to operate more like a scheme by providing chargeback, dispute management, revenue sharing rules, and then add the app on top of it. Or if the scheme is also running locally, still provide the app to our member banks and to merchants and non-banks, digital players, as a way to get to enable consumers to pay directly with their bank account.

So I view Pay by Bank as having many different roles, only one of which is the UK type role, where we're also the infrastructure. They could be rolled in other markets where they're not the infrastructure, or when we're part of the infrastructure. And you will see over the next few years effort on this space, just as -- these things have a longer gestation period because it's a difference in the way a bank or a merchant has to interact as well as a difference in the way the consumer has to think about paying.

The same thing is true of commercial B2B things. These things don't change on a dime. You put out product, you put out capability, and then you've got to work your way into the ecosystem for people to care about them and switch on to them in scale. And both Pay by Bank and our commercial efforts are things we're putting into the pipeline for the next three, four, five, six years of driving our revenue.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Got it, thank you.

Operator

And your next question comes from the line of Jim Schneider with Goldman Sachs. Your line is now open.

Q - James Schneider {BIO 15753052 <GO>}

(inaudible) question. A question on your B2B strategy for a moment. Could you maybe talk about your sales and distribution strategy for B2B? You've talked a lot about the technology solutions in the past. But could you maybe talk a more about the ways you're going to market? Is it sufficient for you to go to market through partner banks? Do you intend to open up other distribution channels or maybe even direct distribution channels? And then collectively, when might the B2B opportunity start to be material in terms of revenue where it's noticeable to us on the P&L? Is that two, three, five, or more years out?

A - Ajay Banga {BIO 4676567 <GO>}

It depends what you mean B2B. B2B is a very big world. And in fact, that is stuff that is very material in our P&L today, which is our commercial cards business. Corporate T&E cards, purchasing cards, fleet cards, virtual cards, that is material today in our business, growing handsomely, giving us good margins, and in fact delivering good returns for us, not just domestically but also cross-border.

Then there's the B2B space that comprises the things we could do with Mastercard Send or VocaLink or HomeSend, as I was talking earlier, or combinations of those. Those products are both for consumer reasons but also B2B, also B2C, also P2P. That stuff is what you'll see over the next two, three, five years being developed.

The distribution channel for that as compared to the traditional commercial business, the distribution channel for that is, in fact, very effective through banks because of one very simple reason. Most banks tend to be focused on larger-sized transactions in the cross-border B2B space. And there is a great deal of space in the relatively smaller cross-border B2B space, which is inefficient both in terms of the scaling, authorizing, and settlement times involved, but also relatively inefficient in terms of the data that is exchanged at the point of payment and the fraud opportunities that exist in that system, all of which we can bring to the party through these larger banks as their partner to extend their target market as well.

But there's also other ways of getting to that marketplace. There are ways of getting to that marketplace which go through distribution channels run through a digital company. But very often, they will need partner banks anyway because those companies are not banks. Without being a bank, how do you operate the digital or other cross-border P2P or B2B business of exchanging money? You need banks in the system.

So you've got to be careful about what you mean by distribution. Does distribution mean getting to get someone to start understanding the product to then use it, or does distribution mean that the rails still need banking to run? And I will tell you in most places the rails still need banks to run them. The question of how you get them to those SMEs or those middle-sized companies, you could do it directly through banks or you could do it through alternative chains that you could utilize over time. We're doing all. We're doing all of them. But we believe that banks are great partners in this space, because they need to play the role where the money needs to be exchanged. They play a very critical role in that process.

A - Martina Hund-Mejean {BIO 3677291 <GO>}

Jim, first of all, what Ajay mentioned in terms of our commercial business that we already have, I just want to remind you. It's about 11% of our global volume, so it's fairly significant in 2017 it grew in the mid-teens. And then secondly, in terms of the distribution channel and how Ajay has described it, a real example of that is what he had actually mentioned in his remarks, which is AvidXchange. So AvidXchange works with the distribution channel of the banks, so we can obviously bring the power of those relationships to it and making sure that these great products are getting to the smaller companies and the medium-sized companies. And that does not mean that AvidXchange is not working and we are not working with other fin-techs, but it has to get distributed to those small companies, and the connection point is through their banks.

