American Express Company (AXP) CEO Stephen Squeri on Q3 2019 - Earnings Call Transcript

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Q3: 10-18-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $2.08 beats by $0.06 | Revenue of $10.99B (8.33% Y/Y) beats by $47.86M

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American Express Company (NYSE:AXP) Q3 2019 Results Earnings Conference Call
October 18, 2019 8:30 AM ET

Company Participants

Rosie Perez - Head, IR

Stephen Squeri - Chairman and CEO

Jeffrey Campbell - CFO

Conference Call Participants

Craig Maurer - Autonomous Research

Bob Napoli - William Blair

Rick Shane - JPMorgan

Bill Carcache - Nomura Instinet

Moshe Orenbuch - Credit Suisse

Betsy Graseck - Morgan Stanley

Mark DeVries - Barclays

Chris Donat - Sandler & O'Neill

James Friedman - Susquehanna

Jason Kupferberg - Bank of America

Don Fandetti - Wells Fargo

Sanjay Sakhrani - KBW

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the American Express Q3 2019 Earnings Call. [Operator Instructions] As a reminder, today's call is being recorded.

I would now like to turn the conference over to our host, Head of Investor Relations, Ms. Rosie Perez. Please go ahead.

Rosie Perez

Thank you, Alan and thank you, all for joining today's call. As a reminder, before we begin, today's discussion contains forward-looking statements about the company's future business and financial performance. These are based on management's current expectations and are subject to risks and uncertainties. Factors that could cause actual results to differ materially from these statements are included in today's slides and on our reports on file with the SEC.

The discussion today also contains non-GAAP financial measures. The comparable GAAP financial measures are included in this quarter's earnings materials, as well as the earnings materials for the prior periods we discussed. All of these are posted on our website at ir.americanexpress.com.

We'll begin today with Steve Squeri, Chairman and CEO, who will start with some remarks about the company's progress and results. And then Jeff Campbell, CFO, will provide a more detailed review of our financial performance. After that, we'll move to the Q&A session on the results with both Steve and Jeff.

With that, let me turn it over to Steve.

Stephen Squeri

Thanks Rosie. Good morning, everyone and thanks for joining us.

As you saw in our release earlier today, our third quarter results are a continuation of the consistent steady performance we've been delivering over the last few years. We had strong FX-adjusted revenue growth of 9% in the quarter and our EPS of $2.08 was 11% higher than last year.

Consistently high levels of revenue growth we are delivering is the result of the focused approach we've taken in executing our strategy and the strength of our differentiated business model.

This was the 9th straight quarter where FX-adjusted revenue growth was 8% or higher. I'm especially pleased that our revenue growth continues to be driven by a well-balanced mix of spend, loans, and fees.

Card fee revenues were particularly strong, growing 19% and exceeding $1 billion this quarter for the first time. Nearly 70% of the cards we've acquired this year are fee-based products, providing us recurring subscription-like revenues. The trends we saw in the business remain consistent with an economy that continues to expand, albeit at a more modest pace than last year.

Our FX-adjusted proprietary billings grew 7%, led by strong growth in our U.S. and international consumer businesses. We continue to deliver healthy loan growth, and our credit performance remained at industry-leading levels. In fact, better than the expectations we had at the beginning of the year.

So, as you can see, even with some uncertainty in the global economic and political environment, our strategy of investing in share, scale, and relevance is enabling us to deliver steady solid results.

With that in mind, I'd like to discuss our progress on the three company-wide initiatives I laid out at Investor Day. As a reminder, these cut across all of our strategic imperatives. They are focusing on our customer as a platform for growth, expanding and leveraging our network of strategic partners, and prioritizing our investments in international to drive growth.

Let's start with customers as a platform for growth. Our global diverse customer base has become a major source of growth for us. One of the ways we're deepening relationships with existing customers is through the disciplined strategic approach we've taken to continuously refresh our products. These refreshes are not just cosmetic changes.

We're redefining membership by adding innovative, experiential, and rational value that our customers respond well to, and we're pricing for that additional value. In the third quarter, we continued the refresh of our Platinum Card portfolio across several international markets, and we're following a similar playbook with our Gold Cards. Now, we're updating our iconic Green Card.

A few weeks ago, we introduced a new Ocean Plastic design; and later this month, we'll announce an array of changes to the product, including new benefits, broader payment flexibility, and a digital focus. And just yesterday, we announced the major refresh of our Corporate Card program, which includes a number of new features, including newer enhanced benefits with Uber, Hilton, and CLEAR, which is the biometric identification system that expedites the airport security process.

As part of that announcement, we introduced an extension of our Corporate Card program designed to meet the needs of start-ups with features that include corporate liability and dynamic spending capacity.

As I've said on prior occasions, we typically see a significant increase in spending, when our customers add an additional Amex product to their wallets, and our Corporate Card members represent a great opportunity here.

For many of our customers, the Corporate Card is their first American Express product. To encourage them to add a personal card, we're creating ways that provide benefits for carrying both, such as a new program that offers an incentive for Corporate Card members to obtain one of our select consumer cards.

These initiatives are proving to be a terrific platform for growth. We're seeing a lift in spending and engagement on our refreshed products. Over 60% of our total loan growth is coming from existing card members, and we're earning a steady stream of revenues as more customers move to fee-based products, which are priced to the additional value we're delivering.

Our customers have also become one of the best and most efficient ways to bring new card members into the franchise. Through our Member-Get-Member referral program, we've acquired over 250,000 new customers this year so far. In addition, successful referrals have increased 35% compared to last year's third quarter.

