Q2 2021 Earnings Call

Company Participants

- Alfred Kelly, Chairman and Cheif Executive Officer
- Jennifer Como, Vice President - Investor Relations
- Mike Milotich, Senior Vice President, Investor Relation
- Vasant Prabhu, Vice Chairman and Cheif Financial Officer

Other Participants

- Dan Dolev, Analyst
- Dan Perlin, Analyst
- Darrin Peller, Analyst
- David Togut, Analyst
- Harshita Rawat, Analyst
- Jamie Friedman, Analyst
- Jason Kupferberg, Analyst
- Lisa Ellis, Analyst
- Tien-Tsin Huang, Analyst
- Timothy Chiodo, Analyst

Presentation

Operator

Welcome to Visa's Fiscal Second Quarter 2021 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 from Investor Relations, Ms. Jennifer Como and Mr. Mike Milotich. Ms. Como, you may now begin.

Jennifer Como {BIO 20121273 <GO>}

Thanks, Jordan. Good afternoon everyone and welcome to Visa's Fiscal Second Quarter 2021 Earnings Call. Joining us today are Al Kelly, Visa's Chairman and Chief Executive Officer and Vasant Prabhu, Visa's Vice Chairman and Chief Financial Officer. This call is being webcast on the Investor Relations section of our website at www.investor.visa.com. A replay will be archived on our site for 30 days. A slide deck containing financial and statistical highlights has been posted on our IR website.

Let me also remind you that this presentation includes forward-looking statements. These statements are not guarantees of future performance and our actual results could differ materially as the result of many factors. Additional information concerning those factors is available in our most recent reports on Forms 10-K and 10-Q, which you can find on the SEC's website and the Investor Relations section of our website. For non-GAAP financial information disclosed in this call, the related GAAP measures and reconciliation are available in today's earnings release.

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

Alfred Kelly {BIO 2121459 <GO>}

Jennifer. Thank you and congratulations on your second anniversary with Visa. Good afternoon everyone and thanks for joining us today. I'm going to provide a few quick stats on the quarter and then share my thoughts on what's ahead as the world continues to recover. The recovery is going to take many different shapes and the timing will differ around the world based on vaccination rollouts and the easing of restrictions. But we believe we're at the beginning of the end of the pandemic and the recovery is well underway at least in a number of markets.

First, Q2 results. Revenue declined 2% year-over-year, but we're slightly positive at 20 basis points, if service revenues were recognized on current quarter payments volume. Non-GAAP EPS was $1.38, a decrease of 1%. When looking at volumes and transactions growth, keep in mind that we're now lapping the start of the pandemic, as growth rates are now less indicative of performance in the business trajectory, we're going to also provide some metrics compared to 2019 on a constant dollar basis. So payments volume grew 11% improving seven points from Q1 and reached 116% of 2019, which is up three points from Q1. Cross-border volume excluding intra-Europe declined 21% but improved 12 points from Q1 and is 75% of 2019 levels, three points better than Q1.

Process transactions growth of 8% improved four points from Q1 and represented 116% of 2019, which is consistent with the first quarter. This quarter, we continue to make progress across our three growth levers. First consumer payments; in Asia Pacific, we renewed our partnership with Rakuten card, a subsidiary of Rakuten Group, the largest e-commerce marketplace in Japan. In Korea, Visa won the first hotel chain co-brand in the country with Marriott and Shinhan Card Korea's largest issuer.

In China, we renewed our credit portfolios with CITIC Bank and Agricultural Bank of China, two of the top 10 largest banks in the country. Also on the co-brand front in Brazil, Samsung in partnership with Banco (inaudible) will issue their inaugural co-brand in Latin America with Visa targeting Samsung's 57 million Brazilian users.

In Europe, Visa won incremental business with BNP Paribas Fortis in Belgium. This expands our relationship to include 4 million debit cards in addition to our existing credit relationship. In Switzerland, we gained significant traction in growing Visa debit. Since this January of 2019, we have signed 13 new debit deals representing an incremental 2.6 million cards. In new flows, Visa Direct transactions grew almost 60% in the second quarter.

We're pleased to have clients going live now and with Visa Direct payouts, which offers the flexible set of API for Visa partners globally to use a single point of connection for push payments to cards and accounts. MoneyGram, Goldman Sachs Transaction Banking, Standard Chartered Bank Hong Kong and KyckGloba are among the first to start utilizing Visa Direct payouts for B2C, cross-border, P2P and B2b payouts. A few additional highlights on specific Visa Direct use cases include that in the marketplace -- in marketplace payouts, Airbnb which now has 4 million hosts globally will offer host payouts using Visa Direct in select markets.

In cross-border P2P Remitly, a top digital remittance FinTech has renewed its Visa Direct relationship building upon the past two years of partnership and a model bank in Ukraine enabled cross-border P2P to their 1.3 -- the earned wage -- with 25 earned wage access platforms now offering Visa Direct for fast and convenient access to employee earnings.

B2C to see continues to grow as well. Global Blue, a leading tax-free shopping solutions company covering 52 countries and 35 million tax free transactions into 2019 is utilizing Visa Direct to distribute tax refund payments across Europe. Separate from Visa Direct, we supported the U.S. government's disbursements of economic impact payments to nearly 13 million Visa prepaid credentials in the U.S. so far this year. And now to our third growth lever value-added services, we're continuing to see strong adoption. Let me highlight a couple of examples. For CyberSource Planet a European acquirer and payment services provider that delivers payment processing in currency conversion solutions to over 600,000 merchants, we'll be partnering with CyberSource to simplify payments across the hospitality, food and beverage and retail sectors. KeyBanc, a top U.S. acquirer will begin to offer CyberSource to its merchant clients. And in e-commerce continues to grow decision manager, a key risk[ph] offering of CyberSource increased transactions over 30% fiscal year-to-date.