A - Ajay Banga {BIO 4676567 <GO>}

You know the -- I'm really glad you asked this. You take, for example, the work we do with commercial payments. We've partnered with WEX for the last 15 years across multiple geographies and multiple verticals, travel, payables, media. We're growing our business together in both those verticals and emerging verticals. We do joint business development campaigns with them. We do virtual card acceptance initiatives. We've done research studies with them focused on travel trends and vertical deep dives. So actually partners like WEX, partners like Fleetcor, partners like CNET, these are all interesting and incredible ways to distribute this product that we've been building through the years that I can recall being a part of this company.

Q - James Schneider {BIO 15753052 <GO>}

Thank you.

Operator

And your next question comes from the line of Andrew Jeffrey with SunTrust. Your line is now open.

Q - Oscar Turner {BIO 19810852 <GO>}

This is Oscar Turner on for Andrew. I just had a follow-up question on B2B payments and the AvidXchange partnership specifically. I was wondering if you can provide insight on how the B2B hub is progressing versus your internal expectations. And I guess specifically, how is the bank partnership and merchant pipeline looking? And also, could you give any color into the feedback you've been receiving?

A - Martina Hund-Mejean {BIO 3677291 <GO>}

So, Andrew, first of all, as we told the market some time ago that the product that's first rolling out with Fifth Third. It has started to roll out, and so we are going to see what kind of feedback we are getting. But obviously, they're a key client. And depending on how it's going, it's very early days. We're talking literally a few weeks that it has been in the market. Depending on how this is going, we actually have a whole pipeline of clients that are also wanting to expand on this product.

Remember, this is a product that goes really for mostly small and medium-sized companies. And there are only two handfuls worth of banks in the United States who are really reaching those kinds of clients, and those are the ones that are interested in it. But first we're going to have to get through the initial couple of months with Fifth Third.

A - Ajay Banga {BIO 4676567 <GO>}

I actually see the B2B Hub as having incredible applicability as an idea in markets in Asia and the like as well, because that's where SMEs drive a very large part of the business, both domestic and export. It's close to 60% 65% of the GDP, while some of those countries comes out of the SME export and manufacturing capability in those countries. And so you're going to have to do it differently there. And that's why this requires a rail period, both in terms of technology and partnerships, to the earlier question, and we are deep in the midst of that.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Christa, I think we have time for one final quick question.

Operator

Your final question comes from the line of Dan Perlin from RBC Capital Markets. Please go ahead.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Dan, are you there? Are you on mute?

Q - Daniel Perlin {BIO 20452045 <GO>}

Can you hear me?

A - Ajay Banga {BIO 4676567 <GO>}

Yes, now we can.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Hey, Dan, you went off again.

Operator

Dan, your line is open.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Dan, we're having trouble. I think we'll just go to the next caller.

A - Ajay Banga {BIO 4676567 <GO>}

All right.

Operator

Your next question comes from the line of Jason Kupferberg from Bank of America Merrill Lynch. Please go ahead.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Tell us when we'll get an update an extension of the long-term guidance. I know it expires at the end of this year but we're --

A - Warren Kneeshaw {BIO 16549173 <GO>}

All right. Jason. I think the question -- we're having a little trouble hearing you, but I think the question was when will we update the long-term guidance.

A - Martina Hund-Mejean {BIO 3677291 <GO>}

I just don't know if you had something in the end. So, Jason, yes, at the end of this year the long-term guidance will have run out. That is our 3- year guidance. And I told the market that I would like to make sure that we have a little bit more time with the new revenue recognition rules so that we really understand how that is going to roll into the future. And so you should be looking forward after we are closing off 2018 for our new long-term guidance. And again, it will be our long-term guidance period that we will be putting out.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Great. Thank you, Ajay, do you have any final comments?

A - Ajay Banga {BIO 4676567 <GO>}

Yes, just a few closing thoughts. We've delivered a strong first half to the year as we continued to execute on what we've been discussing as our strategic priorities with you. I think we're pleased with our deal momentum, that came up in a number of questions a little earlier in both consumer and commercial as we strike new relationships and expand existing ones.

We focused on building up our product capabilities, all aimed at providing choice to consumers, to merchants, to bank partners, including solutions that reach beyond cards. And the services that we provide to advisers, loyalty, data analytics, and our fraud management systems and processing continue, I believe, to differentiate our business and provide a great support to our core payments operation.

So with that, thank you all for your continued support for the company. Thank you for joining us today.

Operator

This concludes today's conference call. You may now disconnect.