Turning to partnerships. The third quarter continued to demonstrate the benefits of our powerful network of partners who help us deliver enhanced value across the enterprise. As I've said before, partnerships are essential to each of our strategic imperatives, and they take many forms from the over 50 co-brand relationships we have around the world to our recent digital partnerships to expanding our merchant network. When we talk about partnerships, we have to start with Delta, our largest, deepest, and longest-running relationship.

At the end of September, we announced seven refreshed Delta SkyMiles co-brand cards as part of our renewed 11-year agreement with the airline. The new cards, which will be available in January in the U.S., will feature a range of customized travel benefits for both consumers and small business card members.

Also in the third quarter, we launched a new small business credit card in the U.K. with British Airways and one in Singapore with Singapore Airlines, and we announced refreshed consumer cards in Canada with AIR MILES and Scotiabank. In addition to co-brands, we've been expanding our digital partnerships.

Earlier this week, we announced two new offerings with PayPal and Venmo for U.S. consumer card members. First is the ability to pay for purchases made through PayPal with membership rewards points. And we're also introducing with the bill functionality within the Amex mobile app. On the merchant side, with the help of our OptBlue partnerships, we remain on track to achieve virtual parity coverage in the U.S. by the end of the year.

In international, our strategy of selectively increasing our investments to drive share, scale, and relevance through a country-by-country approach is delivering strong results. Despite political and economic uncertainty in some regions, international remains the highest growth area of our business.

Third quarter results showed continued strong growth across both consumer and small business segments, driven by results in our top strategic countries where we've allocated incremental investments. Since the beginning of the year, we've launched 18 new or refreshed proprietary cards, three co-brand cards, and 30 network cards across international.

As a result, we're taking share and generating strong billings growth in most of our proprietary countries, with overall FX-adjusted Consumer Proprietary Billings, up 14% in the quarter, and FX-adjusted SME billings up 18%. And finally, we're making good progress on expanding merchant coverage, which is key to our overall international growth strategy.

As you can see, we've made a lot of progress in each of our three priority areas since March and there's more to come. In summary, I feel very good about our performance in the quarter and year-to-date.

As we look ahead, I expect the consistent trends we've seen to continue into Q4, translating into revenue growth of 8% to 10% in the quarter and we are reaffirming our full-year guidance of adjusted EPS between $7.85 and $8.35.

Our performance reinforces my confidence in our ability in today's environment to sustain high levels of revenue growth and consistent double-digit EPS growth, which creates value for our shareholders. I'm excited about the opportunities that lie ahead and look forward to updating you on our progress.

Now, let me turn it over to Jeff.

Jeffrey Campbell

Well, thank you, Steve and good morning, everyone.

It's good to be here today to talk about yet another solid quarter of steady and consistent performance. Let's get right to our summary financials on Slide 3. Third quarter revenues of $11 billion, grew 9% on an FX-adjusted basis, with this growth driven again by a well-balanced mix of spend, lend and fee revenues.

We continue to see a spread between our reported revenue growth of 8% and FX-adjusted revenue growth of 9%. Although the U.S. dollar has strengthened recently, the spread between our reported and FX-adjusted revenue growth has lessened slightly relative to Q2.

As you recall, the year-over-year strengthening of the U.S. dollar began in the third quarter of last year. Assuming the dollar stays roughly where it is today, you should see reported and FX-adjusted revenue growth levels more similar to each other in the fourth quarter 2019.

Our strong topline revenue performance drove net income of $1.8 billion, up 6% from a year ago, and earnings per share was $2.08, representing EPS growth of 11% in the third quarter. This EPS growth was supported by the 4% reduction in our share count enabled by our continued prudent management of the capital generating capabilities of our business model as we returned $5.5 billion in excess capital to shareholders through dividends and share repurchases in the last four quarters.

Turning now to the details of our performance, I'll start with billed business, which you see several views of on Slides 4 through 6. Starting on Slide 4, our FX-adjusted total billings growth for the third quarter was 6%.

We think it is important, though, to continue to breakout the billings growth between our proprietary and network businesses due to the differing trends as we exit our network business in Europe and Australia. We expect to fully lap the billings impact from these exits in 2020.

Our proprietary business, which makes up 86% of our total billings and drives most of our financial results, was up 7% in the third quarter on an FX-adjusted basis. The remaining 14% of our overall billings, which comes from our network business, GNS was down 2% in the third quarter on an FX-adjusted basis.

Turning to our proprietary billed business growth on Slide 5. The trends this quarter continue to be consistent with the economic tone. The U.S. consumer continues to show solid growth with even some modest acceleration as we have gone through 2019. The international consumer shows even higher levels of growth and our commercial customers are lapping a particularly strong 2018 with spending trends that have diverged a bit from the consumer segment.

You see this as you turn to Slide 6. We first spoke last quarter about potential signs of caution in commercial spending trends relative to the strong and steady growth we see in consumer. Over the last few months, the headlines and macro data, which suggests that these trends continue, particularly among the larger corporations within our customer base.

We see these dynamics in our large and global corporate card trends, where we had a 1% decline in billed business on an FX-adjusted basis in the third quarter. So, adjusting for the reduction in spending from just two large customers, where we saw some client-specific decreases, the growth rate would have been a bit above 1% this quarter.

In contrast, spending from our U.S. small and mid-sized enterprise card members or SMEs grew a solid 6% in the third quarter with importantly relatively stable growth throughout the three months of the quarter.