Our other risk, fraud and authentication capabilities grew as well. For example, we've now crossed the 2 billion tokens milestone, up from 1.4 billion tokens just in September. One of our key authentication capabilities, CardinalCommerce grew revenue almost 40% -- almost 50% year-over-year this quarter by rapidly expanding beyond the U.S. origins. In the next year we plan to more than double our clients in Europe and Central Europe, middle east and Africa.

So while the pandemic has disrupted the world, it is not changed our strategy. In fact, it has reinforced our belief that our three areas of focus will deliver robust growth for years to come. As we look ahead, with COVID recovery underway, a few key important reality, mainly the way consumers feel about e-commerce, tax and travel will particularly impact Visa. The pandemic has accelerated e-commerce, global card-not-present credentials excluding travel grew over 20% in the quarter versus last year. Our growth in card-not-present payment volume excluding travel has averaged at least 30% in the United States, Canada, Brazil, the United Kingdom, Italy, Germany, India and Singapore over the last three quarters.

And in global cross border excluding intra-Europe it's averaged 20% growth. We believe this shift is likely to persist as the convenience of e-commerce is indisputable and its growth continues to be robust even as card-present begins to return. In March, in the

United States as some states loosened transactions, card present as a percentage of 2019 spend improved 11 points versus February. While at the same time card-not-present excluding travel still expanded eight points. You look at that in Germany -- in Japan where restrictions were also lifted, card present improved six points and card-not-present excluding travel is still improving. The debit cash and we see the impact in last 12 months, just on the Visa brand such as with ATM withdrawals, we see that global debit cash volumes have decreased by 7% or debit payments growth has -- payments volume has grown 16% both on a constant dollar basis. This 20 point GAAP is more than double the historic GAAP in growth rates and relatively consistent globally, demonstrating cash digitization in both mature and emerging regions. Overall, Visa tap-to-pay transactions have grown over 30% year-over-year in March.

In Europe, less than a year since contactless limits increased across the region, Visa has seen 1 billion additional touch free transactions. In the United States, one in ten face to face Visa transactions are now done with the tap, more than a two times increase since the beginning of the pandemic. In New York city, the penetration is nearly 30%, demonstrating the potential of focused issuance and merchant enabling it along with transit.

In the past three years alone, we've enabled nearly 250 transit systems globally and we can see based on our research that enabling tap-to-pay on transit can bring more than a 50% lift in transactions for merchants in the surrounding neighborhoods. The decline in travel is temporary and we're starting to see some early signs of recovery. Cross-border travel related spending excluding inter-Europe improved from Q1 driven by two factors. First, those who were abroad are spending more likely because of fewer restrictions.

This quarter, essentially all of the cross-border travel spend improvement was driven by higher spend per card rather than more active cards. Second, we continue to see strength from countries with open border. For example, U.S. to Mexico volume was almost 20% above 2019 level for the quarter. We also saw several top corridors between the U.S. and Latin America improve by more than 10 points through the quarter versus 2019. Travel will certainly take more time to recover than other sectors, but we believe personal travel in particular will come back and that's good for Visa for two primary reasons. One, because the vast majority of the travel we capture on our credentials is consumer and two, we are the global leader in travel co-brand. With the backdrop of travel cash digitization of e-commerce, let's briefly explorer, the future potential of our three growth levers. In consumer payments, in the last two years, we've grown our credentials to 3.6 billion and physical merchant locations to over 70 million, up 7% and 34% respectively.

And remember that our merchant locations only count our partners like PayPal and Square each as one. That said, there is ample opportunity as we focus on specific regions and partners. Looking at regions, even with our leading position in both emerging and developed markets, our market driven approach to growing credentials is succeeding and Europe is an excellent example. From 2018 to 2020, we grew active card credentials by 10% and looking ahead, we have line of sight to more than 25 million additional credentials across 50 clients in the next few years.

Let me cite a couple of recent partnerships that would show this rapid growth. Since fintech Revolut signed a global agreement in September 2019 selecting Visa as their lead issuing partner, they've increased the number of cards and payments volume by more than 200% through December 2020. Crypto.com has launched Visa cards in 39 markets across their 10 million user base since 2018. And just this quarter they signed a global growth agreement with us covering 12 markets with plans to expand to even more. There are so many more partners issuing credentials and building acceptance for example, wallet providers represent the potential for another 2 billion credentials and 70 million acceptance locations over time and the pace of growth here is fast.

GoMoney in Russia recently signed on to issue Visa credentials and has achieved more than 1 million credentials in just five months. In fiscal Q2 last year, we announced that STC Pay Saudi Arabia's largest wireless operator with 25 million subscribers plan to embed credentials in their STC wallet -- Pay wallets. To date more than a million Visa credentials have been issued. Our ongoing partnership with Paytm has enabled us to add more than 250,000 contactless enabled acceptance locations at new to card merchants.

While the number of Visa credentials issued by Paytm has more than doubled since September of 2020 reaching a total of 3 million. Around the world tap-to-phone has also been a significant acceptance effort. Today, more than 35 markets offer it with 13 more being added this year. Wallets and tap-to-phone or just a couple of next-gen 7 billion on bank growing the pie to digital payments, open it to partnering with traditional and new players and by developing new ways we engage the ecosystem all rooted in our strong brand and in technology.

In new flows, our success in the United States is a real asset, while (inaudible) has been impacted by the pandemic our strategies against the 120 trillion dollar opportunity represent near, medium and longer term growth for Visa. In the near term, we're focused on supporting businesses, small and large. To date, we've held 12 million micro and small businesses to digitize and grow and grow against our 50 million global goal. And we continue to focus on card-based solutions. Visa has about 20% more commercial issuers today than we did four years ago.