We continue to feel great about the long-term opportunities with both of these customer types. And as Steve highlighted a few minutes ago, we are making investments that leverage our strong leadership position and differentiated business model to take advantage of these opportunities.

International SME remains our highest growing customer type with 18% FX-adjusted billings growth in the third quarter. Given our focus on this segment and the low penetration we have in the top countries where we offer international small business products, we believe we have a long runway to sustain this strong growth.

Moving to U.S. consumer, which made up 33% of the company's billings in the third quarter, billings were up 8%. And taking the number out of decimal, actually a bit stronger than Q1 and Q2. This growth reflects continued strong acquisition performance and solid underlying spend growth from existing customers. These trends also highlight the continued strength of the consumer in the U.S.

Moving to the right, international consumer growth remained in the teens at 14% on an FX-adjusted basis. As we mentioned earlier, we continue to have widespread growth in our proprietary business across key markets, despite the mixed macroeconomic and geopolitical environment.

While growth in Australia and Mexico moderated to the high-single digits this quarter, we continued to see strong growth of 19% in both the U.K. and Japan as well as double-digit growth in our top markets across the EU, all on an FX-adjusted basis.

Finally, on the far right, as I mentioned earlier, Global Network Services was down 2% on an FX-adjusted basis, driven by the impacts of regulation in the European Union and Australia, where we are in the process of exiting our network business.

Although network billings are down in these regions, if you were to exclude the European Union and Australia, the remaining portion of GNS was up 3% on an FX-adjusted basis. Overall then, we continue to feel good about the breadth of our billings growth and the opportunities we see across the range of geographies and customer segments in which we operate.

Turning next to loan performance on Slide 7. Total loan growth was 9% in the third quarter, with over 60% of that growth again coming from our existing customers. We feel good about our lending strategy, which is focused on taking advantage of the unique opportunity we have to deepen our share of our existing customers borrowing. We believe we have a long runway to continue this strategy.

Moving to the right-hand side of Slide 7. Net interest yield was 11.1% in the third quarter, up 30 basis points relative to the prior year, reflecting continued positive impacts from mix and pricing for risk.

We remain focused on optimizing our lending capabilities and pricing constructs, and we have seen lower loan balances on promotional offers, as we have shifted towards more premium products. The combination of loan growth and yield increases are contributing to the 12% growth in net interest income that we delivered this quarter.

Slide 8 then shows the credit implications of our strategy. As you can see, the trends on both write-off rates and delinquencies continued to be stable and benign, reflecting in part the low unemployment rate in relatively stable economy. We see these trends across both our consumer and commercial segments. The GCP net loss ratio remains lower than last year.

And as you've seen in the tables that accompany our earnings release, both consumer and small business credit trends also remained steady. These trends lead to the same conclusion we have reached in each quarter so far this year. We do not see anything in our portfolio that would suggest a significant change in the credit environment, both on the consumer and commercial side. In fact, all of these portfolios are performing much better than we expected at the beginning of the year.

This brings us to provision expense. In the third quarter, provision expense growth was 8%, reflecting the greater stability in our credit trends that began in the second half of 2018. Clearly, as we've gone through the year, credit performance for us as well as for others in the industry has been better than expected. That's what we saw again in the third quarter and as a result, we now expect full-year provision growth of around 10%. While we are on the subject of provision though, let me take a few minutes to talk about CECL.

We are making good progress on our efforts to prepare for implementation on January 1, 2020. We stick with our comments last quarter, based on our work so far, we estimate that if we implemented CECL today, our current total reserves of $2.8 billion would increase by roughly 25% to 40%. This estimate includes a roughly 55% to 70% increase in lending card reserves, somewhat offset by a significantly lower charge card reserve, given the extremely short life of a charge receivable.

Stepping back, there are three important takeaways on CECL that I would like to leave you with. First, we believe that the capital impact of the one-time implementation increase in reserves will likely be very manageable, given our strong balance sheet, 30% plus ROE and spend-centric model.

Next, it is important to keep in mind that CECL will have an impact on our provision expense going forward. Although the ultimate impact will be heavily dependent on many factors, we will likely have higher provision expense under CECL relative to the current accounting methodology, as we continue to grow our loan book. Since we are currently finalizing our CECL models and working on our 2020 plan, we'll provide more color on the expected 2020 impact from CECL on next quarter's call.

Finally, CECL is merely an accounting-driven acceleration of estimated losses. There is no change to the underlying economics, our view of the risk profile, or the ultimate expected losses in our portfolios. Given this as well as our strategy of investing for growth, we do not intend to change our investment plans because of the impact CECL will have on provision expense growth in 2020.

Now, let's get back to our results and turn to the strong revenue growth of 9% on an FX-adjusted basis that you see on Slide 10. The consistent execution of our strategies and our focus on investing in share, scale and relevance has driven topline revenue growth of 8% or more for over two years. This consistent revenue performance has occurred in both the robust economic environment of 2018 and the somewhat slower growth environment of 2019.

And despite the modest sequential deceleration in volume growth we saw this quarter, our revenue growth of 9.4% in the third quarter was relatively flat to the 9.6% growth we delivered last quarter. This revenue growth was again driven by broad-based growth across spend, lend and fee revenues as you can see on Slide 11. And importantly, the portion of our revenue coming from spend and fee revenues remained at 80% in the third quarter, in line with those both recent history and a much longer view of our history.

Discount revenue was up 6% on a reported basis and was up 7% on an FX-adjusted basis, which I'll come back to on the next slide. Net card fee growth accelerated to 19% and as Steve said surpassed $1 billion in the third quarter for the first time. This is the financial outcome of the disciplined approach to product refreshment and our unique value propositions that Steve also talked about in his opening remarks.

We are really pleased by the confidence that our customers place in our value propositions when they choose to pay these subscription-like fees. And as Steve mentioned earlier, but I think it bears repeating, we continue to see that the majority of our new card members, around 70% so far this year, are choosing our fee-based products as well.

Going forward, we feel good about our ability to maintain strong growth in these membership revenues, given the breadth of products that are driving this momentum across geographies and across customer segments.

Net interest income grew 12% in the third quarter, driven by the growth in loans and net yield that I just mentioned a few moments ago. So let's come back now to the largest component of our revenue, discount revenue, on Slide 12.

On the right, you see the discount revenue grew 7% on an FX-adjusted basis, in line with the last two quarters, making this the eighth consecutive quarter with discount revenue growth above 6%. We see this as continued evidence that our strategy of focusing on driving discount revenue, not the average discount rate, is working.

Moving on now to the things we are investing in to drive our strong revenue growth. Let's start with our customer engagement costs, which you can see on Slide 13, were $5 billion in the third quarter, up 11% versus last year. Starting at the bottom, marketing and business development costs were up 11% in the third quarter and were in line with Q2.

Remember that this line has two components, our traditional marketing and promotion expenses and then payments we make to certain partners, primarily corporate clients, GNS partner banks and co-brand partners.

Also remember that this is the second quarter, where we are seeing the impact of our renewed agreement with Delta, which increased our marketing and business development costs by $200 million relative to our original outlook for the full year.

Continuing on to rewards expense, you can see that it was up 9% relative to the prior year, a bit higher than our billing trends, given our evolving value propositions. Moving then to the top of the slide, Card Member services costs were up 22% in the third quarter.

We continue to expect this line to be our fastest growing expense category, as it includes the cost of many components of our differentiated value propositions such as airport lounge access and other travel benefits, which we believe are difficult for others to replicate and help support the strong acquisition and engagement we are seeing on our fee-based products.

Moving on then to operating expenses on Slide 14. We saw a 5% increase in the third quarter, consistent with a long track record of getting operating expense leverage by growing OpEx more slowly than revenues. I would offer two comments here.

First, as I mentioned last quarter, some of the investments we are making to deliver continued strong revenue growth, growth in sales force, premium servicing, digital capabilities, these will cause us for this year to see more growth in this line than we have seen in recent years.

Second, as a reminder, through our Amex Ventures group, we have a strategic investment portfolio of over 40 investments. This quarter's OpEx included a net benefit of roughly $0.05 related to the impact of mark-to-market adjustments on our strategic investment portfolio, which is somewhat higher than the benefit we saw last year. Altogether, I would just sum up by saying that we are confident that we have a long runway to continue to grow our operating expenses more slowly than our revenues.

Turning to capital on Slide 15. Our CET1 ratio in the second quarter was 11%, at the top end of our 10% to 11% target range and we returned $1.8 billion of capital to our shareholders. As we've said, our primary focus is on maintaining our CET1 ratio within our 10% to 11% target range as the governor of our capital distribution plan.

We've historically been very focused on maintaining capital strength, while aggressively returning excess capital to our shareholders and we will continue with that philosophy going forward.

So that brings us to our outlook, and then we'll open the call for your questions. With each quarter of this year, we've demonstrated consistent progress against our objectives of delivering high levels of revenue growth and double-digit EPS growth. Now looking ahead, given today's economic environment, we see a long runway to sustain this performance.

In the near term, to give you a bit more color on the fourth quarter, we expect revenue growth to continue with the strong levels we have seen and to be within our 8% to 10% guidance range for the quarter. And if FX rates stay where they are, the headwind from the strong dollar should lessen in the fourth quarter.

We expect the stability we have seen in our credit trends to continue; the full-year provision growth of around 10%. And given the consistent operating performance trends we have seen throughout the first three quarters of the year, we expect our Q4 EPS results will be very much in line with our year-to-date results, excluding the $0.05 mark-to-market benefit our investment portfolio that we saw in the third quarter and of course, any other contingencies that may occur in the fourth quarter, which would bring us to reaffirm our adjusted earnings guidance of $7.85 to $8.35 for the full year.

In addition, we are working towards having a 2020 plan showing high revenue growth and double-digit EPS growth off of the middle part of our 2019 EPS guidance range. Of course, this assumes we do not see a material deterioration in the economic environment versus where we are today and given my earlier comments around CECL, it does not factor in any potential impacts from CECL in 2020.

To close, our year-to-date performance and expectations for the full year demonstrate consistent execution against our strategies as well as the financial growth algorithm I shared with you at our last Investor Day. We remain focused on sustaining high levels of revenue growth and in today's environment double-digit EPS growth.

With that, I'll turn the call back over to Rosie.

Rosie Perez

Thank you, Jeff.

Before we open up the lines for Q&A, I'll ask those in the queue to please limit yourselves to just one question. Thank you for your cooperation. And with that, the operator will now open up the lines for questions. Operator?

Question-and-Answer Session

Operator

[Operator Instructions] Our first question will come from the line of Craig Maurer from Autonomous Research. Go ahead, please.

Craig Maurer

I have a question on net card fees that basically what I'm trying to get as you showed some acceleration in net card fee growth, cards in the U.S., basic cards-in-force has been largely range-bound throughout the year. So, can net card fees continue to accelerate if cards remain somewhat flattish and should card growth in the U.S. accelerate again or how should we think about that?