In the medium term Visa B2B Connect addresses the major pain points with the current top solution and cross-border B2B and we are continuing to head banks to reach scale. In the longer term. We're working with key partners to solve the challenges accounts payable and accounts receivable. For the other $65 trillion of new flows Visa Direct has five clear competitive advantages that we believe will continue to drive growth. The first one is reach. In Visa Direct, the endpoints are card credentials and bank accounts.

And we could reach 5 billion endpoints globally. This is unrivaled by anyone else. Second, operating scale, Visa direct is built upon the operating scale of Visa Net and leverages it's real time authorization clearing and settlement capabilities. This means we can deliver industry-leading solutions with low marginal costs. Third is commitment to a network of network strategy. Visa direct is truly multi-rail, which provides clients flexibility and efficiency. Just in the last year, it has utilizing 16 card-based networks, 65 ACM schemes, seven RTP networks and five payment gateways.

That is more connections, coverage and capability that we've seen from any other network offering. Fourth, investments in our capabilities. We have invested in leading technology stack for both payouts and account funding capabilities. For example our account funding capabilities include unique codes to help clients manage risk, compliance and authorizations for money movement transactions with APIs to streamline implementation for apps, neo banks and fintechs. To our knowledge no one else has this capability. Fifth, its commercialization. We've now enabled over 20 use cases with more than 450 new program launches. And we will continue to expand by one, growing existing use cases like marketplaces and cross-border P2P; two, bringing existing use cases like P2P, payroll and earned wage assets to other new markets and three, developing new use cases such as tipping.

Visa Direct also brings a network effect in terms of benefits to Visa. For every dollar received on a debit card through Visa Direct, about half of it is then used for debit card purchases. Furthermore cardholders who receive payments through Visa Direct then spend up to 50% more than those who do not. So Visa Direct is actually not only helping new flows but it's is helping consumer payments.

Lastly, let's turn to value-added services which are being utilized by our clients more and more. In fiscal year 2020, more than 60% of our clients used at least five value added services for Visa and more than 30% of our clients used 10 or more. Our toolbox is large with hands on consulting, sophisticated and flexible technology platform, valuable data and insight and card benefits, all of which will improve with the recovery. We also have three platform businesses that scale very profitably, CyberSource, issuer processing and risk identity and offered authentication. With the recovery and the continued strength in e-commerce and debit these capabilities are well aligned with trends towards digitization. Let me just speak about CyberSource as an example.

Our strategy to partner with acquirers creates a leveraged opportunity for future growth, both transaction growth and cross-selling value-added services. We mentioned last year the Japanese acquire SMCC was going to start offering CyberSource capabilities to its merchant customers. Starting with one nationwide convenience store chain and rapidly expanding to over 30,000 merchants SMCC is now delivering next generation acquiring solutions to Japanese merchants and CyberSource is processing over 0.5 million e-commerce and in person transactions per day.

With all this opportunity across the three levers, we are investing heavily to drive future growth in several areas including simple compelling user experiences. Examples include tap-to-Pay, tap-to-phone and equipped with the capabilities to scale new flows and value-added services. Examples include new Visa Direct use cases and advancing fraud and identity solutions. Specific markets that can benefit from targeted resources, such as Europe and Africa.

Innovations in payment -- in the payments ecosystem such as crypto APIs for banks and digital currency settlement. So far Visa has weathered the COVID storm and emerging from the pandemic even stronger. There is significant opportunity ahead and Visa is existing present scale and capabilities position us well to capture more growth in the future.

With that, now let me turn it over to Vasant for more colors on our financials then what we see ahead. Vasant, over to you.

Vasant Prabhu {BIO 1958035 <GO>}

Thank you, Al. Good afternoon, everyone. Our fiscal second quarter results were stronger than we expected with net revenue down 2% largely due to improving cross-border volumes and lower than expected client incentives. GAAP EPS was flat to last year and non-GAAP EPS declined 1%, helped by a lower tax rate. Exchange rate shifts increased net revenue by half a point, but lower EPS by half a point due to currency related benefits in the second quarter last year.

As Al mentioned, as we lapped most significant COVID 19 impact starting in March 2020 year-over-year growth rates are not the best indicator of the underlying trend. To help you better assess both the magnitude and the trajectory of the recovery so far, we have also provided growth rates for key performance metrics relative to fiscal year 2019. In constant dollars global payments volume year-over-year growth was over 11% fueled by continued strength in debit as well as improving credit spending.

Compared to the corresponding quarter in 2019 global payments volume was 16% higher, a 3 point acceleration from the first quarter. Excluding China, total payments volume growth was 13% or 20% higher than 2019 as Chinese domestic volumes continue to be impacted by dual branded card conversion which have minimal revenue impact. U.S. payments volume growth was 18% and up 24% in 2019 benefiting from economic impact payments in early January and mid-March, as well as the relaxing of COVID related restriction and spending in mid-February.

Economic impact payments (Technical Difficulty) debit growth accelerated 13 points to 34%, up 44% from 2019 boosted by the two economic impact payments in this quarter. Credit growth was 2%, up 6% from 2019. The credit improvement was helped by increases in retail, travel, restaurant, and entertainment spending mostly starting in early March as restrictions were relaxed in many states. It is important to note that credit has improved without debit flowing pointing to accelerated cash displacement.

Card-not-present volume excluding travel continued to grow over 30% in the quarter and was 55% above 2019 levels primarily driven by retail spend. The most notable sign of a domestic recovery was card present spend growing 4%, which is up 3% over 2019 as base point acceleration from the first quarter led by retail and restaurant spending. Improving card present spending does not flow e-commerce indicating that e-commerce trend is likely to continue even as card present spend recovers.

International constant dollar payments volume growth was 6%, up 9% from 2019. A few regional highlights; EMEA remains our fastest growing region growing 26%, up 50% from 2019 levels. The easing of COVID related restrictions, particularly in the Middle East and Russia as well as client wins drove the robust growth. Latin America grew 23%, up 40% from 2019 with consistently strong performance across the region, mostly fueled by accelerating e-commerce adoption and usage as well as client wins.

Europe grew 2%, up 8% from 2019 but decelerated from the last quarter as many countries with significant COVID restrictions in place, particularly in the UK, France, Italy and Germany. In Asia Pacific, excluding China, second quarter spending grew 4%, up 8% from 2019. Performance across the regions varied based on the level of COVID restrictions with markets like New Zealand and Singapore growing strongly while markets like Hong Kong and Japan, which restrictions for most of the quarter, were weaker.

Global profit transaction growth was 8%, up 15% from 2019 lagging volume growth due to higher ticket sizes, particularly in the U.S. and significant COVID restrictions in Europe. Visa Direct continues to perform well. The transaction is growing almost 60% globally this quarter consistent for the first quarter. The cross-border volume recovery continued despite most borders remaining completely or partially closed. Constant dollar cross-border volume excluding transactions within Europe declined 21% in the second quarter and over 75% of 2019 volumes.

Looking at the trajectory versus 2019, this was a 3 point improvement from the first quarter. We are seeing the typical seasonal uptick in March and into April, which is a positive sign as we look ahead to the summer. Card-not-present excluding travel volume continue to be very strong, growing 28% year-over-year up 44% from 2019, driven mostly by retail spending and some benefit from cryptocurrency purchases.

Cross-border travel related spend declined 55% year over year and what 39% of 2019 levels. Card present spend as a percentage of 2019 expanded three points versus the first quarter. Some color on the state of cross-border travel as we approach the important summer travel season. Travel to and from the U.S. and Latin America is the best performing corridors almost 90% of 2019 levels by March. Helped by U.S. travel, travel into Latin America in general has recovered to over 80% of 2019.

Travel between Russia and neighboring countries as well as travel in and out of the Gulf States has helped EMEA cross-border travel to recover two-thirds of its pre-COVID volume. Cross-border travel in and out of Asian countries remains very depressed, down almost 75% versus 2019 and flat lining for the past six months. Travel into the U.S., an important corridor for us and also down 70% versus 2019 in March that has been recovering slowly.

With significant U.S. - Canada border restrictions travel is still down about 80% relative to 2019 in this corridor. As Europe has increased COVID restrictions, travel in and out of Europe remains hard hit, down over 60% versus 2019 in March.

Moving now to a quick review of second quarter financial results. Net revenue declined 2% had we recognized service revenues on current quarter payments volume that revenue growth would have been slightly positive. So this revenues grew 8% helped by small pricing modifications. Data processing grew 11% with strong value added services growth continuing to be partially offset by the mix shift away from higher yielding cross-border transactions.

International transaction revenue were down 19% in line with nominal cross-border volume excluding intra-Europe. Other revenues were flat negatively impacted by low usage of travel related card benefits and client marketing projects pushed to later in the year while advisory services continue to grow strongly. In total, value-added services revenue continue to perform well growing 14% with strong growth in CyberSource security and identity solutions. This quarter we reclassified some prior period travel related card benefits as value-added services and as such, our previously reported first quarter revenue growth would have been similar to the second quarter on a comparable basis.

Client incentives were 25.8% of gross revenues, lower than expected due to better than cross border volume lifting gross revenue and lower Europe and Asia Pacific volume benefiting client incentives. Non-GAAP operating expenses grew 3% in line with expectations. We recorded gains from our equity investments of $156 million excluding investment gains non-GAAP, non-operating expense was $109 million for the fiscal second quarter, below our expectations primarily due to benefits, one of which is offset in personnel expenses and the other is related to the completion of certain tax audits.

These completed audits also benefited our GAAP and non-GAAP tax rate with a non-GAAP tax rate lower than expected at 16.8%. GAAP and non-GAAP EPS was $1.38 -- $1.38 we launched 8.3 million shares of Class A common stock at an average price of $208.51 for $1.7 billion this quarter. Including our quarterly dividend of $0.32 per share, we returned approximately $2.4 billion of capital to shareholders in the quarter. Turning from the past to the future, I'll start with key business driver trends through April '21.

As you look at these weekly trends, keep in mind three key factors; one, year-over-year growth is lapping the 2020 lows in many cases. Two, the timing of Easter is impactful. Three, in the US, there are peaks in debit spending when economic impact payments are deposited in people's bank accounts. So April '21, U.S. payments volume growth was 64% with US debit growing 67% and credit up 61, volume debit and credit 51% and looking outside the U.S. trend versus 2019 are relatively stable, notable exceptions include the UK improving as restrictions relaxed while India is slowing as restrictions increased. Process transaction growth was 58%, up 16% from 2019, which is consistent with the second quarter. Cross-border volume excluding transactions within Europe on a constant dollar basis grew 63% and was at 78% of 2019, which is 3 points above the second quarter and 1 point above March. As we look ahead, there are several positive cross-border travel indicators to highlight. Travel bubbles are being created, Australia-New Zealand is already in place with an immediate and substantial uptick in bookings.

Hong Kong-Singapore is starting in late May with more likely. So far, all indications are that some popular tourist destinations in Southern Europe will be open for the summer and bookings are trending well. Just this week, it was announced that Europe's borders will be open to vaccinated visitors from the U.S. this summer. As the U.S. vaccination program moves along fast, it is possible that travel to and from the U.S. will gather momentum into the summer.

Airlines are adding capacity in anticipation. The trajectory of the cross-border travel recovery remains a key metric to watch. We will be monitoring all leading indicators using the border restrictions, forward bookings, as well as a range of consumer intentions and we'll update you as we learn more. As in previous quarter accurate forecasting is difficult in this fast changing environment. Assuming stable to improving trend relative to FY '19 continues, Q3 net revenue growth is expected to be in the high teens.