Jeffrey Campbell

Craig, as you recall, we tend to discourage people a little bit from looking at that gross cards-in-force number because what's really important here is the quality of the cards you have and the quality of the cards you're bringing in. Both Steve and I talked about the fact that 70% of the new card members we're bringing in are on fee-based products.

We've talked for a couple of quarters now about bringing in generally more premium oriented mix of card members and that cards-in-force number is also influenced by our periodic efforts, frankly, to go back and cancel some inactive card members. So, we feel tremendously strong about the breadth of the products that are driving card fee growth and I think there is a long runway to continue.

Stephen Squeri

Yes. And I think just to add one other point, I think the other thing that's really important is the recent strategy of consistently refreshing our products is critically important to not only growing card fees, but it's also what we've seen is we see an uptick in spending even from existing cardholders.

So again, I think the number is a little bit deceptive, because you've got a clean out and you also have a switch, you've got a lot of upgrades in there as well. So we feel really confident about the strategy we're on.

Operator

We'll next go to the line of Bob Napoli from William Blair. Go ahead, please.

Bob Napoli

A question on your B2B payment strategy. You acquired ACOM Pay during the quarter, and it does automated AP. You have a lot of different partnerships there and so it's an area that massive market TAM, it could move the needle I would think for American Express. Can you update your thoughts on your investments in the B2B payment space in AP and AR automation and if that can move the needle materially for Amex over the long term?

Stephen Squeri

Yes, I think, look, Bob, I think as we've said, and we said this at Investor Day as well, our belief is this is a long-term opportunity. Having said that, we are - we've entered into partnerships with people like bill.com at the real small end of the market. We've done MineralTree and WEX in sort of mid-space, we've done Tradeshift, we've done Ariba.

We have now an investment in ACOM to help sort of automate those processes. But one thing I will point out is, while it is a long-term play, most of our spending in an SME segment today is B2B spending and that continues to grow. So we feel really confident about what we're doing, but as I've said before, the integration into the procurement process, it's a tough integration and it takes time and that's why we do these partnerships, that's why we make these investments and that's why we still believe it's a long-term play. But we are seeing value just from a B2B perspective, especially in SME, where the majority of our spending is B2B, not C&E.

Operator

Our next question, we'll go to the line of Rick Shane with JPMorgan. Go ahead, please.

Rick Shane

Just want to sort of delve into the divergence between acceleration of billed business on an account basis at the consumer level and a deceleration on the commercial business. Historically, has that provided any signal that we should be paying attention to?

Stephen Squeri

No, not necessarily. I think if you look at the last recession, you would have seen sort of the reverse, you would have seen consumer coming down first and then commercial. So, I don't think that is a signal at all. As Jeff pointed out, our consumer business has grown slightly in the U.S. quarter-over-quarter, really strong across all segments as it relates to international, whether it's SME or whether it's consumer, mid-teen double-digit growth.

Let me comment on where you may be seeing some softness as we look at the numbers. You've seen a 1% decline as it relates to global. A couple of adjustments in there with maybe some jet fuel or things like that, but you also have to realize, we're coming off a high. It was almost 10% growth in the third quarter of last year.

So, to me that's almost stable and when I think about large and global, I haven't been involved with this for real long time, I'm pretty comfortable about that.

When you look at our SME in the U.S. and we're about 6% up year-over-year, again, off of a double-digit high. You got to delve into it and when we look at it, we look at sort of three components of that billing.

We look at are we continuing to acquire and that has been steady for us, are we losing accounts either from a competitive perspective or from the perspective of losses account to just go out of business and that has been steady, where we're seeing sort of a softening a little bit is in the organic spend. If you think about it from a retail perspective, you would think of same-store sales. But even that, again, we came off a high in the third quarter of last year, and that's still a positive trend.

So, what would concern me is if that same account spending had gone down, it is not, it is still in positive territory, albeit, not in the same sort of significant growth that we saw. And to be honest, that was growth that we had not seen before.

So, the sustainability of that was questionable on our minds anyway. And so, we feel pretty good about it. And again, as Jeff mentioned, the credit quality, credit quality is still pristine.

Operator

We'll next go to the line of Bill Carcache with Nomura Instinet. Go ahead, please.

Bill Carcache

I had a follow-up question on your fee-based products. Some innovative fintech players like Square are enjoying some success in targeting the unbanked and underbanked customer segment, for example, with their Cash App and goal of getting customers to use it as their primary bank account through direct deposit. You guys were well ahead of this trend years ago when you identified an opportunity to generate fee-based income in the segment with products like Bluebird and Serve. Can you give us some general color on how you guys are thinking about those products today? Do you still see the growth opportunity there as attractive? How focused are you on growing those products as continued innovation and enhancement of the underlying app, something that you guys are investing in? And just in general, are you seeing some customers use Bluebird and Serve for direct deposit? Thanks.

Stephen Squeri

We're not focused on it at all. In fact, we sold that last year to InComm. That's not a segment that we see as an opportunity for us. We took a run at it and the theory of the case was that you would be able to upgrade those customers into our product - into our traditional product set. The reality is that was a bridge too far to cross.

And so we sold off that portfolio of Bluebird, [indiscernible] and Gift Cards to InComm last year. And I think InComm's really happy with that transaction, and we are really happy with that transaction. We do not see that as a growth opportunity for us at all.

Operator

Our next question will be from the line of Moshe Orenbuch with Credit Suisse. Go ahead.