The cross-border travel recovery trajectory will be the key factor to watch. Client incentives as a percent of gross revenue are expected to increase 1 to 1.5 points, above the second-quarter levels as client volumes grow significantly over the last year's low, and service fees are recognized in the quarter lag. We plan to increase operating expenses in the mid-teens in the third quarter as we step up investments on marketing and key initiatives to capture the significant growth opportunities, Al described.

We expect non-operating expense to be around the $130 million, consistent with the second quarter, excluding the non-recurring impacts, I mentioned earlier. Our tax rate expectations are 19% to 19.5%, again consistent with last quarter's expectations before the tax audit completion in the second quarter I mentioned earlier. In closing, we're stepping up our investments to drive accelerated growth in a post COVID world.

A few points to highlight. Our net revenue and profits are at fiscal year '19 levels even as a rebound in travel especially cross border travel still remains ahead of after the world is vaccinated and borders reopen. There is significant pent-up demand for travel in particular, personal travel. Large swathes of new consumers worldwide have been introduced to the ease, convenience and security that digital payments can offer. This is evidenced by the significant global growth in debit as consumers abandoned cash at an accelerated pace.

These are habits we believe will not only stick but also continue to grow, helped by initiatives such as tap-to-pay. Consumers, merchants and governments globally have recognized the value of e-commerce through the pandemic. Governments are upgrading the digital infrastructures, merchants are significantly enhancing the e-commerce capabilities and more consumers are turning to e-commerce across more categories and also cross border. We expect these trends will only accelerate.

Within our new flows business, Visa Direct has continued to grow at extraordinary rates. The pandemic has expanded adoption of use cases in B2B, B2C and G2C, many use cases in markets I just starting to scale. B2B remains a huge opportunity and we are committed to our three-pronged approach to drive growth card-based, cross border and large enterprise accounts receivable and payables with many capability scaling or launching in the new future -- in the near future.

Our value-added services have sustained high growth despite lower usage of travel related services. Debit and eCommerce acceleration has driven growth in our debit processing, security and identity and CyberSource businesses and recovery in travel related services lies ahead. As a result, we see acceleration across all three vectors of growth in consumer payments, new flows and value-added services. As Al indicated, we are investing in the strategies and capabilities required to capture these growth opportunities.

With that, I'll hand it back to Mike for the Q&A session.

Mike Milotich {BIO 20581476 <GO>}

Thank you, Vasant. Jordan, we're now ready to take questions.

Questions And Answers

Operator

(Operator Instructions) Our first question Timothy Chiodo from Credit Suisse. Your line is open.

Q - Timothy Chiodo {BIO 16128908 <GO>}

Thanks a lot for taking the question. I wanted to touch on the evolving mix of the cross-border business. So within cross border, you called out a couple of use cases for Visa Direct,earlier you touched on remittances, you touched on marketplace payouts but separately we'd add to that list some of the new flows within cross border B2B. So maybe you could just comment a little bit on the prospects for those new areas of cross-border to come into the mix and maybe be a more meaningful portion over the next, call it three to five years.

A - Alfred Kelly {BIO 2121459 <GO>}

Well, I think as we grow out our capabilities, we see its recovery in the pandemic. I think the Visa payout capability, we just put in place, which basically brings together what was Earthport and Visa Direct and gives a single point of connection is going to facilitate many more use cases and make it very, very easy for people to spend money cross-border and that's kind of the high there volume, lower value types of transactions.

I think we are continuing to make progress in connecting more banks around the world to B2B Connect and as we complete the grow out of that network over the next few years, I see us having great capability to drive cross-border B2B high value lower volume types of transactions. So, I think the combination of our capabilities, what has happened in terms of continued adoption of digitization and the capabilities that we have built and the use cases that we are working with today and anticipate adding to the mix over time. I think this could become an increasingly important and growing part of our business.

A - Vasant Prabhu {BIO 1958035 <GO>}

A couple of things to add, when we, before we got into the pandemic two-thirds of our cross-border business was travel related, one-third was e-commerce related. Today in the second -- in the second quarter, two-thirds of our business was cross border e-commerce, one-third was travel. It has two things; one, how much our cross-border e-commerce business has grown and the second, how much recovery is left in our cross-border travel business because as Al said, most of our cross-border travel is personnel travel and there is a substantial amount of personal travel that is going to come back once borders reopen.

So, the traditional cross border e-commerce is an area of significant growth. We've seen that as people move online they become somewhat less sensitive to where the product is shipped from and there's just a lot more cross-border e-commerce. The other use case that holds a lot of potential is to the extent that crypto-related transactions become significant and been enabling, as you know, a vast number of them. One use case that is particularly useful in a stable coin or bitcoin type scenarios is cross-border and that is another new use case that could have a lot of potential in the long term.

Q - Timothy Chiodo {BIO 16128908 <GO>}

Thanks a lot Vasant, that's exactly what I was trying to get at, the mix has certainly put more e-com and there are some new flows that are coming in to keep the travel portion lower than it was pre-COVID. So, thank you so much for taking the question.

A - Mike Milotich {BIO 20581476 <GO>}

Next question please, Jordan.

Operator

Next question comes from Darrin Peller from Wolfe Research. Your line is open.

Q - Darrin Peller {BIO 16385359 <GO>}

Hey, thanks guys and nice job. You know, when we look at the slide, the index to 19 was really helpful. I'm showing 16% up from '19 levels. I mean there's a lot of considerations are getting at about including stimulus and higher savings rates, but clearly also structural changes in the industry, which some of which we just touched on e-com, but just more going on debit cards faster across the whole industry, how do you parse out what you see as structurally sustainable, e-com is a part, you mentioned but even beyond that, just more on maybe small ticket versus what was maybe stimulus driven in near-term? Thanks guys.

A - Alfred Kelly {BIO 2121459 <GO>}

I'll start Darrin, first of all, I think we definitely see millions of new people coming into the e-com shoppers who weren't there before. And I don't think they're going to turn backward at all. So I think that certainly remains, obviously as we get out of the pandemic the stimulus types of the money will dry up and that will go away. I think the people being concerned about cash and much more comfortable shopping online, the combination of that will continue. I think that will also see structurally much more tap-to-pay as people find that to be a more helpful way to shop.

I think we've seen governments during this pandemic become bigger clients and they are increasingly interested in showing the way in terms of digitizing more of what they do in as a government that I think we'll see more of that activity picking as well. I think that in general, we had before the pandemic, very little separation in growth rate between debit and credit in any given month or quarter they would kind of grow within a percentage point of each other. We saw our incredible separation during the pandemic, as much as 40 points of differential in terms of growth. We are now seeing in this quarter credit come back a bit and start to drift into positive territory. But I think that at least for the foreseeable future and maybe for longer that I think you're going to see debit continue to grow above credit although as travel comes back that should certainly bounce back credit volumes, particularly since most of the travel co-brand cards and many of the actual travelers tend to use credit cards.

A - Vasant Prabhu {BIO 1958035 <GO>}

I mean, a couple of other thing to add there is, as you know, debit has become the engine for cash digitization and what we see in this -- in this pandemic, especially as it has gone on for quite a while, is there is often the hurdle in getting people to change habits. So people are used to using cash, getting them to use digital forms of payment that takes some time. This pandemic has called a range of changes in behavior because there was no choice, whether it's an emerging markets, where there was a greater propensity to use cash or certain cultures, you've heard of Germany in Japan as having been very cash-based economies for a very long time or habits in terms of people using cash for certain categories like food and drug, that's changing or people using more cash at the physical point of sale, as Al said, with the cash-dirty risk as well as tap-to-pay making payments easier in the physical point of sale, we are seeing a substantial shift towards cash digitization even at the physical point of sale and then the point you said about smaller and smaller transactions that used to be cash moving digital, again tap-to-pay is a big engine for that and the trajectory of tap-to-pay remains very significant and we are probably within a year coming to the point where the U.S. will be in take off with tap-to-pay too, which is a very big market.

Q - Darrin Peller {BIO 16385359 <GO>}

Really helpful guys. Thanks.

Operator

Our next question comes from David Togut from Evercore ISI. Your line is open.

Q - David Togut {BIO 1496355 <GO>}

Thank you very much. Just bridging to Darren's question on structural changes. When you look at the heightened shift to e-commerce which you've indicated will likely accelerate even post COVID, can you talk about your funding mix of e-commerce transactions, debit vs credit, specifically how you expect that to evolve with economic reopening, would you expect consumers to leave a little bit more heavily on their credit cards as the economy rebounds or should debit likely remain the primary funding of e-commerce transactions?

A - Alfred Kelly {BIO 2121459 <GO>}

Well, David. I think one of the incredible stories of the pandemic was that debit has become the cash of the e-commerce world and people are doing much more everyday shopping post the pandemic than they did pre the pandemic. The amount of food orders that are placed and take out orders that are placed, buying normal household staples that might have been -- many of them were in person, the vast majority, and maybe even some of them were in cash, but we just seeing the type of transaction that typically goes along with debit is everyday spend. And so what we're seeing as a real structural changes everyday spend is movement from in-person to e-commerce in a big way. I do think though that credit will make a rebound, particularly as some of the larger discretionary spending comes back in the affluent get back into making travel reservations as the online travel agency business starts to grow.

I think that there'll be a closing of the gap between credit versus debit growth and credit growth, but again as I said to Darrin, I'm not sure that we get back to those two different card platforms growing at the same level going forward. I think we'd certainly close the gap, but I think at least as far out is I'm looking right now debit will continue to outpace the growth of credit.

Q - David Togut {BIO 1496355 <GO>}

Thank you very much.

A - Alfred Kelly {BIO 2121459 <GO>}

Thank you.

Operator

Our next question comes from Tien-Tsin Huang from J.P. Morgan. Your line is open.

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

Hey, thanks so much. I think lot of volume growth and good detail here, but I want to ask maybe differently about credential growth, building on the last couple of answers here, it seems like everyone is trying to bank their users by giving them cards and there's a lot of new use cases around virtual cards. So, I'm wondering it was other out, if you think about credential growth and you compare that to 2019 or are you thinking about potential for issuance or the pipeline for new cards that might be coming out globally, how does that measure today if you want to qualify that, is it much larger than what you would have expected, let's say, pre-pandemic?

A - Alfred Kelly {BIO 2121459 <GO>}

Well, actually I think the (inaudible), good to hear from you. I think that's the pandemic has interrupted a little bit real bolstering of credentials that was driven by a combination of marketplace platforms, wallets, neo-banks et cetera. I cited a number of examples in my remarks about the fact that we think that there is upwards of 2 billion more credentials out there from a lot of those types of players and we've seen by building partnerships with numbers of fintechs over the course of the last year or two, the tremendous amount of opportunity to grow Visa credentials either by having these players become issuers and acquirers for us, which is a very big and important trend particularly in developing countries, but also just getting current Visa credentials into some of the existing wallets. But we believe there is enormous opportunity to grow the number of credentials and it's something that we're certainly focused on, particularly as we talk to the fintechs, the wallets and the neo-banks around the world.

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

It's exciting, appreciate that.

A - Alfred Kelly {BIO 2121459 <GO>}

Thank you, Tien-Tsin.

Operator

Our next question comes from Dan Dolev from Mizuho. Your line is open.