Moshe Orenbuch

Recognizing that credit, no sign of deterioration, in fact, actually is probably improved over the course of the year. Any sense as to how to think about just the impact of CECL on ongoing provisions relative to that kind of 50-ish percent increase on the credit piece as we think about the growth of provisions into next year?

Jeffrey Campbell

Yes, obviously, Moshe. That's a very fair question that we're still not ready to quantify. I do think the range we've given for the one-time impact, you can sort of do some back of the envelope math off of that, but there are so many complex pieces to CECL. Obviously, CECL will also require us to incorporate into our accounting provision forward-looking economic forecast amongst the over 100 other variables that will be part of the 150-plus customer segments and models that drive this.

So directionally, I am very comfortable saying there is some - given our levels of growth, some higher provision expense you would expect in a normal economic environment under CECL. I'm just not ready to give an exact number. I really want to emphasize though what I said in my earlier remarks, which are that from our perspective, this is pure accounting-driven acceleration of losses that ultimately would have run through our financial statements anyway. It has zero impact on real economics.

It has zero impact on our view of risk and that is why as we think about 2020, we think we are going to make a series of decisions about what we're willing and what we think is prudent to invest in continuing to drive the business for the long term, and then we'll let the CECL changes to the region fall where they will.

Operator

We'll go now to the line of Betsy Graseck with Morgan Stanley. Go ahead, please.

Betsy Graseck

So I just wanted to dig in a little bit, Steve, to the comment that you were making earlier around the opportunity to penetrate your corporate card customers with personal card. And the reason I ask the question is, I would have thought this was something that was well done and already was maxed out but your comments suggest it's not. So I wanted to understand is this - is the go-to-market strategy different and what kind of opportunity set you could get?

And then, Jeff, if you could just reiterate the mark-to-market benefit that you had and where we're supposed to strip that out? I'm getting a couple of questions in on exactly where we're supposed to strip that $0.05 out of. Thanks.

Stephen Squeri

Yes. The reality is we really have not focused on penetrating our corporate card base with our personal cards for pretty much forever. We did some test last year. Part of it was a reluctance in our - with our corporate card customers for us to access the base, but the tide has changed. The tide has changed, we've had companies come to us and ask us as they look to bring more value to their employees, can we do that.

And so, this is a welcome opportunity for us. So I would say it is absolutely new territory for us. So it's not been maxed out at all. Let's not to say that our corporate card holders do not have personal cards, but it is to say that we never utilized our corporate card distribution opportunities within the corporate card - companies that have our corporate card.

So we're excited about the opportunity and think that it's going to provide another opportunity to lift our overall cards.

Jeffrey Campbell

On the mark-to-market, Betsy, I'll make two points. Just to remind everyone beginning last January, we and all companies began to have to mark-to-market various investments for us that really means the 40 or so investments we have through our Amex Ventures Fund. In general those margins have not been material. This quarter they were a little bit more materially it netted to about $0.05 positive.

We see that as an ongoing part of our business. My only reference to the $0.05 in terms of, to use your phrase Betsy not mine stripping out. Was that when I talked about Q4, I made the observation that we feel really good about the – consistent operating performance of the company. And we expect Q4 to look very similar to the first three quarters. So as you think about the pure operating performance of the company in the first three quarters.

In Q1, I take the merchant litigation charge out. So that puts you $2 a share. In Q2 it's $2.07 a share and again going back to this operating performance concept in Q3 that takes you to the about $2.03 level. So that's the only context in which I was trying to bring up the $0.05. Thank you for the question.

Operator

We will move on to the line of Mark DeVries with Barclays. Go ahead.

Mark DeVries

I don't imagine you've gotten this question in a while just given how strong your revenue growth has been and it sounds like you're pretty confident. And the outlook for 2020 as well around revenue growth, but I have been getting some questions from investors asking how much room you guys have to control and further growth of OpEx should revenue growth. So Steve, I guess is the guy who is responsible for getting those OpEx under control when revenue is weak and mentioned here in your comments – on thoughts there?

Stephen Squeri

Yes I mean, look I think if you look at sort of how we've controlled OpEx over the last eight years. I think it was an aggregate growth probably about 6% or so. As we look at it as we've sort of changed philosophy a little bit to look at, high revenue growth. It made sense to not walk away from some of these OpEx opportunities that we had. As Jeff said, I don't think this is a consistent playbook that we're going to run, but I have all the confidence in the world in our ability to control to control OpEx.

We're still providing operating leverage when you think about sort of nine to five here, which is what we've done. The problem is when you're growing revenue at four and you're growing revenue of five if you want that leverage, you got to grow OpEx at about one. So the Delta is really – relatively similar to what we've been doing. And we're looking good investment opportunities, but you're right.

I was known as the OpEx guy here for – a lot of years and still am. I still drive people crazy about it. And I will continue to do that, but we're not going to make any foolish decisions. And I believe that we still have operating leverage opportunities as it relates to OpEx and revenue.

Operator

We have a question from the line of David Togut with Evercore ISI. Go ahead.

Stephen Squeri

David, you there.

Jeffrey Campbell

David?

Operator

Please check your mute feature on your phone.

Stephen Squeri

All right.

Operator

We will move on to the line of Chris Donat with Sandler & O'Neill.

Chris Donat

I had a question about marketing spend – as I think about this year and even last year you had some elevated marketing spend with the brand refresh in 2018 that's built into 2019. And then you had the Delta agreement, which also led to the 200 million of elevated spending. And then you got all these product refreshes. I'm just wondering as we think about 2020 do you come up against some easier comps on spending or are there things in the pipeline that will likely absorb marketing spend in 2020. Just think about how to compare 2020 to 2019?