Q - Dan Dolev {BIO 16010277 <GO>}

Hey guys, great quarter. Thanks for taking my question. Can we -- Can you talk a little bit, you spoke a little bit about bitcoin earlier and about to use case for crypto and bitcoin on cross-border transaction. Can you talk a little bit about, more about that and kind of the progress you're making on settlement and stable coins and the steps you've taken on ethereum, I think there's a lot of interest out there and what you guys are doing there and how it's progressing? Thank you.

A - Alfred Kelly {BIO 2121459 <GO>}

Well, thanks Dan. This is an interesting subject. So, let me give a little bit of background to talk about where we see the opportunity. So, you know, first of all, there's two market segments as we see it. One is -- are the Bitcoin the kind of which are primarily assets held by people, they're not used like a form of payments. We've kind of think of them as the digital gold and then there are digital currencies including Central Bank digital currencies and stable coins that are directly backed by existing Fiat currencies and they're definitely emerging as a payment option and they're running on public blockchain which is really an extension of additional network, much like an RTP or APH might be. So our focus is on five different opportunities that we see in this space and I would say that this is a space that we are leaning into in a very, very big way and I think are extremely well positioned.

The first opportunity is really at the core of what we do which is enabling consumers to make a purchase of these currencies or Bitcoin, and we're working hard with wallets and exchanges to make sure we're facilitating acceptance of people's ability to use their Visa cards to buy and, Vasant referenced that in his remarks, that we enjoy some increase in some of the -- buy and paying for people making these purchases on Visa Card. Secondly -- the second opportunity is enabling digital currency cash out to Fiat, so converting a digital currency to a Fiat on a Visa credential which then makes that -- those funds available for shopping at any one of the 70 million Visa merchants and gives immediate utility to the digital currency and we are the clear leader here. We've got over 35 digital currency platform to wallets that have chosen to work with us.

Coinbay, crypto.com, Block five-fold, Bitpanda are just some examples and so, that's certainly a second big opportunity. Thirdly is enabling financial institutions and fintech partners to be able to have a crypto option for their customers. So what we've done in this space as we created APIs that enable financial institution customers to purchase custody or even trade digital currencies held by Anchorage, which is the first federally chartered digital asset bank in the U.S., and we've done our first rollout with First Boulevard, which is digital neo-bank focused on building generational wealth for the black community. So, that's the third opportunity just helping FIIs and FinTechs have this crypto option for their customers. Fourth one is, settlement which you started to reference. We've upgraded our infrastructure to allow a financial institution to settle with these in a digital currency with stable coin starting with US DC. You know, I think you know today we transact in 160 currencies every day and we settle every evening in 25 currencies. So, we're going to now be able to support digital currencies, as an additional settlement currency on our network and on our end, we are going to settling in US DC is they are pretty similar to settling in US dollars, but the mechanics of receiving these fund is a bit different and requires some integration work with several crypto custodian players like Anchorage.

And then the fifth area of opportunity is just working with central banks. You know, Central Bank digital currency is being explored in many nations. And I think it could end up being -- prove to be quite valuable in countries where the infrastructure to distribute cash is either unavailable or limited and it's one of the factors that hinders these 1.7 billion people I referred to on my remarks that are outside the financial mainstream for being in the payout for mainstream. So we're talking to central banks about the criticality though of public private partnership and in particular the criticality of acceptance because for these Central Bank digital currencies to have value, they're going to have to both be secure in the minds of consumers and that's something we have a long track record with and can help. And then secondly, obviously, they have to have some form of utility. So, Dan, that's a bit about how we're thinking about crypto with they will focus on digital currencies in those five opportunities.

Q - Dan Dolev {BIO 16010277 <GO>}

Thank you, Al. Yes definitely sounds like you guys are at the forefront of this so reach out on that. Thank you.

Operator

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

Q - Lisa Ellis {BIO 18884048 <GO>}

Hi, good afternoon guys. Al, I'll use your comment there that debit has becoming the cash of online transactions. As an opening to ask about the online debit competitive environment, can you just highlight or describe what in your view from Visa's perspective are the advantages of Visa signature debit products over alternatives like account to account transfers or pin-less debit for online transactions? Thank you.

A - Vasant Prabhu {BIO 1958035 <GO>}

And I think you're on mute.

A - Alfred Kelly {BIO 2121459 <GO>}

Sorry Vasant. So, I'm going to tread a little bit lightly there in light of the OJK, but we feel very good about our Visa debit business. We think we've got very, very, very good capabilities and we believe that the innovations that we have, the ability to stand behind customers in disputes and other cases makes our products, something that both consumers, merchants and issuers look to choose and we will continue to invest in debit or a product that we hope people use both online and in person purchases around the world.

Q - Lisa Ellis {BIO 18884048 <GO>}

Perfect, thank you. Thanks for covering.

Operator

Our next question comes from Dan Perlin from RBC Capital Markets. Your line is open.

Q - Dan Perlin {BIO 1758057 <GO>}

Thanks, and good evening everyone. I'm -- keeping with the kind of structural change we are seeing beyond tonight. Now, all of these new products; I'm just wondering, how the, you know the long-term growth rates of the company are going to be sustainable, if not accelerating from these kinds of levels you're using these indexes back to '19. But I'm thinking back even a couple of years. It's a much larger organization you seem to outline, you know many potential avenues of growth. So I'm wondering, you know, are you at a point now where there is credit in the actual business itself where it can structurally grow faster than they did over the next 5 to 10 years than maybe you did over the prior 5 to 10 years. Just given all of the new constituents that you are ultimately servicing these days.

A - Alfred Kelly {BIO 2121459 <GO>}

Then we don't typically get into forecasting out that far, but obviously you hopefully got a good sense. In my remarks that we feel like we have three very strong growth drivers and we think each of them has tremendous gas left in the tank and our consumer payments, which has been our stable for years still has huge upside, back to Tien-Tsin's question about financial growth, we think there is trend about as growth in credentials, we think there's tremendous amount of growth in acceptance footprint.

We think there's a tremendous amount of growth when we look at various geographies and we look at the 1.7 billion people that are outside the financial mainstream. When we look at new flows, there is a $185 trillion of opportunity there. So we think we've got two big efforts going in both B2B and Visa Direct to take advantage of those and value-added service is relatively new as well, but we've got -- in terms of how we talk about it, we've had many value added services or capabilities or solutions for years and they've all contributed well to our revenue, but we're increasing been focused on in the last two years and we're driving a lot more revenue and higher revenue growth that we had in consumer payments through value-added services and so we think there is still a tremendous amount of upside there. I commented about the fact that we're getting high usage from a lot of our of our clients, but there is still a huge amount of room to grow with existing -- with clients that are already using value-added services, as well as clients that are not using as many of their value-added services.

So I look ahead and say the future is that very, very bright and adding on top of that, a lot of what we've talked about in terms of digitization and the fact that we will come out of this pandemic and we'll start to see travel recover all of those are extremely good trend for us.

Q - Dan Perlin {BIO 1758057 <GO>}

Excellent. Thank you so much. I appreciate it.

Operator

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

Q - Harshita Rawat {BIO 18652811 <GO>}

Hi good afternoon and thank you for taking my question. My question is on the growth in buy-now pay-later. On a -- in a very long-term time horizon how do you see BNP coexist (inaudible), and I know globally it's small right now, but the growth rates are very impressive and given the partnership with BNP as provider (inaudible) it's a growth here as well as opportunities from your perspective. Thank you.

A - Alfred Kelly {BIO 2121459 <GO>}

I don't know where instalments is going to end up, but we are attacking that like we attack crypto and other things. And assuming that it's going to be successful and that we want to lean in heavily and be in the middle of it and be a driver of what's going to potentially happen. As you alluded to, we have both our strategy but working with third-party providers, as well as offering our own Visa proprietary platform that would allow issuers to offer their own buy-now pay-later capability and we see it as potentially having a very, very good effect for us.

I mean we could see, we could work with all bunch of options, virtual cards from Visa could be used for repayment, a Visa card on file could be used for repayment. We could explore Visa Direct as a way for instalments to be paid off, and in many of those cases, if that's the case what ends up happening is a single purchase turns into a number of instalments. So that one transaction can end up being three to four or five payment transactions, which is certainly very, very good for us.

We also think that this is a space where we can sell value-added services. Data analytics to a broad providers, underwriters for example our risk products to help some of the third-party providers. So, we're doing a lot in this space. We're committed to it, there are countries where it has taken off. There's other countries where it's nascent. I again can't predict exactly where it's going to land, but we are going to -- to the degree that takes off, we're going to -- we're going to be there and be part of it.

Q - Harshita Rawat {BIO 18652811 <GO>}

Great, thanks, Al.

Operator

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

Q - Jamie Friedman {BIO 3041318 <GO>}

Three in the spend per card. I was hoping you could elaborate on that, how you see that evolving I would think with the recovery of travel there to be more gas in the tank there as well. But..

A - Alfred Kelly {BIO 2121459 <GO>}

In travel, we were seeing higher spend per card versus seeing more people active and while we haven't been able to study that what we think is happening is that in places that people can travel there tends to be also just less restrictions and that's just opening up more (Technical Difficulty) and eat a more expensive, order a nice bottle of wine, right now what we're seeing is simply in terms of travel, we haven't we have commented spend per (Technical Difficulty) beyond that.

Q - Jamie Friedman {BIO 3041318 <GO>}

Got it. Thank you.

A - Mike Milotich {BIO 20581476 <GO>}

One last question, Jordan.

Operator

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

Q - Jason Kupferberg {BIO 6867809 <GO>}

Hey, guys. Thank you. I was just curious if you could share with us some of your underlying assumptions for the different gross revenue lines. If we look at the high-teens revenue growth outlook for the -- for the June quarter. I know there's a lot of moving parts in the macro environment. It just seems like high teens could maybe be conservative based on what you've seen in April so far even though I know the comps won't be as easy in May and June. So I would just love to hear more about how you're thinking about the different pieces of gross revenue, could see outlined the rebate piece pretty clearly?

A - Vasant Prabhu {BIO 1958035 <GO>}

I'll just give our best estimate. Service revenue, you know we're recognizing with a quarter lag. So the service revenue as you see in the third quarter, remember will not reflect the revenues related to the volumes in the third quarter. So the third quarter will have a big ramp in volume that you're seeing because we're lapping but revenues and service fees will reflect the revenues from the volumes in the second quarter. It's important to remind people of that. In terms of the cross-border business, I think you see what the trends are. In terms of transactions, I think the trends are fairly stable at this point quarter-over-quarter. A point to make on incentives, it's important for you to note that last year third quarter was when our incentives were really hit because volumes declined. Even though we recognized service fees of our incentives are recognized in the quarter based on quarter volume. So this quarter will see a big ramp and volumes relative to last year, which is going to cause incentives to go up a lot and be compared to a quarter last year, where they went down.

The second thing is we have incentives tied to certain thresholds being achieved last year because of all the drops, thresholds were not achieved, this year we are assuming there will be. So you get an additional amount of incentive because clients are going to hit certain thresholds. So you have to factor in the fact that year-over-year incentives growth is going to be quite high in the third quarter and factor in the fact that we won't have the benefit on the volumes in our service fees because of the lag.

So you should make sure you have all that as you think about our third quarter revenue growth.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Right, okay. Well, thank you for all the color.

A - Mike Milotich {BIO 20581476 <GO>}

And with that, I'd like to thank everyone for joining us today. If you have additional questions you can always reach out to myself or Jennifer and we're happy to help you. So, thanks so much and have a great day.

Operator

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