Jeffrey Campbell

Yes in many ways Chris, I think the examples you cite are wonderful illustration of why a few years ago. We began to encourage people to focus on broadly what we call our customer engagement costs, right. Because we pull different levers at different times in the rewards category or to your point, in the traditional marketing category around brand spending or and spending we do in the payments department partner area with Delta.

And at other times we use to put resources into Card Member services. So the trends in anyone of those lines may vary a little bit from year-to-year or from quarter-to-quarter. The broad group of all of them however, is what we're using to drive high levels of revenue growth. And we've been very consistent for some years now Chris. In saying, we do expect that collectively those costs are going to grow a little bit faster than revenue. But that's what's going to enable us to drive in today's environment 8% to 10% revenue growth.

It's why the OpEx leverage Steve just talked about is so important to help mitigate that margin compression, you get from customer engagement because OpEx to grow more slowly than our revenues. You combine that with our strong balance sheet and that's how we have a model that is consistently producing double-digit EPS.

Operator

Our next question will be from the line of [Dominic Gabriel] with Oppenheimer. Go ahead please.

Unidentified Analyst

Hey, thanks so much for taking my question. Look, the diversity of the revenue growth is really strong. For sure, and I think one thing that is taking some investors by surprise is not only the fee for card or the NIM expanding this quarter. But to some extent, but really the discount rate has been on quite a nice trajectory. And I know that you talked about not managing to the discount rate.

But your strategy has shown at least over the last number of quarters that the discount rate is moving up as well and that's a nice benefit as well. Can you just talk about what you've lapped and what's going into the discount rate expanding just as a natural piece of the puzzle here? Thanks so much.

Stephen Squeri

Yes and as you know and I always say this, I really don't focus on the discount rate all that much. Yes it's been, it's been consistent. It's a little bit up, but I think you've got a couple of things going on. I mean you've got there some strategic and renegotiations that we lapped there was activity in Europe. There was activity in Australia, in any given quarter, there is a mix of business and so all those things contribute.

What I really focused in on is that consistent discount revenue growth. And if you want to project this out – reality is, is that as you expand into B2B, you're not going to have the same kind of discount rate in B2B. But again there, what I'd like to focus on is what the margin is right and so, if you look at a lower discount rate. You'll also look at lower rewards cost and things like that. And so, ultimately what we really focused in is the margin between the discount rate and the costs that go along with those billings.

But we're really pleased with the way discount revenue has gone. And when all the numbers come in the discount rate is – it's flattish to up and that's okay, too.

Operator

We'll go to the line of James Friedman with Susquehanna for your question. Go ahead please.

James Friedman

I just wanted to ask Jeff with regard to the GNS Slide 6 up 3% adjusted. I think you made – in your prepared remarks you said that we were lapping that in 2020. It might be, this might be over meaning like the tough compares. Is 3% what we should be thinking about as kind of the new norm when we contact business?

Jeffrey Campbell

Yes, so couple of questions or couple of comments James first. Remember in many ways the most important aspect of our GNS network these days is driving coverage in 170 or so countries around the globe. And we rely on a network of great partners to do that for us in many countries and that's priority one. Second thing is that not all GNS billings at the same. In general, as you know, the financial contribution from GNS itself is more modest than its billing contribution.

That contribution also varies a lot from country-to-country and we have a few large countries to drive a whole lot of billings, much more modest economics and those billings can be a little bit volatile quarter-to-quarter. So I don't – I wouldn't take the 3% as a mark of what you will consistently see once we finish lapping, Europe and Australia. I think you'll see it probably trend back up a little bit from there. But the most important thing to keep in mind is the GNS network around the globe is really about coverage.

Operator

We have a question in queue from the line of Jason Kupferberg with Bank of America. Go ahead please.

Jason Kupferberg

And Jeff just wanted to put a finer point on your EPS math there, because I know you didn't formally narrow the full year EPS range. But it sounds like you're pointing us to around two or three or so for Q4, which I think would get us to around 819 or so for the full year. So I just wanted to clarify that. And then do you think that we've troughed in terms of large enterprise volume growth, just the down one this quarter. I know there were some moving parts there but...

Jeffrey Campbell

Let me make a few comments on guidance, maybe including philosophy, Jason. And Steve, you can comment on the large and global customers. Look our philosophy, which we have tried to be true to this year as we come out at the beginning of the year and we tell you here is our expectation for the full year and we give you some color around that. And then our expectation is, as we report our results each quarter we're going to tell you if something is happened so dramatically that it takes us out of that original range.

But beyond that, we're just going to give you some color about how things are going. We also really want to emphasize that we are running the company for the long term. We're certainly not running it to produce quarter-by-quarter results, but we will be true to our annual kinds of earnings commitments.

So, that's just I think important background. As to the specific math, look, I think, Jason, due to your math, I'm not going to confirm or not confirm your specific math, but I think I was trying to be very clear that our operating performance has been really consistent across the first three quarters. You can measure that at $2 a share, $2.07 a share, probably two or three for this quarter and we expect the fourth quarter to look, something like that.

Stephen Squeri

As far as global and large accounts, global and large accounts in 2018 had a really terrific, terrific year. And so going into this year, our expectations weren't the same expectations as they were last year. As we think about sort of planning forward, I would think about sort of the 0% range for the fourth quarter for global and large accounts. And then I think it gets back to historical levels for us, which is anywhere between 1% and 4%.

I think it's just because a lot of that is T&E. As we start to penetrate more into the B2B space, then I think you'll see that go up, but as I've said, traditionally I met with CFOs and so forth they are not driving to move their T&E spend up what you're looking for us to do is actually to help them manage their T&E spend down.

And so it's a very interesting business in that our value proposition is, we help you manage your cost down. And we do that through benchmarking. We do that through helping them negotiate and we do that by providing insights and so it's an interesting business where the retained count - to retain accounts you actually help them shrink a little bit. And so, then you need to go get some more account.

So we're very comfortable with sort of the traditional levels, I think what you saw last year was just people getting out a lot more including ourselves actually and just spending a little bit more on T&E, but I think it's fair to think about this in sort of the 0% to 3% range going forward.

Operator

We'll go next to the line of Don Fandetti with Wells Fargo. Go ahead please.

Don Fandetti

So I wanted to dig in a little bit on the small business, year-over-year spend growth rate, I mean, there's a couple of factors, obviously, you've got potentially like weaker or more caution on the core business front. But I assume you're still getting that secular penetration, I want to know if that's still happening at the same rate. And then also your position in small business is remarkably higher than your peers. Is there any change in competition, are you holding share or is this all just sort of normal caution and tougher comps.

And then lastly around that same thing, when does B2B kick in as the small businesses automated accounts payable accounts receivable. I think you had said you get a 42% uplift in spend as that happens. I mean is it just so early in that process. What we see in 2020, 2021? Thank you.

Stephen Squeri

Yes. So, Don. The last question first, I think it's still early in the process. You know, automating, automating that spend and what you do with someone like ACOM or what you do with some of the other providers, these are interfaces to whatever sort of accounts receivable procurement systems that they have and it's not always their priority to do that.

So that takes a little bit of time. So you'll see a little bit uptick in 2020, 2021, so forth and so on. Look, I think that - let's just talk about sort of secular penetration. I think we are still acquiring counts and we don't look at so much of accounts as we look at acquired bill business. We're acquiring billed business at pretty much the same rate we've been acquiring it.

As I mentioned before, we're not losing accounts at any higher level or lower level than we've had probably for the last eight quarters. We're pretty consistent on that. As far as our overall position in the market, I think it's really, really consistent and hasn't really changed. I think I'll point you back to what I said before, I think the downturn that we've seen in our growth rate here is really around what we would call organic.

And not that it's not growing, it's just not growing fast enough or is not growing at the same rate it did last year when it had a lot of momentum, especially from the Tax Act. Having said all that, there is more competition in this space, than we've seen in a long, long time because much like banks found after sort of the great recession that the consumer credit card business was an attractive area banks have now found that this area is attractive as well.

Having said that, if you added the next five largest issuers up in the small business space, I have the same refrain that I've had for the last two years we're bigger than them all put together. So we're really comfortable where we are, we don't see anything from a competitive perspective that is any different other than it keeps to step up the competition.

But, and we continue to add to our rate of products, whether it's working capital terms, whether it's merchant financing, cross border and obviously the continued enhancements to our small business products. So we still feel really good about where we are in this small business perspective.

Operator

Our final question will come from the line of Sanjay Sakhrani with KBW. Go ahead please.

Sanjay Sakhrani

Maybe just to follow up with some of the lines of questioning previously. When you guys think about your comfort in delivering the high levels of revenue growth next year, which I assume is within the range of what we saw in 2019, how possible is it to hit those numbers with some more moderation and build business volumes?

Is your level of comfort because you feel like some of the investments you've made will sustain that type of build business growth or do you expect the high levels of fee income growth will persist. Given the Delta fees, come on in 2020. Any color would be helpful. Thanks.

Stephen Squeri

Yes, I mean look, I think you know when you're making - here's the issue right, so many investments that you make this year don't pay off this year, they pay off as it goes next year. And so you've hit the nail on the head. When you think about sort of what we've done from a delta perspective when you think about the cards that we've acquired, when you think about some of the investments that we've made in some of the digital properties. When you think about sort of the consistent high discount revenue that we've had, yes, even would to tick down in billings that still will be positive and yet our fee revenue due to our continued maniacal focus on Card refreshes.

The other thing I would point out is that this is a growth story globally. This is not a growth story just in the United States. And so when you think about 14% billings growth in consumer internationally, 18% SME growth even a tick or two down there is not really going to hurt you all that much and we've been pretty consistent from an SME and consumer perspective.

So I think when you think about the three-legged stool that we have from a revenue perspective of fees, interest income and discount revenue, we feel really comfortable, and that's why, as Jeff said in his sort of at the end of his remarks in this same economic environment we feel good about 8 to 10.

Look the billings issue weren't exactly what we had projected and look where we are from a revenue perspective. So, yes, our comfort level is there.

Rosie Perez

With that, we'll bring the call to an end. Thank you, Steve. Thank you, Jeff. Thank you again for joining today's call and thank you for your continued interest in American Express. The IR team will be available for any follow-up questions.

Operator, back to you.

Operator

Ladies and gentlemen, this conference will be made available for digitized replay beginning at 11:00 AM Eastern Time today and running until October 25 at midnight Eastern Time. You can access the AT&T TeleConference Replay System by dialing 1-800-475-6701 and entering the replay access code 471806. International participants may dial 1-320-365-3844 with the access code 471806.

That will conclude our conference call for today. Thank you for your participation and for using AT&T Executive Teleconference Service. You may now disconnect.